Financial Liberalization and Bank Performance in Nigeria: A Panel Data Analysis

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ABSTRACT: *This paper aims at investigating the impact of financial sector liberalization variables such as lending rate, exchange rate and real financial savings on each of the four Bank performance measure use in this study such as return on equity, return on capital employed, net asset per shares and earnings per shares in the Nigerian Economy.*

Panel data analysis was used in the study because of the nature of the data employed for the analysis which involved a sample size of fifteen quoted banks in the Nigerian stock exchange market over the period of 1987-2016. Fixed and random effect analysis was done on the data, since the value of R^2 was low for both the fixed and random effect we MAKE USE OF Dummy variable Regression (LSDV).

The results of this paper finds that the R^2 for the four models are relatively small under the first differenced variable result using H uber-white sandwhich estimation fixed effect estimation and random effect estimation technique. Also under this techniques, it was observed that most of the dependent and independent variables such as NAPS, ROCE, ROE, EPS, LR, ER, and RFS are negatively related. This means than financial liberalization has not made considerable impact during the period under study. This may be as a result of withdrawal of government parastatal funds of commercial bank in 1989 and (TSA), Treasury Single Account of the present Buhari regime which reduce the deposits of banks besides inflation rate is above savings rate during the period of liberalization of financial system hence depositors could not be attracted. This result is helpful in adding more value to the existing reports especially in this recession period. Commercial banks which serves as intermediary between investors and the economy must be proactive in fixing favourable interest rates so that there will be improvement in the performance of banks and investments in the Nigerian economy.

KEY WORDS: Financial Liberalization, Bank Performance, Panel Data, Return on Equity, Net Asset Per Share.

I. INTRODUCTION

Financial Liberalization essentially refers to loose and less administered interest rate structures, more competition among financial intermediaries, more market – based activity, more openness to cross border capital flows, less 'repression' in the sense of McKinnon, [1] It also involves reducing quantitative control in attempts of their liabilities (subject to certain minimum control maintained for prudential supervision) [2]

As a result of the pioneering works of Mckinnon (1973) and Shaw (1973), many developing economies have come to appreciate the need to liberalize their financial systems. This need is premised on the belief that financial liberalization brings about efficient resources pricing an allocation which in turn impact positively on economic growth and development[5].

Industrialization has been identified as a potent facilitator of sustainable economic growth and development. However, for industrialization to be achieved in any economy, the need to develop a strong financial sector in the economy is highly crucial.

Before the financial sector liberalization that commenced in 1986, most salient features of repression in the financial sector include:

(a) Restriction on entry into the Banking sector as well as limitation of foreign ownership of domestic financial institutions resulting in oligopolistic structure of the banking industry,

(b) Imposition of high liquidity and required reserve ratio, the liquidity ratio for Banks' remained at 25 percent,

(c) The use of call-up special deposits and issue of stabilization securities.

(d) Imposition of interest rate ceilings on lending and deposits rates which resulted in increased real interest rates and wide margin between deposit and lending and.

(e) Imposition of restrictions on the portfolio choices of financial institutions in the form of stipulating the maximum ceilings for required lending to specific activities and re – discounting of credits to key sectors at subsidized rates which resulted in edging out of the most productive investment in form of the preferred sectors [6]

Available statistic from studies such as [7]; [8],[9] and [10] have shown that though policy mix have proved to be very effective in some developing countries such as south Korea, Malaysia', Argentina, Uruguay, but the Nigeria experience seems not to have been quite satisfactory. This perhaps explains the reason for the various sporadic government interventions to regulate the deregulation process, which has culminated the financial reform era into what is being regarded as guided deregulation era.

It is against this background that critical issues continue to emerge, begging for answers such as:

• Whether the Liberalization of financial sector has really stimulated savings in Nigeria
• Whether interest rate liberalization has increased savings mobilization in Nigerian

These and other questions prompted this study; it is our hope that this study will provide the needed answers.The objectives of this paper are to: examine the factors influencing the performance of the banks under the Liberalization policy, access the best measure of bank performance among Return on Equity, Earning Per Share, Net Assets Per Share and Return On Capital Employed. determine the existence of the relationship between proxies for measuring Bank Performance and Financial Liberalization.

