EFFECT OF BANK CAPITAL REFORMS ON ECONOMIC GROWTH OF NIGERIA  
(1986 TO 2013)

ANTHONY C. NKEMAKOLAM (PhD)  
Department of Banking & Finance  
Madonna University, Okija Campus,  
Anambra State, Nigeria  
nkemakolamtony@yahoo.com

Abstract  
This study investigates the effect of bank capital reforms on economic growth of Nigeria with annual time series data from 1986 to 2013. Econometric evidence reveals stationarity of the variables at their first differences while the Johansen co-integration approach also confirms the presence of one co-integrating relationship at one percent and five percent levels of significance. In addition, Ordinary Least Square results indicate that bank capital reforms have long run significant positive effect on economic growth of Nigeria. This implies that, bank reforms have the capacity to influence the direction of Nigerian economy. The study thus concludes that, bank capital reforms have shown to have very high explanatory influence on Nigerian economy, which indicates that banking sector reform is a veritable tool for repositioning and reorienting Nigerian economy. The study recommends among others that, Central Bank of Nigeria should establish effective mechanism and monitoring techniques to ensure that, bank capital recapitalization programmes are effectively implemented and funds raised are channelled to productive sectors of the Nigerian economy.

Keywords: Bank Reforms, Bank Capital, Economic Growth, Bank Reserves, Nigeria.

Introduction  
The banking sector is the fulcrum on which other sectors of an economy rest to engender productivity and economic welfare. As the prime movers of economic life, banks occupy a significant place in the economy of every nation. It is therefore not surprising that, their operations are perhaps the most heavily regulated and supervised of all businesses (Soyibo and Adekanye, 1991). These regulations causes the monetary authorizes to periodically make policies that alter the operational guidelines of banks to make them remain supportive to the economy. Banking sector reforms are the changes that are needed in order to establish a modern financial system capable of acting as a catalyst in allocating the economy’s savings in the most productive way among competing investment outlets. Countries reform their banking sectors for a number of reasons, including structural, capitalization and ownership issues (Ogubunka, 2005). Being considered the foremost benchmark and primary measure for safety and soundness for banks and financial institutions, capital adequacy has an important bearing on the performance of banks (Ikpefan, 2013). Apart from its multiplier effect on the economy as a whole, it acts as a buffer and security for banks. Thus, commercial bank must have enough capital to provide a cushion for absorbing possible loan losses, funds for its internal needs, expansion, and added security for depositors. Adequate capital increases the confidence and financial state of stock holders. Bank regulators view it as an important element in holding government banking risks to an acceptable level (Ikpefan, 2013). Most banks in Nigeria failed as a result of inadequate capital base, mismanagement of funds, overtrading, lack of regulation and control, and unfair competition from foreign banks (Adam, 2003). Thus, bank capital reform is one of the banking reforms to tackle these problems. According to Omoruyi (1991), recapitalization appears to be the main driving force of bank reforms. It focuses mainly on restructuring, rebranding and refurbishing the banking system to accommodate the challenges of bank liquidation. Demirguc-kunt and Levine (2003) maintained that, recapitalization drives bank consolidation (mergers and acquisitions) so that, increased concentration goes hand-in-hand with efficiency improvements. Imala (2005) buttresses this argument by noting that, consolidated banking system enhances profits efficiency and lowers bank fragility. More importantly, high profits arising from this provide a buffer against adverse shocks and increase the franchise value of the banks. It is thus widely acknowledged that, faster economic growth will not be possible
without a deepening of the financial system, with the banking sector setting the pace (Barro and Sala-Martin, 2004).

