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Measuring the deepening Impact of Financial Policy Framework on Nigeria's Banking and Financial System

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Abstracts

This study examined a broadened impact of financial policy structure on Nigeria's banking/financial system as an as indicator of economic growth and development. Some key benchmarks of 'financial deepening' were employed to investigate this impact (using 1975 – 2016 data). An insight into our definitive content of 'financial deepening' has revealed the dominance of banking elements in the entire financial system and upon which most effect on the entire economy rests. By this notion, ratios [M2/GDP (Broad Money as a ratio of GDP); CPS/GDP (Credit to the Private sector as a ratio of GDP); DINV/GDP (Domestic Investment as a ratio of GDP); COB/M2 (Currency Outside Bank as a ratio of Broad money), etc.] were employed to test the deepening impact of financial policy on the Nigerian Financial System'. The OLS regression result showed positive but low relationship between credit to the private sector as a ratio of GDP and financial deepening. However, gross domestic investment as a ratio of GDP is robust and significantly deepens the financial system despite inadequate credit to the private sector. Interest rate spread (margin between lending and deposit rate) constitutes another issue in the financial system as the margin is outrageously diverging and worsens financial deepening effect on the overall economy. Quite symptomatic of a developing economy as Nigeria, the paper has further helped to reiterate the (ever-growing) need to monitor some other key (real sector) variables that transcends the ordinary financial system dispensations; but which could manifest in far more obstructing manner than does the conventional financial challenges.

Keywords: financial deepening, financial system, financial policy, economic growth and development.

1.0 Introduction

A broadened view of the 'Financial policy' in Nigeria will encompass the totality of directives (or actions when implemented) that is put in place by the regulatory authority aimed at manipulating the regular monetary, fiscal and trade policies ; which may also include financial reforms at necessary intervals. The ultimate source of financial policy in Nigeria is the presidency acting in approval of the financial acts passed by the National Assembly. The approved bills are then passed on to the federal ministry of finance and the CBN for onward implementations of the macro intent of economic growth and development.

Usually, a state's financial policy is actionable via annual budgets and financial prudential guidelines among others. As could be seen generally, the financial policy is a crucial arm of the more extended economic policy – since finance will always play a pivotal role in financing all economic activities. Thus it could be reasonably inferred that the economic welfare of a state [including Nigeria] is as good as its financial health – thus financial repression drives economic backwardness and vice versa (McKinnon and Shaw (1973).

The slow economic growth in many less developed economies is attributed to the financial repression and underdeveloped financial markets [Goldsmith (1969).Cameroon (1972), McKinnon and Shaw (1973) among others]. Today, this expert opinion/contribution has become a stark reality in Nigeria!

A notable landmark in the annals of financial policy implementation in Nigeria occurred at the close of the last millennium, i.e. the 1986 Reform .Liberalization of the financial sector since 1986 Structural Adjustment Programme (SAP) was expected to DEEPEN the financial system as the price mechanism is assumed theoretically to be potent in allocating financial resources among the lender and potential end users [CBN, 1988].

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Some key Nigerian economic landmarks need be chronicled, particularly since the post-SAP era. It is quite unfortunate that rather than having these efforts *deepening* the financial base of the Nigerian economic entity, this liberalized era has been characterized by unmitigated disaster of market failure driven mainly by snags of the banking sector incidences as: non- performing loan; excess liquidity with attendant consequence of high cash intensity; misallocation of credit to non-productive sectors, including high interest rate spread, etc.. All these portend a threat to the soundness of financial system and the larger economy.

Where this development is merged with the current spate of insecurity and wide spread corruption in Nigeria, very little need be said to explain the failure inclination of the financial system. It is also of importance to bear in mind that the approach of banks to lend to the real sector in a developing entity as Nigeria is 'unattractive' and therefore very low. Clear cases in point are the manufacturing and agricultural sectors (CBN, 2006) – both are considered not justified in terms of risk and cost (Olorunsola, 2001).

On the other hand, allocation of credit to commercial or trading ventures including the purchase of financial assets (which are technically "dead weight" in terms of potentials for growing the economy) is preferred since they guarantee 'mouthwatering' returns than the real sector that is capable of driving the state's macroeconomic objectives.

