Financial System Liberalization, Savings, Investment and Economic Growth in Nigeria

Odili Okwuchukwu, Ph.D & Florence O. Ariwa
Department of Banking and Finance,
College of Management Sciences,
Michael Okpara University of Agriculture,
Umudike, P. M. B. 7267, Umuahia,
Abia State, Nigeria
palmereck@gmail.com odiliokwuchukwu@yahoo.com
onyiiariwa@yahoo.com

Abstract
This study examines the impact of financial system liberalization, Savings and Investment on the economy of Nigeria. The selected indicators of financial liberalization used are ratio of liquid liabilities to GDP (M2GDP) and real interest rate (INT). Other explanatory variables of interest are savings (SAV) and investment (INV). Time series data from 1970 to 2014 was employed in the estimation of variables after ensuring that the data series was stationary using the Augmented Dickey Fuller unit root test (ADF). This was followed by Johansen co-integration test for the existence of long run relationship. Thereafter the long and short run relationship between the dependent and independent variables were estimated. The results of the estimation revealed that the explanatory variables were able to influence the growth process positively and significantly in the economy of Nigeria except interest rate which had negative impact and the dummy variable that was not significant. To this effect it was recommended that monetary policies should be geared towards increasing the level of money supply to enhance savings and investment. Furthermore, for financial system liberalization to yield result in Nigeria there is need to lower the lending interest rate to ensure that potential borrowers' costs is reduced and return on investment increased.

Keywords: Financial System, Liberalization, Savings, Investment, Growth

1.0 Introduction

The financial system is one of the sectors that play important role in the allocation and distribution of financial resources and risk sharing of future cash flows in any given economy. An efficient and effective system is likely to enhance business cycle, promote savings and investment which in turn facilitate growth and welfare of the economy. There are several functions that are performed by banks and other financial institutions thus making them sensitive to both internal and external shocks (Banderia, Caprio, Honohan and Schiantarelli, 2000). These functions include providing fund for payment processes and services; engage in transformation of assets in terms of their maturity, quality, and denomination and more recently management and control of risks. These functions give banks a central position within the process of mobilizing savings and investment allocation. However, these functions make banks vulnerable to external shocks which may impact either negatively or positively on the economy (Brautigam and Knack, 2004).

In the last three decades, many emerging and developing countries' governments have moved away from a system of restrictive monetary and financial control to a more liberalized financial sector (Marius and Bogdan, 2012). The restrictive policies were expected to contribute to the industrialization of the economy and even more importantly to the stability

of the banking sector (Beck, 2008). However, financial repression had costs on the financial system's competitiveness and efficiency. The socioeconomic environment prevailing in many of developing countries gave evidence to Shaw (1973) and McKinnon's (1973) claim that distortions in interest and foreign exchange rates could reduce the real size of the financial system and overall economic growth. The restrictive financial policies are known to have contributed to the retardation of the economic development process in many developing countries.

Most Sub Saharan African (SSA) Countries in the 1980s including Nigeria widely adopted Structural Adjustment Program (SAP) in view of reviving their deteriorating economies (World Bank, 1994). SAP was basically meant to encourage governments to pursue measures of economic liberalization in order to remove restrictions in financial intermediation process, improve resource mobilization, productivity and operational efficiency which had made the process of economic development unachievable (Serieux, 2008). One of the major economic liberalization measures was reform of the financial sector which is best known as financial liberalization.

It was argued that financial sector could play a greater role in promoting national savings, investment and to encourage efficiency in gross fixed capital formation if only price controls are instituted and direct credit programs abrogated (Odhiambo, 2009). Financial liberalization was therefore viewed as a process of delegating the authority to determine who is to receive and give credit to the market as well as the price at which it was given. The financial liberalization measures that were to be adopted included deregulation of interest rates; elimination or reduction of direct credit control; allowing free entry in the banking sector as well as giving autonomy to commercial banks; allowing private ownership of banks; and liberalizing international capital flows (Odhiambo, 2009).

The objectives in this regard via the use of stabilization policies as a prerequisite to financial liberalization programmes had been to liberate interest rates, deregulate financial services sector, strengthen the banking system, introduce new financial products and develop the securities market. The deregulation of the financial market therefore led to an enabled market forces in determination of credit costs within the economy. This attracted a number of significant changes in the rules and regulations governing financial operations and these includes; Relaxation of controls on interest rates and also on conditions of granting banking license, Abolition of credit ceilings and guidelines and Complete deregulation of money and capital markets.