Sanusi (2012) posits that, “the high growth rates recorded in the last five years of capital base reform have not been inclusive, implying that this has not transcended into sustainable development. This situation is responsible for the high unemployment and poverty levels, which inevitably affect the low banking habit in the country”. This indicates that sustained economic growth has not resulted from capital base reforms, particularly the 2004 consolidation in Nigeria. In his own reaction, Okafor (2011) observes that, “there are two polar schools of thoughts on the nexus among bank capital reform (termed recapitalization) policy, financial stability and economic growth. The proponents of bank recapitalization believe that, increased capital base has potentially increased bank returns through revenue and cost efficiency gains. On the other hand, the opponents argue that, recapitalization has increased bank’s propensity toward risk taking through increases in leverage and off balance sheet operations. There is, therefore, divergence views on the effectiveness and growth implications of recapitalization policy. It is in response to this situation that this study tends to explore the effect of bank capital reforms on economic growth of Nigeria covering a time frame from 1986 to 2013.

Statement of the Problem
Studies have been conducted to investigate the effect of bank capital reforms on economic growth of Nigeria. The studies have used different data sets, techniques for data analysis, and time frame/series. However, there appears to be different results generated regarding the phenomenon under study. For instance, Bakare (2011) posits that, capital base reforms (recapitalisation) improve economic growth of Nigeria while, Sanusi (2012) contends that, capital reforms in Nigeria have not sustained economic growth, particularly in the 2005 consolidation in Nigeria. Thus, there is the need to further investigate the effect of bank capital reforms on the economic growth of Nigeria covering a time frame from 1986 to 2013.

Research Question
The following research question is posed to guide this study:

1. Do bank capital reforms influence the economic growth of Nigeria?

Objective of the Study
1. To ascertain the effect of bank capital reforms on economic growth of Nigeria.

Research Hypothesis

H01: Bank capital reforms have no significant effect on economic growth of Nigeria.

Capitalization and Capital Adequacy Reforms
Capital adequacy is a widely acknowledged key factor in banks’ performance, measurement and evaluation. It is the first of the five CAMEL factors (capital, assets, management, earnings and liquidity) recognized and adopted by the Basell System of bank performance assessment of the Bank for International Settlement (BIS) (Akhtar, 2007). The importance of adequate capitalization for long-term solvency management of banks should be easy to appreciate. Bank capital, especially first-tier capital (which refers to shareholders funds), is the ultimate and final line of defence against depositors’ claims on a bank. Similarly, capitalization, to a large extent, constitutes a major determinant of the credit delivery capacity of a bank. Indeed the cloak-room theory of banking, as postulated by Edward Cannan about ninety years ago posits that, the lending capacity of a bank depends on two aggregates namely, equity capital and deposits. It further argues that since most deposits are payable on demand and should therefore, not be committed to long-term lending, equity capital constitutes the backbone of a bank’s long-term lending operations (Akhtar, 2007).

There are, of course, some grounds to question the primacy often ascribed to capital among the factors driving the solvency of banks. For instance, Sanusi (2012) argued that, “high capitalization does not automatically translate to improved bank risk management”. In the process of tackling banking problems through capital infusion, the relevant issue is not the level of capital injected into a bank but rather, the optimality of the investment portfolio mix generated from the expanded capital base. Okafor (2011) provides glaring evidence that, bank regulators in Nigeria, have relied heavily on bank recapitalization in tackling most banking sector problems. Thus, as many as twelve upward revisions of minimum capital requirement have been imposed on Nigerian commercial banks since the first upward revision in 1958. This implies on the average, a capital upward revision every four years.
The table below presents the prescribed minimum capitalization requirements of Nigerian commercial banks from 1952 to 2010, the percentage rates of upward revisions as well as the compliance period stipulated for each upward review.

