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THE EFFECT OF PRIVATE SECTOR CREDIT ON FINANCIAL SECTOR RESTRUCTURING IN NIGERIA (1986-2024)

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Abstract

The private sector is widely recognized as one of the major drivers of economic growth in any economy, especially when the right credit is made accessible to them. In macroeconomic theory, fluctuations in the supply of money and credit constitute a key causal factor in the cyclical process of economic activity, that is, when money supply falls, prices reduce, profits reduce, production activities become sluggish, and output is low. Conversely, when money supply expands, prices rise, profits increase and the total output increases and finally, growth takes place, (Olorunmade, Samuel & Adewole, 2019). The financial sector is one of the sources that makes this credit accessible to the private sector. The financial sector enhance stability, efficiency and has the ability to mobilize and allocate resources effectively (IMF, 1997). It can then be concluded that no economy can develop

without an appreciable growth in the financial sector, (Iloanya, 2023).

In the Nigerian context, the ability of the financial sector to effectively channel credit to the private sector remains central to sustaining growth and development. This credit comes in form of loans and advances, non-equity securities, trade credits and accounts receivables. The financial sector in Nigeria is a dynamic and essential component of the country's economy, encompassing a wide range of institutions and markets, and serving as a critical driver of economic growth. This sector mobilizes funds from surplus units and allocates them to deficit units for productive investment, thereby stimulating output and development. Beyond facilitating payment systems and extending credit, the financial system performs a broader set of functions that allocate financial resources to their ultimate users. It consists of essential institutions that enable a market economy to function efficiently and sustainably, and includes mutually supporting structures that are critical to the successful performance of the economy, (Olowofela, Adebowale, & Adejonwo, 2018).

It is known that restructuring occurs when an existing system fails to operate efficiently or adapt to changing circumstances, thereby requiring deliberate re-organization to restore stability, efficiency, long-term sustainability and trust in the system. Also, systematic crisis, inefficiencies, weak regulations or the need to improve credit delivery and competitiveness, are some of the reasons for the financial sector restructuring. Other reasons include, globalization, technological innovation and financial crisis.

Financial restructuring in Nigeria dates back to 1952, when the banking ordinance was enacted, the deregulation of banking in 1986 provided the impetus for the Structural Adjustment Programme (SAP). This saw a policy shift from direct control to a market based financial system, especially as regards to monetary management, risk management and asset holding capabilities of the institutions. A number of other waves of restructuring, include bank recapitalization exercise of 2005, the launch of the Financial System Strategy 2020, and, more recently, the adoption of FinTech innovations and digital banking reforms (Ozili, 2018). These efforts have consistently targeted the enhancement of financial intermediation, operational efficiency, and credit access for the private sector.

Given the above, examining the effect of financial sector restructuring on private sector credit in Nigeria between 1986 and 2024 becomes imperative. This period captures key reform episodes, policy shifts, and technological innovations that have shaped the sector's capacity to channel credit to the real economy. Understanding the relationship between these restructuring efforts and private sector credit is crucial for policymakers, financial institutions, and stakeholders seeking to strengthen credit delivery, stimulate productive investment, and ultimately foster sustained economic growth.

Statement of the Research Problem

The relationship between the financial sector and private sector cannot be overemphasized as the private sector is one of the sectors largely dependent on credit for its survival. According to Dwivedi (2008), the main cause of business circle is the fluctuation in monetary and credit market as expansion in money supply leads to rise in prices, and increase in profit which leads to increase in total output and finally growth and vice versa. He stated however that the principal factor affecting the money supply is the credit mechanism that is, the volume of credits created by the banking and non-banking system. Although the Nigerian government and regulatory authorities have undertaken several restructuring measures to enhance the efficiency and outreach of the financial sector, access to credit by the private sector remains inadequate.