II.   LITERATURE REVIEW

This section seeks to review some related literatures on financial liberalization and bank performance in Nigeria. In its broad application, liberalization is understood to refer to those fiscal and monetary policy measures, which seek to remove regulatory controls on the activities of economic actors in order to enhance their competitiveness in the market. The concept of liberalization therefore is a recent economic agenda emanating form the quest for the dismantling of regulation. Liberalization is not conformed only to financial market but since financial market determines the level of economic activity in most other markets, they have received most attention.

Effect Of Financial Liberalization

According to the 1994 edition of the African Development Report, the financial and real sectors of an economy are closely interwoven. It was noted therein that development in the real economy spread financial development, and the growth of money, finance and financial development influence the real economy as exemplified by African and other developing countries. Nevertheless, there are various but often conflicting argument that has been advanced to explain the effect of financial liberalization.

It was shown by [11] and other related studies that expanded financial intermediation between savers and investor resulting from financial liberalization, that is higher real institutional interest rates, increases incentive to save an invest and raise the average efficiency of investment financial intermediaries raise real returns to savers and at the same time, lower real cost to investor by accommodating liquidity preference, reducing risk through diversification, reaping economies of scale in lending, increasing operational efficiency an lowering information costs to both savers and investors through specialization an division of labour.

In contrast, it was argue by structuralist such as [12], and [13] that a rise in the nominal interest rate will increase the cost of firms by raising borrowing cost and the cost of financing working capital .If this lead to raising prices, then real wages will fall, which will reduce aggregate demand and reduce the capacity utilization by firms. They pointed out that higher interest rate by attracting capital inflow may also lead to an over valuation of the exchange rate, leading to expenditure switching from domestic to foreign goods, this will reduce aggregate demand. Also, they argued that high interest rate will have the added effect of increasing the size of government budget deficit by increasing the cost of debt service.

[14] posited in a review of the Nigerian case that although liberalization appear to be accentuated the problems of poor management, fraud, inadequate infrastructure, and scarcity of professional staff, it has lead to improvement in financial intermediation and increased flow of financial resources to the productive sectors of the economy. [15] posited that financial deregulation allows for efficient resources allocation, operational dynamism and equity gains. This position was shared by [16], [17],[18].

[19] holds the view that financial liberalization leads to efficiency and invocation in the financial service sector. This view was substantiated in an empirical analysis carried out by [20] in which the revealed that liberalization leads to increase efficiency under the Nigerian experience. [21] agrees with the fact that financial liberalization result in efficiency and competition but he was afraid of the aftermath effect of free entry and exist into the financial sector, which he believed might not allow people to have confidence in the system.

[22] argues that competition and regulation are not alternative to each other in the financial sector rather he was of opinion that competitive financial sector requires close regulation and supervision by the authority.

While Edward [23] was in support of adequate regulation of the financial sector, he was some changes to come in the future which might leads to deregulation of financial system [24] emphasized this by saying that changes required appropriate adjustment in financial regulation.

[25], apparently undecided, favoured both regulation and deregulation which made it conflicting. This conflict arises from the fact that deregulation brings about competition and efficiency, whereas regulation ensures stability of the banking system, hence, the problem of choice [26] **.** It is calculated by dividing the profit After Tax (PAT) by the total number common share outstanding.
This is,
EPS=Profit After Tax (PAT)
     Number of common share outstanding

• **Net Asset Per Share (Naps):** This is calculated by dividing the net asset (representing the total assets less current liabilities) by the number of ordinary shares. It describes the net worth per share of the firm.

Model Specification: Following the work of [27]. The following models are specified for this work:

$$ROE=a_0 + a_1LR + a_2ER + a_3RFS + Ui \quad \dots\dots\dots\dots \quad 1$$
$$ROCE=b_0 + b_1LR + b_2ER + b_3RFS + Ui \quad \dots\dots\dots\dots \quad 2$$
$$NAPS=c_0 + c_1LR + c_2ER + c_3RFS + Ui \quad \dots\dots\dots\dots \quad 3$$
$$EPS=d_0 + d_1LR + d_2ER + d_3RFS + Ui \quad \dots\dots\dots\dots \quad 4$$

Appiori Expectaion

A positive relationship is expected between the financial liberalization proxies and bank performance measures in the financial sector.