In addition, the incidence of high cost of credit is another issue to worry about when it comes to promoting 'sound financial system in Nigeria' – World Bank (2002). In recent years, the rate hovers between 17% to 22% and while deposit rate is less than 6%. These rates are invariably driven by the MPR (Monetary Policy Rate) imposed by the Central Bank of Nigeria.

Thus, It should be unequivocally observed that, contrary to the theoretical assumption the Keynesians economics [covering the famous model of IS-LM framework], that mobilization of savings is a direct function of the rate of interest. The Nigerian equivalent posits a different revelation as it does not hold waters. This is because interest spread is abysmally high. Here, *SAVINGs* is mostly driven by fear of insecurity attached to keeping cash at home as well as ease of withdrawing cash in any branch as at when needed.

Further observable in the annals of Nigeria's financial policy plan are the consequential issues of recapitalization, liquidation, mergers and temporal take-overs of ailing banks. According to Soludo, (2004), this is aimed at strengthening and consolidating the financial system and promoting a diversified, strong and reliable financial sector which will ensure the safety of depositors' money, play active developmental roles in the Nigerian economy and leading her to be competent and becoming a competitive player in the African regional and global financial system. This perspective, somewhat "aggressive "policy moves made by Sanusi (2009) to reform the banking sector. Since the reforming efforts of the aforementioned CBN governor (i.e. 2004 and 2009), quite a sizeable constituent of Nigeria's body of literals have focused on the evolving events to date. This study thus attempts to furnish an update and chart a suggestive but potent way forward.

2.0 Literature Review

The reason for financial intermediaries is to mobilize financial resources from surplus economic units to deficit [needy] units. There are plethora of literatures revealing a strong and positive relationship between the financial sector and economic development. Porter (1966) stated that the level of financial institution development is the best indicator of the overall economic growth (and development). This was alluded to by Goldsmith (1969) who submit, that financial institution development is a sine quo-non for real macroeconomic growth. An inefficient financial sector leads to erosion of public confidence with the attendant consequence of apathy for public saving. This tends to increase the cash intensity and the activity of informal financial sector Olofin and Afangideh (2008).

One major perspective of viewing the Nigerian financial system is the segregation into two sub-sectors, the informal and formal sectors. The INFORMAL sector has no formalized structure or institutional framework and they are "ubiquitous" in terms of (irregular or no) interest rates.

Olofin and Afandigeh (2008) opined that the sector is poorly developed, limited in reach and not integrated into the formal financial sector. The prevalence of informal financial sector constitute a major constrain to

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the effectiveness of monetary and financial policy. This is because the methodology of the financial and monetary projections by the regulators pass through the formal financial institution, while neglecting (or underestimating) the informal counterpart. The exact size and effect of such policies on the economy are grossly exaggerated as they are mainly based on speculations. The FORMAL SECTOR, on the other hand, encompasses the formal financial institutions, markets and instruments – including the overall intermediating framework between them (CBN, 1999).

Mckinnon (1973) and Shaw (1973) have contended that financial development would contribute most significantly to economic growth, if monetary authorities refuse to interfere in the operations of financial institutions and the financial infrastructure generally. By this submission, a market economy is best favoured. In other words, it could be inferred that the slow economic growth in developing economies can be attributed mainly to a repressed and underdeveloped financial system. The policy measure suggested by Mckinnon and Shaw was the liberalization of the sector by allowing the price mechanism to allocate scarce resources. They also viewed undistorted perfect markets as a necessary condition and a catalyst that leads to macroeconomic stability, increased investment and rapid growth. On the other hand, underdeveloped or developing economies are characterized by market imperfections. Where this is in place, an affected economy; rather than experience allocation efficiency, inefficiency and market failures would be the order of the day.

Fry (1978) noted that financial sector development is premised on the reduction of fragmented market that characterizes developing economies. This direction is in consonance with the need for a deep and mature financial markets that are seen as indispensable for economic development, Olofin and Afangideh (2008) Arestic (2001) and Levine (2002).

One clear solution to all the aforementioned problems is FINANCIAL DEEPENING. By this we refer to the prominence of the operations of the financial institutions, markets and instruments in a Financial System. It also covers effective credit allocation, proper liquidity management – including management of risks attached to financial sector variables.