<table>
<thead>
<tr>
<th>Enabling Statute</th>
<th>New Minimum</th>
<th>Percentage increase</th>
<th>Compliance Period Allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952 Banking Ordinance (Act)</td>
<td>12,500 Pounds Sterling</td>
<td>100%</td>
<td>3 years</td>
</tr>
<tr>
<td>1958 Amendment to Ordinance</td>
<td>25,000 pounds Sterling</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>1962 Amendment Act</td>
<td>250,000 pounds sterling</td>
<td>900%</td>
<td>7 years</td>
</tr>
<tr>
<td>1969 Banking Act</td>
<td>300,000 pounds sterling</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>1979 Amendment act</td>
<td>600,000 Naira</td>
<td>Conversion</td>
<td></td>
</tr>
<tr>
<td>1988 (Feb) Amendment Act</td>
<td>5 million Naira</td>
<td>733%</td>
<td></td>
</tr>
<tr>
<td>1988 (Oct) Amendment Act</td>
<td>10 million Naira</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>1989 Amendment Act</td>
<td>20 million Naira</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>1991 BOFI Act</td>
<td>50 million Naira</td>
<td>150%</td>
<td></td>
</tr>
<tr>
<td>1997 Amendment Act</td>
<td>500 million Naira</td>
<td>900%</td>
<td>2 years</td>
</tr>
<tr>
<td>1999 Amendment Act</td>
<td>1 billion Naira</td>
<td>100%</td>
<td>3 years</td>
</tr>
<tr>
<td>2001 Amendment Act</td>
<td>2 billion Naira</td>
<td>100%</td>
<td>1</td>
</tr>
<tr>
<td>2004 Amendment Act</td>
<td>25 billion Naira</td>
<td>1150%</td>
<td>1 1/2 years</td>
</tr>
<tr>
<td>2010 Amendment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank with regional Mandate</td>
<td>10 billion Naira</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank with national Mandate</td>
<td>25 billion Naira</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank with international Mandate</td>
<td>50 billion Naira</td>
<td>100%</td>
<td>Not specified</td>
</tr>
</tbody>
</table>

Source: Okafor (2011)

Notes:
(i) Before 1952 there was no capital requirement for banks. Therefore, the introduction of 12500 pounds sterling minimum requirement represented a 100% upward movement.
(ii) Up to 1979, the amount stated is for indigenous banks. The then expatriate banks had different capital requirements.
(iii) From 1979-1997 there were different capital requirement for commercial and merchant banks, the 1997 amendment Act abolished the different requirements.
(iv) The average rate of minimum capital increases, over the period, is 317.08 percent while the range of increase is between 20% and 1150%.

Recapitalization reforms often pose implementation difficulties for banks for obvious reasons. To implement Recapitalization programme, most banks ultimately rely on the offer and sale of additional shares existing and/or new shareholders. The successful completion of such supplementary offers often involves huge cost and enormous marketing efforts. The higher the upward capital revision, the more traumatic the implementation for banks.

The transitional period allowed for a Recapitalization exercise constitutes another important dimension to the matrix of implementation difficulties. A long transitional period provides ample time for affected bank to strategize and to weigh alternative courses of action before selecting the best and the most cost effective implementation option. A short transition period tends to compound the implementation difficulties for individual banks and to overheat the banking sector generally.

The transitional period provided for the various Recapitalization episodes as indicated in the Table 1 has varied significantly. The first ever minimum capitalization for banks in Nigeria was imposed by the banking Ordinance of 1952 which required new banks to satisfy the stipulated minimum capitalization to qualify for licensing but allowed existing banks a grace period of three years to catch up with the prescribed minimum capital requirement. The 1962 capital upward review for indigenous banks involved a ten-fold increase but provided for a seven-year compliance period (Okafor, 2011). Similarly, the 1997 ten-fold and the 1999 two-fold increases provided for transitional periods of two years and three years respectively. The 2004 capital upward review was the highest rate so far. It involved a twelve and half-fold (1150%) increase in share capital but provided for a compliance period of only 18 months which is the second shortest implementation period ever allowed.

Empirical Review
Asamoah (2008) carried out a study on the “impact of the financial sector reforms on savings, investment, and growth gross domestic product (GDP) of the Ghanaian economy”. Regression analysis was adopted as the analytical tool for testing hypotheses formulated in the study. The study reveals that, financial sector reforms stimulated savings, investment, and growth gross domestic product (GDP) and consequently economic growth of Ghana by increasing the rate of capital accumulation and improving the optimum allocation of capital.