The study by Iloanya (2023), explains that the major problems with the financial sector "reforms" are lack of attention to the need of the real sector of the economy, weak regulatory supervision in a highly liberalized financial environment allowing banks become over confident, audacious, less transparent and less accountable in handling of their diverse portfolio of services. Even where government adopted policies aimed at achieving specified objectives such as interest rate ceilings and selective sectoral policies with the intention of directing credit to priority sectors and securing inexpensive funding for their own activities, regulatory agencies empowered with the task of monitoring the affairs of the financial institutions have relaxed resulting to less transparency in financial records, inefficient operations and ultimately fraud as another unethical practices.

Furthermore, empirical indicators such as low financial deepening, high lending and inflation rates, and financial exclusion in rural areas suggests that financial restructuring may not have translated into improved credit access. This study seeks to critically evaluate the actual effect of these restructuring efforts on credit availability to private sectors.

Research Objectives

The broad objective of this study is to examine the effect of financial sector restructuring on private sector credit in Nigeria. The specific objectives are as follows:

1. To examine the effect of bank lending rate on private sector credit in Nigeria from 1986 to 2024.
2. To assess the relationship between broad money supply (M2)/GDP ratio and private sector credit in Nigeria from 1986 to 2024.
3. To ascertain the effect of inflation rate on private sector credit in Nigeria from 1986 to 2024.

Research Questions

1. What is the effect of bank lending rate on private sector credit in Nigeria from 1986 to 2024?
2. What is the relationship between broad money supply (M2)/GDP ratio and credit access to the private sector in Nigeria from 1986 to 2024?
3. How has the rate of inflation affected credit access to the private sector in Nigeria from 1986 to 2024?

Research Hypotheses

- **H_{o1}**: Bank lending rate has no significant effect on private sector credit in Nigeria.
- **H_{o2}**: Broad money supply (M2)/GDP ratio has no significant relationship with private sector credit in Nigeria.
- **H_{o3}**: Inflation rate has no significant effect on private sector credit in Nigeria.

Significant of the Study

The findings of this study will provide evidence-based insights for the Central Bank of Nigeria and other regulatory bodies, on how financial sector restructuring has influenced private sector over the years. Such evidence can guide future efforts aimed at improving credit delivery, financial stability and economic growth. Furthermore, bank and non-bank institutions, FinTech companies, etc, will benefit from understanding how different restructuring episodes such as the Structural Adjustment Programme (1986), bank recapitalization (2005) and digital banking reforms (2010-2020s) have shaped lending practices. This will help them design better credit strategies and risk management. Academically, the research will provide empirical evidence on Nigeria's restructuring

experiences between 1986 and 2024, thereby filling the gap in the comparative analysis of restructuring in the financial sector and its effect on credit access to private sector.

Scope of the Study

The study covers 1986–2024, focusing on key restructuring measures and their relationship with private sector credit access.

LITERATURE REVIEW

Conceptual Literature

Concept of Restructuring

Restructuring refers to the process of increasing or decreasing the number of component parts that constitute a system and redefining the interrelationships among them in such a way that the entire system performs more efficiently. It is often undertaken to enhance effectiveness, efficiency, and sustainability. However, if not carefully planned and implemented, restructuring can lead to inefficiency, institutional fragility, or even systemic collapse.

In Nigeria, restructuring has been widely discussed and implemented in various dimensions, including political, economic, social, administrative, and security. Political restructuring may involve the creation of new states or local governments, resource control, regional autonomy, or devolution of powers. Educational restructuring focuses on curriculum reforms and institutional management, while fiscal and financial restructuring aim at improving the effectiveness of government revenue, spending, and the overall financial system. Each dimension of restructuring seeks to realign the functions of institutions and structures in order to foster development and stability, (ThisDay Live, 2017).

This study specifically focuses on financial sector restructuring, with an emphasis on its effect on credit to the private sector. Financial sector restructuring refers to the deliberate reorganization of a country's financial system including banks, non-bank institutions, capital markets, and regulatory structures with the aim of enhancing stability, efficiency, and the sector's ability to mobilize and allocate resources effectively, (IMF, 1997). It involves policy reforms, institutional adjustments, and regulatory changes designed to strengthen financial intermediation (mobilizing savings and channeling them into investment), enhancing access to credit, and ensuring resilience against systemic shocks. It also involves operation at the macroeconomic level that addresses the health and structure of the entire financial system.