Generally (and in several studies), the ratio of broad money (M2) as a percentage of GDP is taken as a fundamental yardstick for measuring financial deepening. This ratio is alluded to by international financial institution such as IMF and World Bank as a standard for cross country relative financial performance. Financial deepening also entails an increased ratio of money supply to Gross Domestic product Popiel (1990), Nnanna and Dogo (1999) and Nzotta (2004). The reasoning here is that the more l iquid money made available to an economy, the more opportunities exist for continued growth of the economy. But this is feasible only if a country is operating below full employment, if a country is already at full employment, increase in the ratio of broad money to GDP will be inflationary. The somewhat worrying point with respect to Nigeria's case is that though the economy is still far from achieving full employment of her resources, driving inflationary spiral is the order of the day.

However, from the above submissions, Popiel (1990) has somewhat deviated after conducting one of the most elaborate studies on financial deepening. According to him, financial markets are deep from a qualitative standpoint when 'matured, domestic financial markets are integrated into the international financial markets; they offer savers and investors a broad range of financial instruments which differ in terms of liquidity, yields, maturities and degree of risk including debt instruments, equity instruments and in between quasi-equity instruments. They encompass a diversity of sub-markets, trading in different financial instruments and are linked together through financial instruments and institutions.

The position of Popiel was consistent with the views of Shaw (1973) who noted that financial deepening is an outcome of the adoption of appropriate real finance policy and the broadening of the markets. In an attempt to effect this in Nigeria Structural Adjustment Programme (SAP) was introduced with its liberalization tendencies. This invariably led to the deregulation of the financial system in 1986 and the various reforms in the financial system discussed in the opening chapter.

2.1 Brief recap of financial policy framework in Nigeria

One notable fact that cannot be controverted is the direct relationship between banking policy and financial policy. Like a subsystem, the banking policy takes after the directives 'imposed' by the 'big brother'

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financial counterpart. On this note, it can be understood why the Nigerian policy frame work (aimed largely at economic growth and development) has over the years been molded around banking/financial policy.

The macroeconomic shock of early 1981 owing largely to the oil glut in the global market coupled with massive wastage of the revenue from the oil boom in the 70's without any regard for serious economic planning for the productive sector necessitated the need for sound financial system that would be market (private sector) driven. The climax was reached in 1985 when the external sector became virtually unmanageable and led to policy change from regulated to financial liberalization policy. The policy of Structural Adjustment Programme SAP which was introduced in September 1986 involves a reduction in the role of the public sector in production activities through the processes of privatization and commercialization of Nigerian public sector investment.

Financial liberalization was aimed at providing a mechanism intended to facilitate the flow of funds for private sector development. Consequently, all financial variables were liberalized ranging from deposit rate; lending rate; foreign exchange rate among others.

Nigeria policy makers adopted this measure in line with the theoretical analysis of McKinnon and Shaw (1973) that financial liberalization promotes growth. It mobilizes and raises the level of savings and investment as well as improves the quantity and quality of investment, thereby raising the growth rate and improves living standards in less developed countries.

With the assumption that market based financial policy would guarantee optimal allocation of financial resources, stringent licensing of banks was relaxed which led to the proliferation of banks. As at 1993, the era of 'managed deregulations', Nigeria boasted of about 120 registered banks, this culminated in the distress in the financial system. Between 1994 and year 2000, a total of 33 banks were liquidated (2 in 1994, 2 in 1995, 26 in 1998 and 3 in 2000).

Liquidation of banks was not unconnected to the spate of high rate of fraud among the operators, insider abuse, mismanagement, undercapitalization and the country's economic crises. The implication of financial distress is among others, erosion of public confidence as depositors would prefer keeping money at home with attendant effect of robbery; excess liquidity as well as constraining the macroeconomic policy.

Consequent upon this development, credit flow to the private sector declined significantly and the banks were forced into employing tighter control in their lending activities. The CBN intervened as "the banking sector was characterized by structural and operational weaknesses as: Low capital base; Dominance of few banks; Insolvency and illiquidity; Over-dependence on public sector deposits and foreign exchange trading; Poor asset quality; Weak corporate confidence; Low depositor confidence; and low Banking sector credit to the domestic economy which militate against non-effective competitiveness of Nigerian banks with foreign banks" (Soludo, 2004).