Ogun and Akinlo (2011) investigated the “financial sector reforms on banks performance in the Nigeria”. Descriptive statistics and Vector Autoregressive Model was the analytical tools adopted for the study. The study found that, the means of performance indicators- saving rate, investment ratio, and growth of real GDP, were very low relative to pre-reform period and their correlation with financial indicators were mostly low or negative under reform. Evidence from the VAR analysis also showed that, shocks to financial indicators either negative or insignificant. Shocks to financial indicators either had negative or significant positive effect on the saving rate, investment and growth during reform.

Olajide, Asaolu and Jegede (2011), examined “the impact of financial sector reforms on banks’ performance in the Nigeria between 1995 and 2004”. They specifically attempted to determine the effects of policies of interest rate deregulation, exchange rate reforms, and banks recapitalization on bank’s performance of Nigerian banks and analyse how bank’s internal characteristics and industry structure affected the performance of Nigerian banks. The study utilized panel data econometrics in a pooled regression, where time series and cross-sectional observations were combined and estimated. The result of the analysis confirmed that, government policy reforms, bank specific characteristics and industry structure had mixed effects on banks’ profitability level and net interest margin. Bank specific characteristics appeared to have significant influence on bank’s profitability and efficiency level, while industry structure variables appeared not to have contributed meaningfully to the profitability and efficiency performance of banks in Nigeria.

Aurangzeb (2012) carried out a study on the “contributions of banking sector in economic growth of Pakistan”. Regression method and Granger-Casualty test were employed as the analytical tools for the study. Regression results indicate that, deposits, investments, advances, profitability and interest earnings had significant impact on economic growth of Pakistan. The Granger-Casualty test confirmed the bi-directional causal relationship of deposits, advances and profitability with economic growth. On the other hand, it was observed that, unidirectional causal relationship of investments and interest earnings with economic growth ran from investments and interest earnings to economic growth.

Abubakar and Gani (2013) investigated the “impact of banking sector development on economic growth of Nigeria, from 1970 to 2010”. Using the Johansen (1991) approach, Co-integration and Vector Error Modelling (VECM), the findings of the study revealed that, in the long run, liquid liabilities of commercial banks and trade openness exerted significant positive influence on economic growth of Nigeria. Conversely, credit to the private sector, interest rate spread, and government expenditure, exerted significant negative influence. The findings implied that, credit to the private sector was marred by the identified problems and, government borrowing and high interest rates were crowding out investments and growth.

Owolabi, Olanrewaju and Okwu (2013), investigated the ‘causal linkages between banking sector reforms and output growth of manufacturing sector in Nigeria, from 1970 to 2008’. Co-integration and Granger-causality techniques were applied to ascertain evidence regarding the phenomenon under study. The result of Granger Casualty analysis showed that, the MDGP and banking sector reforms indicators (BF) moved differently, with none predicting the other within the study period. On the other hand, the financial deepening indicator (M2/GDP and interest rate spread, significantly impacted on the MMDGP IN Nigeria, showing that the effects of banking sector reform indicators could vary widely in an economy. In conclusion it was discovered that with proper banking policy formulations and guidance in the financial sector, the manufacturing output growth would be positively affected.

Eriemo (2014) examined, “banking sector reforms and critical factors in Nigeria’s economic growth process from 1980 to 2012”. Ordinal Least Squares (OLS) technique was used to analyse data. The result from the analysis proves that, the minimum capital base which at the heart of the banking sector reform had a positive relationship with the level of economic growth. This is an indication that the banking sector recapitalization had been beneficial and capable of generating the desired level of economic progress in Nigeria. The result indicates that, high interest rate policy was detrimental to the level of economic progress in Nigeria.