Estimating Technique

The method of estimation employed for this study is based on panel (pooled) data analysis. The model is concerned with the cross sectional and longitudinal (i.e. time series) it is a system of analyzing a particular subject within multiple sites, periodically observed over a defined time frame. To be able to explain in detail, the causal effect relationship for the four models captured in the study, we use Error-Component model analysis which includes different special regression models such as fixed Effect Estimation, Random Effect Estimation and least square Dummy Variable Regression.

III.   INTERPRETATION AND DISCUSSION OF EMPIRICAL RESULTS
Introduction

This section presents, and discusses the result of all model estimation as described in section three above. The variables in the three models described in section three can be categorized into two as variables which are performance indicator and variable which are financial liberalization indicators. The former are Return On Equity (ROE), Return On Capital Employed (ROCE), Net Asset Per Share (NAPS) and Earnings. Per Share (EPS). While the latter are lending Rate (LR) Exchange Rate (ER) and Real Financial Savings (RFS) the pooled data for these variables are presented in Appendix 1.

In an attempt to investigate the impact of financial liberalization on bank performance, this section begins by explaining the descriptive statistic of the data series employed in the study. Table 1 shows that variable Rfs has the largest standard deviation while Lr has the smallest standard deviation. Variable eps, roce roe and negatively skewed while variable naps, Lr er and rfs and positively skewed. The kutosis coefficient of date in the study was measured and result shows that some of the series and normally distributed while some of the series are heavy tailed. For this study, the eps, naps, roce, Ir, and rfs have their coefficients to be 48.8,3, 9.07, 79.98 103.39, 3.20, 1.34 and 3.42 respectively.

Table 1: Descriptive Statistic of Data Used

	Eps	Naps	Roce	Roe	LR	ER	RFS
Mean	22. 12	143. 38	23.55	14.09	15.28	65.80	172024.5
Std. Dev	31.57	86.55	40.54	34.27	4.98	52.74	148668.2
Variance	996. 82	7490.11	1643.56	1174.71	24.75	2781.96	2.21ef10
Skewness	-2.15	1.90	-6.09	-7.62	0.80	0.06	1.02

Kurtosis	48. 83	9.07	79.98	103.39	3.20	1.34	
							3.42

Source: Computed from data

Table 2 shows the correlation matrix. In this Table the degree of association between all the economic indicators were displayed. The last row of the panel for instance displays the relationship between rfs and other economic indicators such as between rfs and eps which is -0.0413 and between rfs and naps to be -0.1345. in the second row the relationship between naps and eps was o.2458 which demonstrated positive correlation.

Table 2: Correlation Matrix

	Eps	Naps	roce	Roe	Lr	er	rfs
Eps	1.000						
Naps	0.2458	1.000					
Roce	0.2382	0.0671	1.000				
Roe	0.0994	0.0797	0.3861	1.000			
Lr	-0.0674	-0.0598	-0.0434	-0.0490	1,000		
Er	0.0005	-0.1809	-0.0191	0.0022	-0.5055	1.000	
Rfs	-0.0413	-0.1345	-0.0140	-0.0038	-0.3157	0.9073	
							1.000

Source: Computed from data

In this study we pool the data for the different Banking firms and as a result of this if we decide to use OLS regression the estimate will be biased as a result of unobserved heterogeneity because pool-OLS relies on a between comparison with little emphasis on within variation. Therefore to be able to explain in detail the casual-effect relationship for the four (4) different models captured in the study, we use Error-component model analysis which include different special regression model which include (i) First-Difference Estimate (ii) Fixed-Effects Estimation (iii) Random Effect Estimation (iv) Dummy Variable Regression (LSDV).

First-Difference Estimation Analysis
The analysis here made use of regression equation in differences (without constant). The result for the four model is shown in the T able 3 as follows

Table 3: First-differenced Variables Result using GLS or Huber-White Sandwich Estimations

	Deps	dnaps	droce	droe
Dlr	0.22(0.79)	-5.28 (0.78)	0.56 (0.72)	-0.67 (0.68)
Der	0.44(0.38)	-1.56 (0.17)	0.14 (0.11)	0.07 (0.176)
Drfs	-0.00007 (0.0000.7)	0.004 (0.00004)	0.0000019 (0.0000005)	-0.000014 (0.0005)
N	285	285	284	285
R^2	0.026	0.096	0.0036	0.0045
F_{sat}	3.92	64.55	0.90	0.67
P_{value}	0.03	0.000	0.46	0.583v

Source: Computed from Data

In Table 3 column 2, results show that a change in dlr and der will lead to 0.22 and 0.44 increase in deps. Also a change in drfs lead to a very small decrease in deps. In column 3 result showed that for any change in dlr and der it will lead to a fall of 5.28 and 1.56 in dnaps. This shows that there is an inverse relationship between each of these and the dependent variable. However there is direct relationship between dnaps and drfs when every other regressions are kept constant. The value on column 3 is 0.0004.