On July 6, 2004, the Nigeria monetary authority directed that the minimum paid up capital of banks be increased from ₦2 billion to ₦25 billion, with effect from January 1, 2006. At the end of the consolidation exercise, 25 groups of banks emerged out of the 89 commercial banks that existed prior to the consolidation, while 14 banks that could not merge were set for liquidation. The banks used strategies such as mergers, acquisition, floating of new shares and so on to capitalize. However, capitalization did not prevent these banks from the insider abuse among bank directors and CEOs as there was a high rate of non-performing loan emanating from liquidity mis-management, channeling of banks fund to relatives, friends and associates with or without collateral with its attendant effect of low productivity in the real sector.

August, 2009 took yet another twist in the annals of epoch making in the Nigerian banking history. The new CBN governor (Sanusi Lamido), sacked the CEOs of eight distressed banks "in a desperate bid to unmask those who contributed to the unhealthy state of some of the nation's remaining 24 banks". On October 14, 2009 the regulator of the banking industry rolled out about 600 names of those owing a minimum of ₦100 million (and above) non-performing loans.

Another notable dimension to date that is employed in deepening the financial system attempting to meet the credit shortfall of operators in the informal sectors and low income earners is the Micro Finance Policy (MFP) framework that was introduced on 15th December, 2005. The purpose was to allow for the merger of community banks and guarantee both collaterised and uncollaterised loans for sake of financing Small and Medium Scale Enterprises. The policy also aimed at making the financial services accessible to a large

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segment of the potentially productive Nigerian population who otherwise have little or no access to financial services Tomola (2009). One major challenge to the financial regulatory authority has been to provide financial assistance to over 70% of the economically active population ignored by the conventional financial institutions. Meanwhile, the outcome of these landmark efforts has been clearly short of meeting its intended needs. Many observers believe that Micro Finance Institutions are bedeviled with high rate of interest – possibly to cover the exposure to risk of uncollaterized lending. Another bane of micro finance is the incessant "runs" these has invariably discourage lending to their willing and teeming customers. For this reason over one-third of the banking sub-sector practice licenses were revoked.

3.0 Methods

This section of the study presents empirical analysis on the updated impact of financial deepening via financial policies in Nigeria. It should be noted that in measuring the deepening impact, some variables are used as proxy. These (financial deepening) variables form the basis of our regression model hereby stated explicitly thus:

$$M2/GDP = \beta_0+\beta_1 CPS/GDP+\beta_2 DINV/GDP +\beta_3 COB/M2 +\beta_4 IRS +\beta_5 LDR + B_6 DUMMY + \mu$$

Where: M2/GDP is Broad Money as a ratio of GDP, and CPS/GDP is Credit to the Private sector as a ratio of GDP, the former entails a more basic way of measurement than the latter – so is DINV/GDP as Domestic Investment as a ratio of GDP. COB/M2 is Currency Outside Bank as a ratio of Broad money – it measures cash intensity in the economy. IRS is Interest Rate Spread (difference between lending and deposit rate), while LDR is Ratio of Loan to Deposit. μ (Dummy) is used to capture Soludo's Bank Capitalization (0 prior to 2005; 1 after the capitalization). It is expected that $\beta_{1,} \beta_2$ β_5 and β_6 > 0 while $\beta_{3,} \beta_4 < 0$

4.0 Results and Discussions

4.1 Unit Root Test

In the literature, most time series variables are non-stationary and using non-stationary variables in the model might lead to spurious regressions (Granger 1969). The first or second difference term of most variables will usually be stationary (Ramanathan, 1992).

Following Engle and Granger (1987) procedure, we start with the testing for the order of property of the variables of interest, the Augmented Dickey-Fuller (ADF) and Phillips-Perron test are employed.

Unit Root Test Using Augmented Dickey-Fuller (ADF) and Phillips-Perron Test

Variable	**Test Stat**		**1% Critical Level**		**Order of Integration**
	ADF	**Phillips-Perron**	**ADF**	**Phillips- Perron**	
M2/GDP	-3.02	-4.75	-2.96 (5%)	-3.64	I (1)
COB/M2	1.34	2.08	-4.26	-4.25	I (0)
IRS	-3.16	-4.92	-2.95 (5%)	-3.64	I (0)