The major aim of financial liberalization is an enhanced economic performance via improved level of competitiveness with a robust efficiency posture within financial markets and with accrued benefits indirectly flowing to the coffers of non-financial sectors of the Nigerian economy (Majid et al., 2007). Since the application of the prescribed financial liberation, the Nigerian economy has not been able to experience impressive performances in terms growth and has not been able to attraction sustainable foreign investment or to checkmate capital flight.

Against this background and also in response to international political environment and strive towards liberalization of global economy, there has been a wave of financial sector reforms, partly as a way to deepening the financial markets and also to promote economic growth. An uncompetitive market does not reflect the true position of the market and hence, financial liberalization will allow countries to reach the optimal productive frontier (Claessens and Leaven, 2003; Ross et al., 2003; Micco et al., 2006). Both theory and empirical studies show that the relationship between market structure and competitiveness of the financial system is ambiguous. The ambiguity is attributed to country specific differences and conditions in terms of institutional and regulatory framework. Consequently, this study will proffer

suggestion that will have policy implications for economic policy decision making in Nigeria as they seek to balance the need for competition and stability.

The study is therefore intended to critically:

1. Examine the effect of financial liberalization on economic growth in Nigeria.
2. Investigate the level of savings in Nigeria and how it has contributed to increase in gross domestic product.
3. Ascertain the likely impact of gross fixed capital formation on the economy of Nigeria.

The rest of the paper is organized as follows: Section (2) includes the literature review which presents the conceptual framework and gives background to financial liberalization theories and empirical results of other related studies. The research methodology, data sources and measures of main variables are in section (3). Section (4) presents the empirical analysis and test results while, section (5) provides a summary and concluding remarks.

2.0 Review of literature

Conceptual Framework

Financial liberalization, in general, has come to be most commonly associated with easing of restrictions on interest rates. According to Patnaik (2011) financial liberalization is used to cover "a set of measures, such as the autonomy of the Central Bank from the government; the complete freedom of finance to move into and out of the economy, which implies the full convertibility of the currency; the abandonment of all "priority sectors" lending targets; the complete freedom of banks to pursue profits unhindered by government directives; an end to government-imposed differential interest rate schemes; a freeing of interest rates; the removal of restrictions on the ownership of banks, which means de-nationalization and full freedom for foreign ownership.

According to Nbwire, (2014) financial liberalization can be measured using several indicators used in construction of financial liberalization index. The common measures include; Commercial bank assets as a percentage of total financial assets (Liquid liabilities as a percentage of GDP). Liquid liabilities are the sum of currency plus demand and interest-bearing liabilities of banks and other financial intermediaries divided by GDP; average annual nominal interest rate. This is a broad definition of financial indicator for financial intermediation because it looks at the overall size of the financial sector, private credit by commercial banks as a percentage of GDP. It measures the ability of financial intermediaries to carry out their primary function to direct savings to investors. Private credit by commercial banks and other banking institutions as a percentage of GDP, the ratio of commercial bank assets over central bank assets, a widely used measurement of financial development and finally the ratio of stock market capitalization to GDP, an indicator of the size of the stock market.

Allen and Saunders (2004) posit that financial liberalization is the easing of restrictions on the capital account (essentially the flow of funds) and the financial transactions of individuals and businesses in the effort to make financial transactions more efficient and thereby promote a more productive allocation of resources. It is the policy process through which a country establishes an open financial system in which market forces and not the government determines the liquidity position of the market (Alfaro, Kalemli-Ozcan, and Volosovych, 2008).

Theoretical Framework

This study was guided by the theory of financial liberalization which provided theoretical evidence of various arguments by different scholars and researchers in relation to financial liberalization.

Financial Liberalization Theory

In a fully liberalized capital account regime, banks and corporations are allowed to borrow abroad freely. They may need to inform the authorities but permission is granted almost automatically. Reserve requirements might be in place but are lower than 10 per cent. In addition, there are no special exchange rates for either the current account or the capital account transactions; nor are there any restrictions to capital outflows (Kaminsky and Schmukler, 2003).