Financial sector restructuring in Nigeria from 1986-2024

Nigeria has undertaken several waves of financial sector restructuring since 1986 to 2024 and has still continued in that direction to drive stability, efficiency in the financial sector and to enhance the sector's contribution to economic growth. These restructuring efforts were driven by macroeconomic challenges like high inflation and the need to stimulate the economy. These restructuring efforts are captured thus:

A. Initial liberalization (1986–1993)

The Structural Adjustment Programme (SAP) and Deregulation: The Structural Adjustment Programme (SAP) introduced in 1986 marked a shift from a repressed financial system to a more liberalized environment. Key reforms during this phase included deregulation of interest rates and exchange rates, removal of sectoral credit allocation, easing of entry requirements for banking licenses, leading to a surge in the number of banks from 40 in 1986 to 120 in 1992, establishment of the Nigeria Deposit Insurance Corporation

(NDIC) to protect depositors and strengthen supervision, introduction of indirect monetary policy tools like Open Market Operations (OMO), replacing direct controls like credit ceilings.

B. Re-regulation and consolidation (1993–1998)

This marked the period of banking distress and failure. The rapid expansion and liberalization led to challenges such as weak corporate governance, insider abuses, and insolvency within the banking sector, which necessitated a phase of re-regulation. This led to merging failed banks. By 1998, the number of banks in operation had declined to 89 due to the liquidation of distressed institutions with minimum capital requirements reviewed upwards.

C. Universal banking and further distress (1999–2003)

This era saw a renewed push for liberalization and the adoption of the universal banking model, allowing banks to offer a wider range of financial services.

Despite the restructuring efforts, weaknesses persisted, including poor asset quality and weak corporate governance, which set the stage for further intervention.

D. Banking sector consolidation (2004–2005)

The CBN initiated a 13-point restructuring agenda in 2004 to address the sector's structural and operational flaws. The core of this idea was a massive recapitalization exercise, mandating banks to raise their capital base from ₦2 billion to ₦25 billion within 18 months. This led to a drastic reduction in the number of banks from 89 to 25 through mergers and acquisitions.

E. Post-consolidation challenges and AMCON (2008–2014)

The global financial crisis of 2008 exposed new vulnerabilities in the Nigerian banking sector, including high non-performing loans (NPLs) and recapitalization issues. The Asset Management Corporation of Nigeria (AMCON) was established in 2010 to address the surge in toxic assets by purchasing NPLs from distressed banks and injecting capital into the system. Also, the CBN intervened in several troubled banks, injecting capital and replacing management to stabilize the system. This period saw efforts to further strengthen the regulatory framework and oversight mechanisms.

F. Continuous adjustments and new focus areas (2014-2024)

The CBN continued to refine capital adequacy requirements to ensure banks remained robust and resilient. They also place emphasis on financial inclusion, particularly for underserved populations and businesses. The emergence of new technologies and digital payment platforms led to the development of new regulations to manage associated risks and opportunities.

Recent restructuring efforts also focused on streamlining the foreign exchange market to improve transparency and attract foreign investment.

G. 2024 Recapitalization and Future Directions

The CBN initiated another round of bank recapitalization in 2024, raising the minimum capital requirements significantly to strengthen the sector further and support the government's economic agenda. This latest restructuring was designed to bolster banks' capacity to finance infrastructure projects, promote diversification, and contribute to the goal of building a trillion-dollar economy.

Components of Financial Sector Restructuring and Private Sector Credit

Bank Lending rate

Bank lending rate is the actual interest rate charged by deposit money banks on loans to business and individuals. It is influenced by the Central Bank's Monetary Policy Rate (MPR). Bank leading rate includes the cost of funds (influenced by monetary policy rate) plus markup for operating costs, risk of default, profit margin, etc., (Mishkin, 2019).