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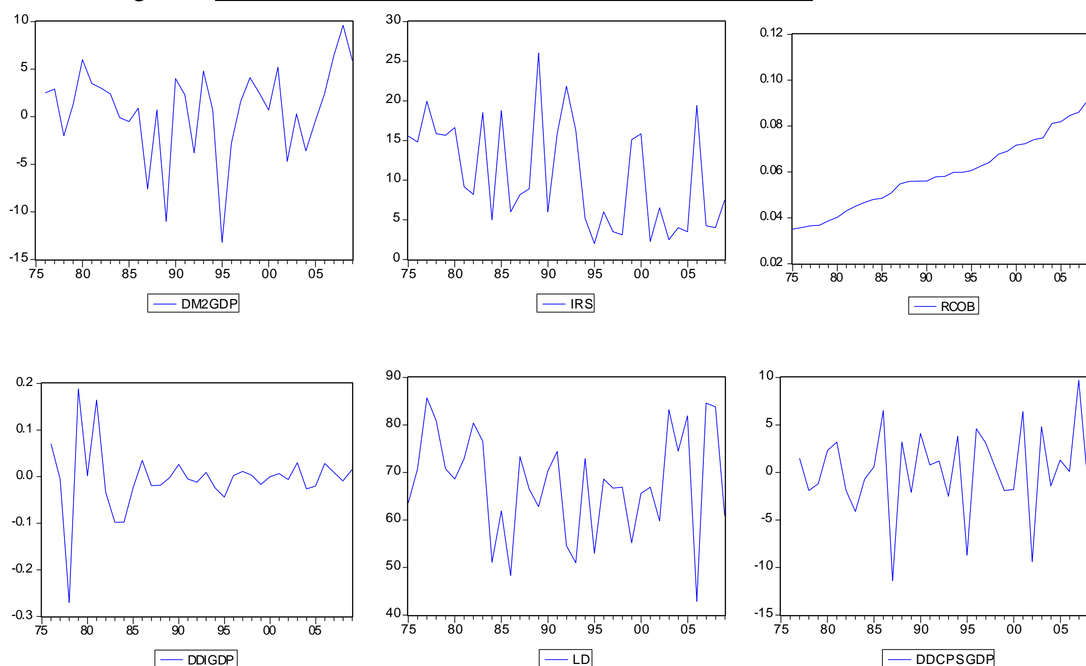
LDr	-3.97	-5.73	-3.64	-3.63	I (0)
DINV/GDP	-4.85	-7.88	-3.65	-3.64	I (1)
CPS/GDP	-5.24	-10.99	-3.65	-3.65	I (2)

Adopting the simple economic relationship of random walk with drift, the results of the unit root tests are reported Using ADF and Phillips-Perron test, currency outside bank as a ratio of broad money; interest rate spread; ratio of loan to deposit are stationary at level, M2/GDP and DINV/GDP are stationary at first difference while CPS/GDP is stationary at second difference.

Figure 1: **Stationary Graph at Level and First Difference**



4.2 Analysis of Result

The over parameterized error correction mechanism (ECM) as well as co-integration tests are shown in appendix. The parsimonious error correction mechanism (ECM) is presented below. The result is in conformity with priori expectation. The result shows that credit to private sector as a ratio of GDP is positive and directly related to the financial deepening. De Gregorio and Guidoti (1993) referred to it as "financial widening." Thus, the higher the ratio, the more widened the financial sector is assumed to be.

The reasoning underpinning such assumption is that the private sector utilization of credit is usually more efficient than the public sector. Here, it can be interpreted that M2/GDP (financial deepening) will rise by 0.2 percent should CPS/GDP (financial widening) rise by 1percent.

It has been argued in the literature that saving mobilization is only a necessary but not a sufficient condition for economic growth (Levine, 2002).

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The sufficient condition requires the mobilized savings could be channeled into productive investment. The result further shows that a percent rise in domestic investment as a ratio of GDP push the financial deepening to 46.6 percent rise. This implies that over the years, domestic investment {which is an upshot of saving mobilization) was to some extent efficiently utilized.

However, where currency outside bank as a ratio of broad money supply (M2) RCOB is used to measure cash intensity in the economy, the higher the rate the worsened the financial deepening. The regression result above shows high cash intensity. Hence, it implies that financial sector is worsened by 77.8 bases for a percent increase in cash intensity. The worsening trend could be adduced to CBN's policy of introducing higher currency denominations supposedly to keep pace with inflation [at the time it did].