Theoretical Framework
This study is anchored on the liberalization theory which is summarized in the studies carried out by Goldsmith (1969), McKinnon (1973) and Shaw (1973). These scholars argued that, financial development
has a strong correlation with growth. The classical school argues that under the assumption of a well-functioning market, financial liberation enhances efficiency in resource allocation, promotes competition which results in competitive prices for goods. They argued further that, government restrictions on the banking system restrain the quantity and quality of investment. The financial liberalization theory ascribes the poor performance of investment and growth in developing countries to interest rate ceiling, high reserve requirements and quantitative restrictions in credit allocation. According to the theory, the restrictions are sources of financial repression, and the main symptoms are low savings, credit rationing and low investment in that economy. Thus the need for financial liberalization which frees financial market from any intervention and allows the market forces of demand and supply determined the allocation of credit in an efficient manner. The theory discourages active involvement of government in economic activities and argues that the role of government, if any, should be limited to the maintenance of law and order and the creation of relevant institutions for the efficient functioning of the free market system. This confirms the views of Ogun and Akinlo (2011) that, the adoption of economies of laissez-fair means, placing a strong faith in Adam Smith’s ‘invisible hand’ and the market mechanism to efficiently allocate resources and fix prices. The postulation of Ogun and Akinlo is in consonance with the views of McKinnon (1973) and Shaw (1973), which attribute the slow growth of developing countries to financial repression. They argued that, liberalizing the markets results in tremendous benefits, which include increased savings and investment, increased efficiency of investment and long term economic growth. To this extent, economic growth is then expected to drive the growth of the financial sector, which in turn further stimulates and enhances the process of savings mobilization and the allocation of financial resources to productive investments.

Methodology
Data on the variables in this study are obtained from the CBN Statistical Bulletin, 2013 covering a time frame from 1986 to 2013. The present study has adapted these variables from Eriemo (2014), and Bakare (2011) and fine-tuned the models to incorporate only variables of capital. The functional form of the relationship can be shown as:

\[ \text{GDP} = f(\text{CAP}, \text{RES}) \]  

(1)

Where:

GDP = Gross Domestics Product is the dependent variable and is the proxy for economic growth.
CAP = Bank total capital and represents the net worth of the bank or its value to investors
RES = Total Bank reserves comprising currency reserves and deposits with CBN in form of reserve requirement, capital account and stabilisation security.

The model form of the relationship can be written thus:

\[ \ln(\text{GDP}) = \beta_0 + \beta_1 \ln(\text{CAP}) + \beta_2 \ln(\text{RES}) + \mu \]  

(2)

Where:

\( \beta_0 \) = the constant
\( \beta_1 \) = the coefficient of the relationship between bank capital and economic growth (GDP)
\( \beta_2 \) = the coefficient of the relationship between bank capital reserves and economic growth (GDP)
\( \mu \) = the error term.
The appriori expectation is that bank capital increase will engender economic growth thus we posit that \( \beta_1 > 0 \), \( \beta_2 > 0 \).

Results

<table>
<thead>
<tr>
<th>Table 1: Statistical Properties of the Variables of Bank Capital Reform Model</th>
<th>LnGDP</th>
<th>LnCAP</th>
<th>LnRES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>8.415714</td>
<td>3.327143</td>
<td>4.017143</td>
</tr>
</tbody>
</table>
The characteristics of the time serial data used in the analysis are presented in Table 1. The table provides clues about the mean, median, standard deviation, skewness as well as the Jarque-Bera statistics of each variable. From the Jarque-Bera statistics, the normality of the variables is explained. The variables considered here are Natural log of Gross Domestic Product (LnGDP), Natural Log of Bank Capital (LnCAP), and Natural Log of Total Bank Reserves (LnRES). The variables are systematically distributed. Specifically, the outcomes of each of the variables have mean, median as well as values for their maximum and minimum that suggest well behaved variables. The mean values employed are not too different from their respective median values. This is an indication of absence of excessive outliers and stability of the variables employed, which are essential for the analyses carried out in this study. The value of the standard deviation of each of the variables is a further proof of the fact that the distribution of the variables is approaching normal distribution. In addition, the skewness, kurtosis and standard deviation statistics show that the variances of the variables are not unnecessarily large. Only LnRES, is positively skewed which implies a relatively fat-right tail. Other variables have relatively fat-left tails. The probability values of the Jarque-Bera Statistics as presented in the tables show that LnGDP, LnCAP, and LnRES, are normally distributed. All the employed variables have 28 data point observations.