Kaminsky and Schmukler (2003) advanced the theory of financial liberalization; the scholars explained that liberalization of the capital account is captured by the regulations on offshore borrowing by financial institutions and by non-financial corporations, on multiple exchange rate markets and on capital outflow controls. A fully liberalized domestic financial system is characterized by lack of controls on Lending and borrowing interest rates and certainly, by the lack of credit controls, that is, no Subsidies to certain sectors or certain credit allocations. Also, deposits in foreign currencies are permitted. In a fully liberalized stock market, foreign investors are allowed to hold domestic equity without restrictions and capital, dividends and interest can be repatriated freely within two years of the initial investment (Quinn, 1997).

Financial liberalization theory, then, argues for improved economic growth through financial sector reforms (Kaminsky and Schmukler, 2003).The supporters of financial liberalization base their arguments on the works of McKinnon (1973) and Shaw (1973). According to the theory, positive real deposit rates raise the saving rate, thus increasing the flow of financial savings (Trabelsi, 2004). Developing countries with repressed financial systems thus mounted financial reforms aiming at: mobilization of financial resources with increased amounts of domestic savings channeled through the formal financial sector, reducing the role of direct controls in determining the allocation of credit, increasing reliance on market based system of monetary control and broadening the range of domestic sources of finance (Stieglitz, 2000).

Review of Related Empirical Literature

Akingunola, Adekunle, Badejo and Salami (2013) examined the relationship between financial liberalization and economic growth in Nigeria. Using the Vector Error Correction Model, they proxied financial liberalization by the ratio of liquidity liabilities to GDP, real interest rate, and total deposit while the economic growth was measured by the real GDP. The study revealed that the long run equilibrium conditions are only maintained between the variables when all the exogenous variables are used together; between the RGDP and M2GDP; and between RGDP and NB when regressed separately. It also shows that all the variables are statistically insignificant. The overall statistic shows that the independent variables were able to explain only 7 percent variation in the dependent variable.

Alzer and Dadasov (2012) in a panel analysis of 110 countries over the period 1984-2005 reported that financial openness helps to deepen institutional quality. The results of the study suggest that a higher degree of financial openness improves institutional quality by reducing investment risk.

Shittu (2012) examined the impact of financial intermediation on economic growth in Nigeria with time series data from 1970 to 2010. Employing co-integration test and error correction model, he finds that financial intermediation has a significant impact on economic growth in Nigeria.

Olofin and Afangideh (2010) examined the financial structure and economic growth in Nigeria by using annual data from 1970 to 2005. Small macro econometric model was used to capture the interrelationships among aggregate bank credit activities, investment behaviour and economic growth given the financial structure of the economy. They adopted three stage least square estimation techniques, while counter factual policy stimulations were conducted.

The results of these tests indicate that a developed financial system alleviates growth financing constraints by increasing bank credit and investment activities with resultant rise in output. One major outcome of this study is that financial structure has no independent effect on output growth through bank credit and investment activities, but financial sector development merely allows these activities to positively respond to growth in output.

Harangus (2008), studied financial liberalization in Romania and reported that financial liberalization associated with the influx of new banks led the banking system on a new corridor of performance due to the intensification of competition and the increase in offering new products and complex bank services.

Azege (2004) examined the empirical nexus between the level of development by financial intermediaries and growth. The study employed data on aggregate deposit money bank credit over time and gross domestic product to establish that a moderate positive relationship exist between financial deepening and economic growth. He concludes that the development of financial intermediary institutions in Nigeria is fundamental for overall economic growth.

3.0 Methodology

Model Specification

This study is modeled according to the model specification of Klein and Olivei (2008) in which they stated two criteria for assessing the success of financial liberalization; the extent of financial deepening (measured by the ratio of M2 and GDP) and real interest rate. The chosen economic growth indicator is the real Gross Domestic Product (RGDP) which is specified to depend on the financial sector indicators which are the ratio of liquid liability to GDP (M2GDP), real interest rate (INT), total deposit of commercial banks (NB) and dummy variable (DM) to cater for policy changes.

Thus their functional relationship was expressed as follows:

RGDP= f (M2GDP, NB, INT, DM) ----------Eqn.1

The structural form was expressed as

RGDP = a0 + a1M2GDP + a2NB+ a3INT+ a4DM + μ ---------- Eqn.2

In this research, it is recognized that financial liberalization enhances savings and investment which in turn may impact on growth. The model specification of Klein and Olivei (2008) is therefore modified and re-specified to include savings and investment. Thus the functional form of this model is expressed as follows:

RGDP= f(M2GDP, INT, SAV, INV, DUM) ---------- Eqn.3

The model is therefore specified as:

$RGDP = a_0 + b_1M2GDP + b_2INT + b_3SAV + b_4INV + b_5DUM + U$ --- Eqn.4

Where, RGDP = real GDP; M2GDP = ratio of liquidity liabilities to GDP; INT = real interest rate; SAV = savings; INV = investment; and

DUM =dummy variable measuring the effect of policy changes

U = stochastic variable or error term incorporating other factors that are not considered in the model.

a_0 = constant term

b_1 - b_5 = parameters to be estimated

Intrinsic linearity was used for the relationship between real GDP and its determinants as follows:

$logRGDP = a_0 + b_1logM2GDP + b_2logINT + b_3logSAV + B_4logINV + b_5logDUM + U$ ---------- Eqn.5

The coefficients in the model are expressed in their elasticities, since the variables are in logarithm form and as a result they measure direct response of economic growth to unit changes in the explanatory variables.

***A priori* expectation**

A priori expectations are determined by the principles of economic theory guiding the economic relationship among the variables being studied. This explains the theoretical linkage on the signs and magnitudes of parameters of the specified functions.

$b_1, b_3, b_4, b_5 > 0$, while $b_2 < 0$

Data was obtained from Central Bank of Nigeria (CBN) Annual Statistical Bulletin and National Bureau of Statistics (various issues). Dummy variable (DUM)**:** takes a value of '0' for pre-liberalization and a value of '1' for post-liberalization

4.0 Empirical Analysis and Test Results

Method of Data Analysis

This study employed time series regression analysis to estimate the model of the study to determine the impact of financial system liberalization, savings and investment on economic growth in Nigeria.

Unit Root Test

The Augmented Dickey Fuller test was used to test the stationarity of the data. This is because the non-stationarity of the variables will result to the loss of the desirable properties of efficiency, consistency and unbiasedness of the variables if ordinary least squares technique is used to estimate the model. This will result to spurious regression and inferences and hence, inaccurate predictions.

The ADF test is used to determine the order of integration, that is, the number of times a variable has to be differenced before it becomes stationary. The result of the ADF tests is presented in table 1 below.

Table1: Augmented Dickey Fuller Root Test

Variables	Levels	1 st difference	Order of integration
RGDP	2.7138	-5.8103	I(1)
M2GDP	2.0945	- 5.1426	I(1)
INT	-1.9395	-7.8058	I(1)
SAV	1.9029	-6.0554	I(1)
INV	2.3547	-5.4021	I(1)
DUM	-0.9303	-5.4305	I(1)

Source: Computed using e-view 9.0, 2016

Data analysis using the Augmented Dickey-fuller (ADF) test of unit root to confirm stationarity was done by comparing whether the ADF test statistics was greater than its critical values at both 5 percent level of significance. The test result reveals that all the variables were not stationary at levels but became stationary at first difference.

Co-integration

The Johansen Co-integration test determines whether there is an equilibrium condition that keeps the variables in proportion to one another in the long run. The cointegration test of long-run equilibrium is established if there is at least one cointegrating relation between variables; indicating that the variables specified in the model have equilibrium condition that keeps them in proportion to each other in the long-run. The result of the Johansen Cointegration test is presented below in Table 2.

Table 2: Johansen co- integration test results (trace)

Hypothesized no. of (E(s)	Eigen value	Trace statistic	0.05 critical value	Prob.
None 1*	0.8661	107.5423	96.15	0.0000
At most 1*	0.8860	79.7815	67.81	0.0001
At most 2*	0.7882	56.2082	43.86	0.0013
At most 3	0.4673	24.1474	29.68	0.0620
At most 4	0.3551	9.3057	15.47	0.0939
At most 5	0.0451	0.8416	3.86	0.2576

Source: Computed using e-view 9.0, 2016
Trace test indicates 3 co-integrating eqns. at the 0.05 level.

Table3: Johansen co-integration test result (maximum eigen value)

Hypothesized no. of (E(s)	Eigen value	Max-Eigen Statistic	0.05 critical value	Prob.**
None*	0.8661	49.1053	41.37	0.0000
At most 1*	0.7860	38.3235	32.84	0.0021
At most 2*	0.5882	29.0343	26.38	0.0252
At most 3	0.4673	19.2658	20.13	0.0896
At most 4	0.3551	7.1906	14.07	0.1087
At most 5	0.0451	0.6463	3.84	0.2676