The banking crisis of 1989-1995 led to erosion of public confidence in the banking system as depositors prefer keeping their money udder pillows this is why the recent cash limit by the CBN has been tagged by many as a step in the right direction. More so, the interest rate spread (lending-savings margins) has been dramatically high in Nigeria. It was expected that competition among banks would narrow the margin but more than twos decade after financial liberalization, the margin continues to widen unabated. Although, the regression result shows insignificant effect of such spread on financial deepening; it however, has to be taking more seriously considering its potential negative effect on the aggregate economy.

One of the explicit criteria of measuring bank's health is the ratio of loan to deposit. The closer it is to 100 percent, the more efficient the bank's portfolio is Lindgren and Odonye, {2003). In line with financial prudence, it is expected that the level of loan exposure of banks should be directly related to its assets at the wider level and deposit at the micro-firm level. The regression result above reports inverse relationship between loan as a ratio of deposit and financial deepening. It implies that financial deepening falls by 0.47 percent for a rise in deposit loan ratio. Quite a number of loan given by Nigerian Banks are non-performed, channeled to friends, associates with or without collateral (Sanusi, 2009). The dummy variable in the model captures the bank consolidation exercise of 2005. It shows that such exercise has tremendous impact on financial deepening and soundness. Though denied in some quarters, it should be noted that but for the Soludo's consolidation exercise, Nigeria economy would have been badly devastated by the 2008-2009 global economic recession. The regression result implies that financial sector is growing on the average of 16.6 percent due to bank consolidation exercise.

The applicable Co-integration process is also revealed in the model. That is to say that there is a long-run relationship between the dependent variable and its explanatory variables. The speed of adjustment to equilibrium in its current period is 35 percent. The parameter of the error correction term (ECM) is significant at 5 per cent. This result justifies the use of an ECM specification of the model.

The diagnostic test further backs (sufficiently) the specification of the model. The Adjusted R-Square shows that 76.6 percent of the variation in the dependent variable financial deepening (M2/GDP) is explained by the included explanatory variables. It shows that the model is a good fit. The 15.5 value of F-stat further corroborate the point that the model is perfect. Also, the model is free from the presence of serial or autocorrelation as the value of Durbin- Watson stat fall within the region of acceptance of null hypothesis of no autocorrelation.

We test for stability properties of the model using Cumulative Sum of the residuals (CUSUM) and Cumulative Sum of Squares of the residuals (CUSUM Squares) tests. .2 periods were tested. The first period (1986-2008) is particularly revealing. It represents the structural adjustment year (1986) to the year of bubble burst (2008.)The results of the tests are provided in Figures 2 and 3. The existence of parameter instability is established if the Cumulative Sum of the residuals and Cumulative Sum of the Squares of residuals go outside the area between the two critical (dotted) lines. It is estimated at 5 percent critical level.

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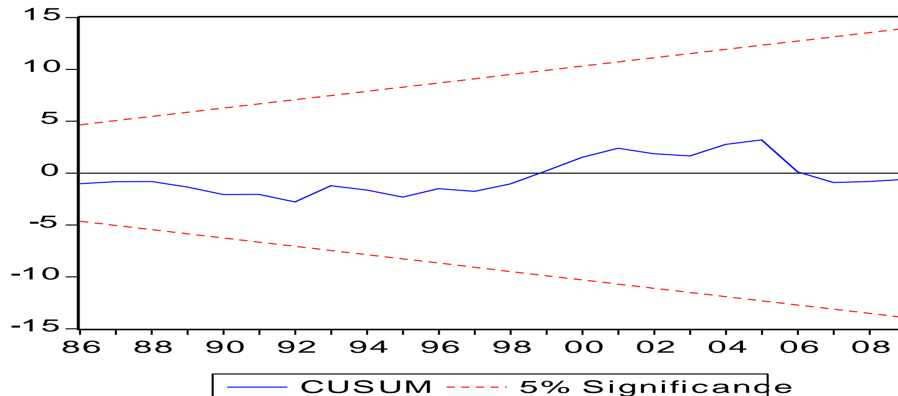
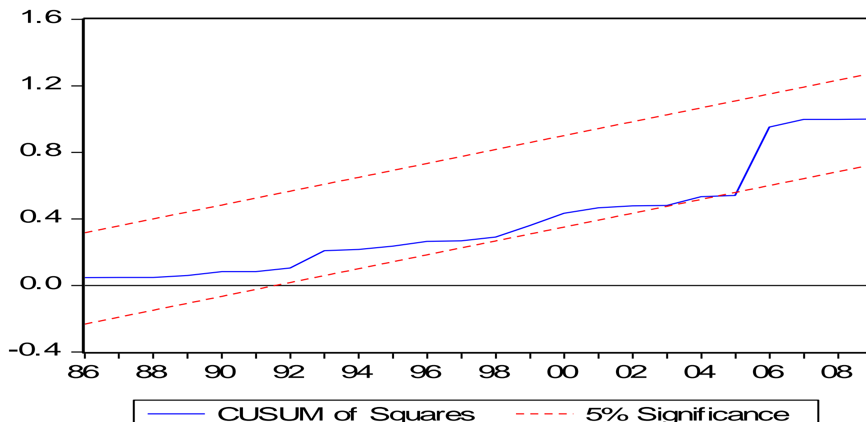
Figure 2: Cumulative Sum of the residuals (CUSUM) Test