In column 4 of Table 3, result shows that both der and drfs have positive impact on droe. This is so since there value coefficient are respectively 0.14 and 0.0000019. but a change in dlr lead to a reduction in droce. In column 4, result shows that both dlr and drs have negative relationship with droe but der has positive impact on droe.

In the four models, R^2 was found to be low for deps, dnaps, droce and droe as their values were 0.026, 0.096, 0.0036 and 0.0045 respectively. However, the f statistics shows that the overall regression for dps and dnaps are significant. This is so since the P-value are less than 0.05.

Table 4: Fixed – Effect Estimation Result

	Eps	Naps	Roce	roe
Constant	29.09 (8.56)	254.7 (22.08)	37.93 (11.403)	23.00 (9.63)
Lr	-0.365 (0.44)	-5.006 (1.14)	-0.729 (0.58)	-0.486 (0.49)
Er	0.082 (0.09)	-1.143	-0.115 (0.12)	-0.037 (0.106)
Rfs	-0.0004	0.00023	0.00002	0.000005

	(0.00003)	(0.0008)	(0.00004)	(0.00003)
No of obs	300	300	300	300
No of grp	15	15	15	15
R^2 within	0.013	0.107	0.0060	0.0036
R^2 between	0.204	0.0002	0.0068	0.1315
R^2 overall	0.012	0.0930	0.0054	0.0036
F_{stat}	1.26	11.31	1.68	0.34
P_{value}	0.287	0.0000	0.05	0.799
Sigma_u	11.099	32.779	11.60	8.532
Sigma_e	30.36	78.335	39.99	34.187
Rho	0.117	0.149	0.077	0.058

Source: Computed From Data

Fixed-Effects Estimation Analysis

Result from Table 4.2 column 2 shows that both lr and rfs have negative relationship with, eps but er has positive relationship with eps. The R^2 for the within person comparison is given to 0.013 (1.3%) and R^2 for between person comparison was 0.204 (20.4%). The standard deviation of person specific error (sigma-u) was 11.09, while the standard deviation of the idiosyncratic error (sigma-e) was 30.36. From Table 4.0, it must be noted that in columns 1 to 4 Lr had inverse relationship with eps, naps, roce and roe. Also er has negative relationship with naps roce and roe respectively. However the result indicates positive relationship between er and naps. It was interesting from the result that rfs had positive relationship with naps, roce and roe respectively. In Table 4 the F statistic value of 11.31 for the naps function and 1.68 for roce function confirmed that the overall regressions are significant.

Table 5: RANDOM – EFFECT ESTIMATION RESULT

	eps	Naps	roce	roe
Constant	254.80 (23.19)	254.80 (23.19)	37.85 (11.57)	23.24 (9.68)
Lr	-5.009 (1.14)	-5.009 (1.14)	-0.73 (0.58)	-0.499 (0.49)
Er	-1.1419 (0.24)	-1.1419 (0.24)	-0.11 (0.12)	0.0389 (0.10)
Rfs	0.00023 (0.00008)	0.00023 (0.0008)	0.00003 (0.00004)	0.000006 (0.00003)
No of obs	300	300	299	300
No of grp	15	15	15	15
R^2 within	0.0133	0.107	0.006	0.0036
R^2 between	0.2030	0.0002	0.0068	0.1314
R^2 overall	0.0121	0.093	0.0054	0.0036
Wald test (3) X^2	3.77	33.89	1.67	1.06
P_{value}	0.287	0.0000	0.6427	0.7870
Sigma_u	6.24	27.26	8.617	3.744
Sigma_e	30.36	78.33	39.99	34.187
Rho	0.04	0.108	0.044	0.011

Source: Computed from Data

The results for random effect estimation were displayed in Table 5. The results here were similar to the results determined in the Table 4, with coefficient carrying similar positive and negative sign but with the absolute values of the coefficient different.