Source: Computed using e-view 9.0, 2016
Max-eigen value test indicates 3 co-integrating equation(s) at the 0.05 level
The co-integration test results showed that the trace statistic and max-Eigen values are more than their critical values at 5 percent significant level in three out of the six hypotheses, which indicates three co-integrating vectors or three co-integrating equations at the 0.05 level of significant. The existence of co-integrating vectors implies that there would be no loss of information. Therefore long run relationships exist between RGDP and the explanatory variables. The implication of the estimates obtained is that the variables included in the Model can co-move together and equilibrium condition can be maintained in the long run situation among these variables. The result of the long run estimation is shown in Table 4 below:

Table 4: Long-run Relationship Results

Variable	Coefficient	Std. Error	T-statistic	P-value
LogRGDPG(-1)	0.65523	0.23380	2.80252	0.0308

LogM2GDP(-1)	2.01892	0.46614	4.33115	0.0110
LogINT(-1)	- 0.30316	0.08016	-3.78194	0.0264
LogSAV(-1)	1.59763	0.55725	2.86699	0.0317
LogINV(-1)	0.29093	0.11651	2.49704	0.0431
LogDUM(-1)	-0.32434	0.46116	- 0.70331	0.3321

Source: Computed using e-view 9.0, 2016

Table 4, reports the long-run estimation results. The result reveals that the explanatory variables (M2GDP, INT, SAV, INV) were able to influence the economy of Nigeria except changes in economic policies whose impact was insignificant. Nevertheless, the interest rate of borrowing which is another proxy for financial systems liberalization is indirectly linked with the economic progress of Nigeria with a coefficient of - 0.30316 and an absolute T-statistics value of 3.78194 and a p-value of 0.0264 which is significant at the 5 percent level of significance. The incentives to save and invest rises as real interest rate are allowed to rise over time. However, an increase in interest rate which should lead to increase savings may not arise due to linkages in the national flow of income. The model indicated a significantly negative relationship between interest rate and economic growth. Consequently, investment spending would be discouraged so long as the expected net return on investment fails to yield profitable cash inflow.

Short Run Error Correction Model

The long-run model was specified with the residuals from the co- integration regression as parsimonious error correction model (ECM) to capture the short-run dynamics of the behavior of real GDP within the context of short term changes in M2GDP, INT, SAV, INV and DUM which are the explanatory variables in the model. The results are presented in Table 5 below:

Table 5: Parsimonious Error Correction Model

Variable	Coefficient	Std. Error	T-statistic	P-value
C	0.36741	0.23255	1.57985	0.1760
D(RGDP(-1))	0.46008	0.13432	3.42525	0.0251
D(M2GDP(-1))	0.28370	0.06490	4.37134	0.0125
D(INT(-1))	-0.13014	0.04570	-2.84770	0.0432
D(SAV(-1))	0.32512	0.08491	3.82900	0.0123
D(INV(-1))	0.16460	0.26166	0.62906	0.3712
D(DUM(-1))	-0.07441	0.08701	-0.85519	0.2691
ECM(-1)	-0.40673	0.08982	-4.52828	0.0036

R^2 = 0.904261, Adj. R^2 = 0.891904
F-Statistic= 357.8145

Prob. (F-Statistic) = 0.0000
Durbin – Watson Statistic = 2.01722
Source: Computed using e-view 9.0, 2016

Discussion of Findings

From the table above, The ECM coefficient is properly signed (negatively signed) with a value of -0.40673. This revealed that the adjustment of the economy back to equilibrium level once affected by changes in economic policies is moderate (about 40.7 percent) and significant at T-statistics value of -4.52828. This is evidence from the p-value of 0.0036.

This shows that any short run deviation of RGDP from equilibrium in the previous period can be restored back into the long run path. The equation of the ECM is therefore specified in line with the parsimonious model as follows:

RGDP= 0.36741 + 0.28370M2GDP – 0.13014INT + 0.32512SAV + 0.16460INV – 0.07441DUM – 0.40673ECM ---------- Eqn.6

The ratio of broad money supply to the gross domestic product – M2GDP (proxied as the financial system liberalization of the Nigerian economy), the M2GDP is positively related at the 0.28370 coefficient and it is significant with a T-statistics value of 4.37134 and a p-value of 0.0125. This indicates that the level of financial liberalization on the growth process of the Nigerian economy is positive and significant. Nevertheless, the lending interest rate which is another proxy for financial systems liberalization is indirectly linked with the economic progress of Nigeria with a coefficient of -0.13014 and an absolute T-statistics value of 2.84770 and a p-value of 0.0432 which is significant at the 5 percent level of significance. This suggests that the monetary policy rate which directs and controls the lending rate was not able to address the investment opportunity trend of the economy which by implication means low level of money supply to the deficit unit in the short run. This is in line with the estimated values of the investment variable which was not able to influence the RGDP with a coefficient of 0.16460, a T- statistic of 0.62906 and p-value of 0.3712. Savings on the other hand was able to influence positively the economy.