From Figures 2 and 3 it can be inferred that, for the period under review, stability is established. However, in 2004 and 2005, element of instability is noted using Cumulative Sum of the Squares of residuals.

Figure 3: Cumulative Sum of Squares of the residuals (CUSUM Squares) Tests



The three common measures of predictive accuracy (root mean square error (RMSE), mean absolute error (MAE) and Theil's inequality coefficient (U)) are used to evaluate its predictive performance. The values of RMSE, MAE and U are reported in Figure 4. These results are satisfactory and the model is reasonably accurate in prediction.

Figure 4: Predictive and Forecast Test

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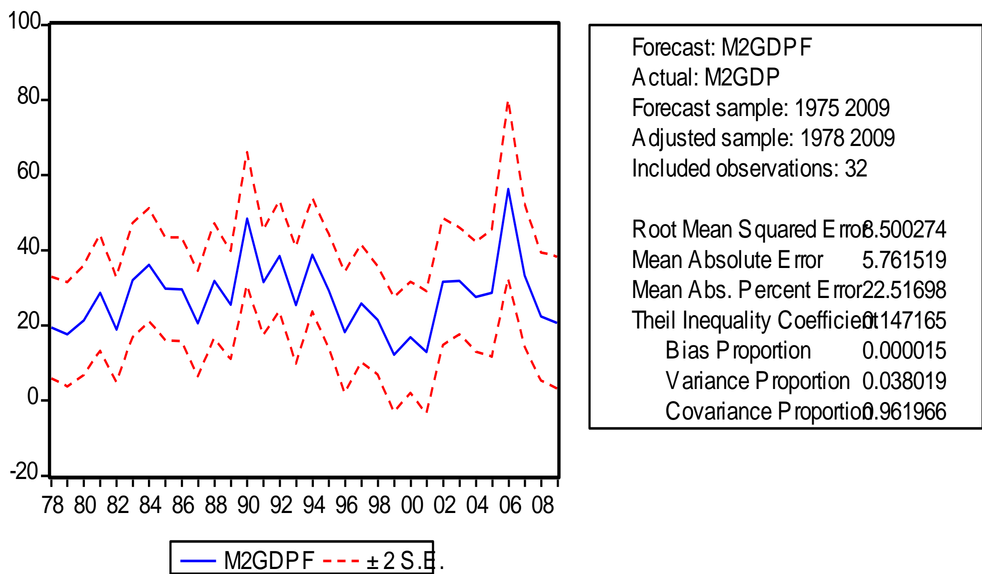
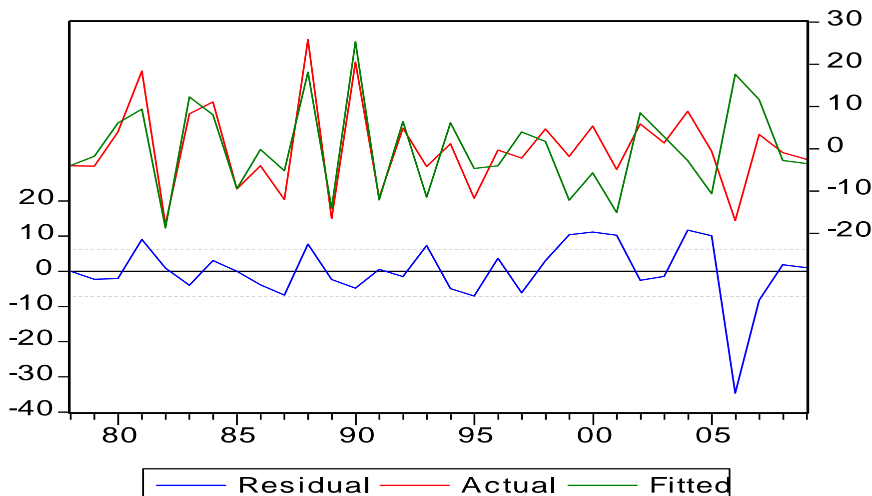