### Table 2: The Unit Root Test Results for the Selected Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Levels: 1(0)</th>
<th>First Difference : 1(1)</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ADF</td>
<td>PP</td>
<td>ADF</td>
</tr>
<tr>
<td>LnGDP</td>
<td>-1.3196</td>
<td>-1.7415</td>
<td>-4.1140*</td>
</tr>
<tr>
<td>LnCAP</td>
<td>-1.5255</td>
<td>-1.6722</td>
<td>-2.9947**</td>
</tr>
<tr>
<td>LnRES</td>
<td>-1.5236</td>
<td>-1.7640</td>
<td>-4.5239*</td>
</tr>
</tbody>
</table>

**Critical Values**

<table>
<thead>
<tr>
<th></th>
<th>1%</th>
<th>5%</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levels</td>
<td>-3.7076</td>
<td>-2.9798</td>
<td>-2.6290</td>
</tr>
<tr>
<td>ADF</td>
<td>-3.6959</td>
<td>-2.9750</td>
<td>-2.6265</td>
</tr>
<tr>
<td>PP</td>
<td>-3.7204</td>
<td>-2.9850</td>
<td>-2.6318</td>
</tr>
</tbody>
</table>

Significance of coefficients are reported using p-value. * denotes significant at 1%; ** denotes significant at 5%; *** denote significant at 10%.

The variables employed in the analysis are tested for stationarity using two unit root tests, namely, Augmented Dickey-Fuller test and Phillips-Peron test, to determine whether they are stationary or non-stationary series. The two tests are employed to reinforce one another, to ensure their robustness and boost confidence in their reliability. The tested null hypothesis for both unit root tests is the presence of a unit root. The results on Table 2 above, shows that none of the variables is stationary at level. However, at first difference, all the variables have no unit root and the null hypothesis is rejected at 5% level of significance, indicating that the variables are integrated at the same order, that is I(1). From the analyses of result in Table 2, we conclude that variables are stationary at first difference and hence reliable for further statistical analyses.

### Table 3: Test of Co-integration among the Variables of Bank Capital Reform Model

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>5 Percent</th>
<th>1 Percent</th>
<th>Hypothesized</th>
</tr>
</thead>
</table>

225
Eigenvalue | Ratio | Critical Value | Critical Value | No. of CE(s)
---|---|---|---|---
0.376867 | 31.60704 | 29.68 | 35.65 | None*
0.224959 | 9.309175 | 15.41 | 20.04 | At most 1
0.098059 | 2.683368 | 3.76 | 6.65 | At most 2

*(**) denotes rejection of the hypothesis at 5%(1%) significance level
L.R. indicates 1 cointegrating equation(s) at 5% significance level

Co-integration test was carried out to ascertain the existence of long run relationship among the variables employed for each model. Co-integration of two or more time series suggests that, there is a long run or equilibrium relationship between them. The decision rule is to reject the null hypothesis if the value of the Likelihood Ratio is greater than the Critical Value. Otherwise, we do not reject.

The Bank Capital Reform and Economic Growth model, which is specified to examine the effect of bank capital reform on the economic growth of Nigeria, is tested for the null hypothesis of no co-integration assuming linear deterministic trend. Comprised in the model are LnGDP, LnCAP and LnRES. The result on Table 3 indicates that, there is one cointegrating equation, since the likelihood ratio value of 31.60704 > critical value of 29.68 at 5%. It becomes necessary to reject the null hypothesis of no co-integration and conclude that, there is the existence of long-run relationship among the variables of bank capital reform and economic growth.