In Table 5 the value of the Wald test conducted was reported. The Wald test is used here to test the joint significance of variables fitted in each of the four model specified in the study. Using this, results showed that the naps function was only significant.

To be able to choose between fixed and random effects used in this study, the Hausman test was used to check a more efficient model against a less efficient one.

4.3 Hausman Diagnostic Test

The Hausman test was only conducted on the roce and roe functions but this test could not be carried out for eps and naps functions because noe of the two functions meet the asymptotic assumption of the Hausman test. However for roce and roe functions, the Hausman test results for each of them are displayed in Tables 6 and 7.

Table 6: Hausman Test for Roce Funcion Coefficient

	(b) Fixed	(B) Random	b-B Difference	S.E
Lr	-0.7298921	-.7260352	0.0038	0.048
Er	-0.1146584	-0.1134581	-0.00120	0.010044
Rfs	0.0000252	0.0000249	0.00000026	0.0000018

B = consistent under Ho and Ha

B = unconsistent under Ha, efficient under Ho,

Test= HO: difference in coefficients not systematic

$X^2 (2) = 3.80$

P – value, Prob $>x^2 =0.1493$

From the Hausman test conducted in the study which is displayed in Table 6, it can be concluded that since the P _value for Roce and Roe function Which are 0.99 and 0.14 are greater than the x^2 value, it is safe to use the random effect.

It must be noted that since the value Ho R^2 was low for both the fixed and random effect we now decided to make use of Dummy Variable Regression (LSDV) and the results are displayed in Tables 7 to 10.

Table 7: Dummy Variable Regression (LSDV) for EPS function

Eps	Coefficient	Std. error
Lr	-o.36	0.44
Er	0.08	0.094
Rfs	-0.00004	0.00003
Pers 1	21.56	10.70
Pers 2	19.60	10.76
Pers 3	22.70	10.80
Pers 4	15.50	10.78
Pers 5	16.68	10.81
Pers 6	23.75	10.79
Pers 7	31.61	10.80
Pers 8	28.35	10.79
Pers 9	29.40	10.75
Pers 10	28.77	10.81
Pers 11	26.53	10.78
Pers 12	34.12	10.79
Pers 13	32.34	10.82
Pers 14	51.06	10.74
Pers 15	54.34	10.77

R^2 0.416 (42%)

Fstat 11;14

Source: computed from data

Table 8: Dummy Variable Regression (LSDV) for NAPS function

Naps	Coefficient	Std. error
Lr	-5.005	1.141
Rr	-1.142	0.243
Rfs	0.00023	0.0002
Pers 1	224.755	27.62
Pers 2	238.27	27.76
Pers 3	231.95	27.87
Pers 4	213.07	27.81
Pers 5	215.20	27.91
Pers 6	220.13	27.86
Pers 7	237.36	27.87
Pers 8	269.01	27.87
Pers 9	260.32	27.75
Pers 10	279.34	27.89
Pers 11	287.02	27.83
Pers 12	268.55	27.84
Pers 13	259.31	27.92
Pers 14	289.91	27.73
Pers 15	327.00	27.79

R^2 0.7942(79%)
Fstatistic   60.44
Pvalue   0.000
Source: computed from Data

If we compare the result in Table 7 to 10 we can see that the result provide the same value as the estimated under the fixed-effect estimator. The dummy variables for each of the fifteen (15) firms in the four model was represented by persi to persis.

Table 9: Dummy Variable Regression (LSDV)
For Roce Function

Roce	Coefficient	Std. error
Lr	-0.729	0.58
Er	-0.114	0.125
Rfs	0.0000	0.00040
Pers 1	35.363	14.18
Pers 2	33.84	14.26
Pers 3	33.76	14.31
Pers 4	27.83	14.28
Pers 5	29.77	14.33
Pers 6	41.77	14.31
Pers 7	55.31	14.32
Pers 8	43.08	14.31
Pers 9	38.61	14.25
Pers 10	31.76	14.32
Pers 11	44.41	14.67
Pers 12	11.36	14.30
Pers 13	39.32	14.34
Pers 14	43.80	14.24
Pers 15	60.28	14.27

R^2 0.3144 (31.4%)
Fstatistic 7.16
P-value 0.000
Source: computed from Data

Each of these values represent the intercept value of the firm in each of the model. The value of each coefficients of the dummy variable.