An in-sample forecast of the endogenous variable financial deepening (M2/GDP) is made and the actual and forecast values are reported in Figure 5. As could be seen from Figure 5, the model is capable of tracking the historical values of endogenous variables with reasonable accuracy.
There exists a deviation between the actual value and the forecast or predicted value of M2/GDP in 2006. This is not unconnected to the post consolidation shocks as well as other development in the financial sector. The fits were quite impressive and they did track the actual dates. The ability of the model to capture turning points was remarkable. The model does forecast the actual variable well. That is, the model has a good predictive ability.
Figure 5: Financial Deepening (M2/GDP) in Nigeria: Actual and Predicted Values.



5.0 Conclusion

The main objective of this work was to evaluate financial policies in Nigeria and its consistency with empirical findings as it impacts on the banking/financial system (i.e. that bears ultimate effect on GDP). The paper reviewed several literatures and examined the updated financial policy framework. It further carries out empirical analysis on those policies framework to affirm their veracity and their importance in the financial system. Six parameters were tested and their significance tested on the financial deepening

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(M2/GDP). They are: credit to the private sector as a ratio of GDP (CPS/GDP); domestic investment as a ratio of GDP (DIGDP); currency outside bank as a ratio of broad money supply (RCOB); interest rate spread (IRS); loan to deposit ratio (LD) and dummy variable to test the potency or otherwise of bank consolidation exercise.
The regression result showed positive but low relationship between credit to the private sector as a ratio of GDP and financial deepening. The preferred sectors that is believed to have spillover effect on other sectors like oil and gas; manufacturing and solid mineral were not adequately financed by banks due largely to the long gestation period and huge credit required which is contrary to the Nigerian bankers preferences for short maturity date and portfolio diversification.
However, gross domestic investment as a ratio of GDP is robust and significantly deepening the financial system despite inadequate credit to the private sector as a ratio of GDP. This is unconnected to the fact that other sources of finance like owners' capital, retained earnings, equity and debt financing were inclusive of gross domestic investment. Currency outside bank as a ratio of broad money supply shows high cash intensity in the system and it calls for gradual movement towards cashless economy.
Interest rate spread (margin between lending and deposit rate) is another issue in Nigerian financial system as the margin is outrageously diverging and worsen the financial deepening. World Bank (1994) notes that complete interest-rate deregulation should only be attempted when certain criteria are met. Thus, in addition to stable macroeconomic conditions and adequ0ate regulatory and supervisory arrangement, it is important that more sophisticated and solvent banking institutions with positive net worth in contestable financial markets are present. The result further show that loan as a ratio of deposit is not significant in deepening financial system, but it affirms the fact that bank consolidation is a robust and strengthener of the financial sector.
For a meaningful transmission of financial sector reforms into a productive economy, bankers' habit of excessive trading in privately profitable but socially unprofitable foreign exchange and commerce activities at the expense of real sector must be abruptly nipped in the bud. Also, Liquidity management must be taken more seriously as excess liquidity must be periodically mopping-up from the financial system to forestall inflationary pressure and other vices of excessive cash holding like counterfeit money, money abuse, high cost of cash movement among others.

6.0 Policy Implementation

The monetary authority must ensure a convergence between lending and deposit rate in Nigeria financial system by making lending rate one digit bases. This will go a long way at stimulating investment as credit will be accessed at relatively low and affordable cost. Lastly, post Bank consolidation exercise should be monitored and any bank that fails to capitalize should be regionalized as proposed by the monetary authority to forestall the 1990s bank crises.

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