Table 4: OLS Regression of the Bank Capital Reform and Growth Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAP</td>
<td>0.776811*</td>
<td>0.083082</td>
<td>9.349932</td>
<td>0.0000</td>
</tr>
<tr>
<td>RES</td>
<td>0.191527*</td>
<td>0.068332</td>
<td>2.802883</td>
<td>0.0096</td>
</tr>
<tr>
<td>C</td>
<td>5.061763*</td>
<td>0.195754</td>
<td>25.85779</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Adjusted R-squared: 0.934127
F-statistic: 192.4395*
Durbin-Watson stat: 1.774123

Note: * denotes significant at 1%, ** denotes significant at 5%; *** denote significant at 10%

The null hypothesis that “bank capital reforms have no significant positive effect on economic growth of Nigeria” is tested and shown in Table 4. Evidence from the results shows that bank capital (CAP) (coefficient = 0.776811) has positive effect on economic growth while total bank reserve (RES) (coefficient = 0.191527) has positive effect. This indicates that a unit increase in bank capital leads to 77.7% increase in economic growth while a unit increase in total bank reserve brings about 19.2% increase in economic growth.

The t-value for the coefficient of CAP is 9.349932 (p <0.05) and total bank reserve is 2.802883 (p <0.05). Since the probability of the t-statistics is less than 5% level of significance, we conclude that each of the variables of capital reform (CAP and RES) has significant positive effect on economic growth in Nigeria. As indicated by the F-statistics (192.4395; p < 0.05), the two variables have combined statistical significance. This is so because, since the probability of F value is less than 5% level, we reject the null hypothesis that bank capita reforms have no significant effect on economic growth of Nigeria. However, as the coefficients of the variables are positive, we further reject the null hypothesis and conclude that, bank capital reforms have significant positive effect on economic growth of Nigeria.

The level of effect of bank capital reform on economic growth is captured with the adjusted coefficient of determination (Adj r²) given as 0.934127. The results indicate that about 93% of changes in economic growth can be explained by capital reform. The result of the Durbin-Watson statistics (1.774123) which is approximately equal to 2 indicates absence of autocorrelation in the model.

Discussion of Findings
The study shows that, bank capital reforms have significantly effect on economic growth of Nigeria. The finding is in support of Asamoh (2008) who contends that, financial sector reforms stimulated savings, investment, and growth gross domestic product (GDP) and consequently economic growth by increasing the
rate of capital accumulation and improving the optimum allocation of capital. The finding is also in consonance with the views of Eriemo (2014) which asserts that, the minimum capital base which at the heart of the banking sector reform had a positive relationship with the level of economic growth. This is an indication that the banking sector recapitalization had been beneficial and capable of generating the desired level of economic progress in Nigeria. The result showed that, high interest rate policy was detrimental to the level of economic progress in Nigeria.

Conclusion and Recommendations
The study thus concludes that, bank capital reforms have shown to have very high explanatory influence on Nigerian economy, which indicates that banking sector reform is a veritable tool for repositioning and reorienting Nigerian economy. Following the problem identified, the objective, and the findings of the study, the following recommendations are put in place:

1. The Central Bank of Nigeria should establish effective mechanism and monitoring techniques to ensure that bank capital recapitalization programmes are effectively implemented and funds raised are channelled to productive sectors of the Nigerian economy.
2. Monetary authorities should work with relevant government agencies especially the Federal Executive Council and the Judiciary to establish commercial courts to try offenders/manipulators of the bank capital reform system and if found guilty sentenced accordingly. It will be different from the conventional courts to avoid delays and unnecessary adjournments inherent in ordinary courts. A time space of three-five years plan should be adopted by the monetary authorities for bank capital reforms to make it more functional and effective.
References