Table 10: Dummy Variable Regression (LSDV)
For Roe Function

Roe	Coefficient	Std. error
Lr	-0.48	0.49
Er	-0.037	0.10
Rfs	0.0000057	0.0
Pers 1	24.93	12.05
Pers 2	23.88	12.11
Pers 3	22.67	12.16
Pers 4	14.07	12.14
Pers 5	15.50	12.18
Pers 6	21.05	12.15
Pers 7	28.7	12.16
Pers 8	26.45	12.15
Pers 9	24.72	12.11
Pers 10	24.36	12.17
Pers 11	22.32	12.14
Pers 12	17.35	12.15
Pers 13	6.87	12.18
Pers 14	24.74	12.10
Pers 15	46.39	12.13

R^2 0.1977 (19.77%)
Fstatistic   3.86
 P-value 0.0000
Source: computed from data

Variables are different from the others. These differences in the intercepts may be due to unique features of each banking firm, such as differences in management style or managerial talent. To be able to know that this method is good, can be seen from the fact that some of these dummy variables are statistically significant, and the fact that the R^2 values for the four models hand increased substantially. For instance in the eps and naps function the R^2 were 42% and 79% respectively. Also very interesting is that F statistic value for the four models indicated that the overall regression in each model is significant. This fact is confirmed by the P-value in each which is less than 0.05.

Roe = f (lr er Rfs)

Roe = 70 – 0.34lr = 0.82er-0.4Rfs

IV.   DISCUSSION OF EMPIRICAL RESULT

The empirical results show that the R^2 for the four models are relatively small under the first differenced variable result using G & S or Huber-White Sandwich Estimation, fixed effect estimation technique and Random effect estimation technique. Also under these technique, it was observed that most of the Dependent and Independent Variables such as NAPS, ROCE, ROE, EPS, LR, ER and RFS are negatively related. This means that financial Liberalization has not made a considerable impact during the period under study.

The result of this research work lends support to some previous research works such as Adesegun, Adebayo and Osekita (2004) which reveals that bank performance does not improve during the period under study. Moreso, liberalization of the financial sector may not have considerable impact on bank performance for the following reason:

• Withdrawal of government parastatals funds of commercial and merchant bank in 1989, this reduced the deposit of banks.
• The political turbulence in 1993 had resulted to negative capital flight and consequence loss of deposit.
• Inflationary rate is above saving rate during the period of liberalization of financial system hence depositors could not be attracted.
• Financial liberalization period is mixed up with 1991 regulation, this distorted bank performance.

Summary, Conclusion and Policy Recommendation of the Study

This paper investigated financial liberalization and bank performance in Nigeria.A sample of fifteen quoted banks in the Nigerian stock exchange market was used, secondary data over the period of 1987 -2012 were analysed using panel data technique of estimation. Conclusively, since the result of the least square dummy variable regression shows an improvement in the value of R^2, most of the dependent and independent variables are positively related and the F-statistic values for the four models indicated that the overall regression is each model is significant. Based on our findings in this study,the following recommendations were made; Firstly, it has been said that the engine of growth and development in any economy is industrialization. The fundamental problem of industrialization in an economy like ours is lack of funds. For funds to be made available, government should embrace industrial policy instrument that makes Nigeria least cost industrial producer. This suggests that something drastic must be done policy wise to modify the existing high bank lending rate to make it supportive to the industrialization process. Also banks, which fail to comply with the credit policy guidelines, should be liable to more stringent penalties.

Secondly, political instability in Nigeria between 1993 and 1994 and the intervention of military in government has led to massive capital flight from Nigeria economy. Positive change in the monetary management system would seem to have been obscured by the unstable macroeconomic environment. Adverse movement in domestic liquidity, inflation and other macroeconomic problems persist in any economy where there is no stable politics that can ensure a conducive atmosphere for policies like financial liberalization to take place. Therefore, for future prospect in the financial sector of Nigeria economy, we recommend a stable economy.

Thirdly, since result of our findings shows that there is no long-run relationship between financial liberalization and bank performance in Nigeria, these may be as a result of lack of good stabilization measures from the inception of financial liberalization, we therefore suggest that there is need to precede financial sector reforms with stabilization measures in order to situate the reforms within a stable macro economic environment. Huge fiscal deficits, persistent depreciation of the exchange rate and tight credit policies may create or worsen problems in the banking sector. Therefore we suggest a guided financial liberalization system for the Nigerian economy.

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