This work is in agreement with the study of Ozdemir and Erbil (2008) which indicates that clear evidence exists between the short run and long-run growth and a number of indicators of financial liberalization. In this view, it can be accepted that financial liberalization does impact significantly on the growth process of the Nigerian economy at the 5 percent level of significance. This also agrees with Romer (1990) which posits that financial development increases economic growth through its decrease effect on the cost of capital that eventually accelerates investment and consequently growth.

On the other hand and with reference to theoretical expectations, this study is not in agreement with the neoclassical growth model propounded by Solow (1956) which suggests that there is no direct link between financial liberalization and the growth progress of an economy. The study also disagrees with Akingunola, Adekunle, Badejo and Salami (2013) who stated that financial system liberalization has no significant influence on economic growth process in Nigeria.

Furthermore, the R^2 of 0.904261 indicates that about 90% of total variation in the dependent variable (RGDP) is accounted for by the explanatory variables (M2GDP, INT, SAV, INV and DUM). This result remains robust even after adjusting for the degrees of freedom (d.f.) as indicated by the value of the adjusted R^2, which is 0.891904 (89.2%). The regression therefore has a good fit. The F-statistic, which is a measure of the overall significance of the model, is 357.8145 with the corresponding probability value of 0.0000, which is statistically significant at 1%. The implication of this is that the explanatory variables have joint significant effect on the growth of the Nigerian economy. The Durbin-Watson statistic of 2.01722 indicates no evidence of serial autocorrelation in the residuals of the estimates as the

values revolves around 2 than 0. The implication of this is that the error term relating to an observation is not related to or influenced by the error term relating to another observation and is not automatically correlated to one another.

5.0 Summary, Conclusion and Recommendation

This study examines the impact of financial system liberalization, savings and investment on the economy of Nigeria. The selected indicators of financial liberalization used are ratio of liquidity liabilities to GDP (M2GDP) and real interest rate (INT). Other explanatory variables of interest are savings (SAV) and investment (INV). Dummy variable (DUM) was included to capture the effect of policy changes in the economy.

Time series data was employed in the estimation of variables after ensuring that the data series was stationary using the Augmented Dickey Fuller unit root test (ADF). This was followed by Johansen co-integration test for the existence of long run relationship. Thereafter the long and short run relationship between the dependent and independent variables were estimated.

The study revealed that the explanatory variables (M2GDP, INT, SAV, INV) were able to influence the economy of Nigeria except changes in economic policies whose impact was insignificant. Nevertheless, the interest rate of borrowing which is another proxy for financial systems liberalization is indirectly linked with the economic progress of Nigeria The incentives to save and invest rises as real interest rate are allowed to rise over time. The model indicated a significantly negative relationship between interest rate and economic growth. Consequently, investment spending would be discouraged so long as the expected net return on investment fails to yield profitable cash inflow to the investors.

The ECM coefficient was negatively signed which revealed that the adjustment of the economy back to equilibrium level once affected by changes in economic policies is possible. The adoption of financial liberalization reforms has therefore been a very laudable initiative given the extent of developing financial system in Nigeria and the repression that was prevalent prior to these reforms and the stifling effects of repression on both the financial sector itself and on the economy as a whole.

Based on the research findings of the study the following recommendations are necessary for financial system liberalization to be effective and efficient in fostering and accelerating economic growth process in Nigeria.

1. It is expected that an increase in the ratio of liquidity liabilities to GDP (M2GDP) would generate an increase in economic growth. To this effect it is recommended the monetary policies should be geared towards increasing the level of money supply to enhance savings and investment.
2. The pool of potential borrowers in Nigeria contains entrepreneurs with low-yielding projects who would not want to borrow at the higher market-clearing lending interest rate. This therefore means that for financial liberalization to yield result in Nigeria there is need to lower the lending interest rate to ensure that potential borrowers return on investment are higher than their costs of capital.
3. The need to ensure consistency in monetary and economic policies and the provision of infrastructural facilities to improve investment climate is imperative.

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