BANKING SECTOR REFORMS AND THE PERFORMANCE OF NIGERIAN ECONOMY: A VECTOR ERROR CORRECTION INVESTIGATION (VECM)

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ABSTRACT

The study evaluates the relationship between banking sector reforms and performance of Nigerian economy using data spanning (1998-2013). Secondary data were used and sourced from the Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics. Hypotheses were formulated and tested using Vector Error Correction Model (VECM). The study reveals that the variables do not have unit roots. There is also a long-run equilibrium relationship between banking sector reforms and performance of Nigerian economy and the result confirms that about 76% short-run adjustment speed from long-run disequilibrium. The coefficient of determination indicates that about 55% of variation in the performance of Nigerian economy can be explained by changes in banking sector reforms variables. There is causality between banking sector reforms and performance of Nigerian economy. The study recommends that, the monetary authorities should be more proactive in bank supervision and pursue a supervisory framework based on prudence and professionalism. Monetary and fiscal policies should be properly align towards stimulating and deepening the economy. Banks should ensure effective management of their resources focusing on risk management and ensure good corporate governance.

Keywords: Banking, Sector, Reforms, Performance, Economy.