From a theoretical perspective, lending rates have a negative relationship with private sector credit. Higher lending rates increase the cost of borrowing, which discourages households and firms from seeking loans. In developing economies like Nigeria, high and volatile lending rates often constrain access to credit for small and medium-sized enterprises, thereby limiting private investment and growth (Onwumere, Imo, & Ugwu, 2012). Conversely, lower lending rates promote borrowing and support credit expansion, provided inflation and risk perceptions remain stable.

Financial Deepening or Broad Money Supply (M2) as a percentage of GDP (M2/GDP)

Financial deepening or Broad Money Supply (M2) is currency in circulation i.e. M1 (cash + demand deposits) plus savings deposits, time deposits, and other quasi-money. M2 reflects the total liquidity available in the economy through the banking system. M2/GDP is widely used as an indicator of financial deepening. It shows the relationship between money circulating in the economy and the size of economic activity. A higher M2/GDP leads to deeper financial system, where more savings is mobilized, and more resources are made available for private sector credit; a lower M2/GDP leads to shallow financial system, financial exclusion, and weak credit intermediation.

However, if financial sector restructuring is effective, it leads to a rise in M2/GDP ratio. This means that banks will have more deposits/liquidity and more credit will flow to the private sector. Financial deepening has been a core restructuring target in Nigeria since the Structural Adjustment Programme (SAP) of 1986, which aimed to liberalize the banking system, improve monetary control, and strengthen the capacity of banks to mobilize credit (CBN, 2023). Hence, M2/GDP can serve as a measurable outcome of restructuring that influences private sector credit.

Inflation Rate

Inflation is defined as the sustained increase in the general price level of goods and services in an economy, typically measured using the Consumer Price Index (CPI) (Dornbusch, Fischer, & Startz, 2014). The inflation rate affects both the demand and supply of credit. On one hand, moderate inflation may stimulate nominal credit growth by raising money supply and encouraging borrowing for investment. On the other hand, high or unpredictable inflation erodes the real value of loans and increases uncertainty, leading banks to ration credit and charge higher interest rates to compensate for risk. In Nigeria, recurrent inflationary pressures—driven by exchange rate volatility, fiscal deficits, and subsidy removals—have often undermined credit growth, making inflation a critical control variable in studies of financial sector reforms (World Bank, 2022).

Private Sector Credit

In Olorunmade et al., 2019, bank credit is defined as credit extended by banks to borrowers. Whether the borrower withdraws the amount of the proceeds of his loan in cash at once or leaves it on deposit with the lending bank, the loan in either case constitutes credit extended. However, total domestic bank credit can be sub divided into two: credit to the private sector and credit to the public sector. It has been empirically proven that credit to the public sector is weak in generating growth within the economy because they are

prone to waste and politically motivated programmes which may not deliver the best result to the populace while private credit had been observed to be the dynamic instrument of accelerated growth (Beck et al 2005). Private sector credit refers to financial resources provided to private enterprises and households by financial institutions such as commercial banks, development banks, and non-bank financial intermediaries. It includes loans, advances, trade credits, non-equity securities, and accounts receivable extended for productive or consumption purposes (World Bank, 2022). Private Sector Credit (PSC), is an important indicator of financial sector depth and efficiency because it reflects the extent to which the financial system channels funds to the real economy.

In Nigeria, private sector credit has historically been shaped by structural reforms, financial sector health, and macroeconomic conditions. Since the Structural Adjustment Programme (SAP) of 1986, policies have aimed at liberalizing interest rates, strengthening banks, and deepening financial intermediation. Between 1986–1999, credit growth was relatively low due to high inflation, banking fragility, and weak confidence in financial institutions; in the 2000s**,** banking recapitalization boosted credit capacity, but much of bank lending still flowed to the oil, gas, and government sectors rather than SMEs and agriculture. Around the 2010, credit to the private sector increased in nominal terms, but lending was constrained by high interest rates, non-performing loans, and risk aversion; and finally between 2020–2024, credit to the private sector grew steadily due to policy interventions such as the Loan-to-Deposit Ratio (LDR) policy, Anchor Borrowers' Programme (ABP), and targeted credit facilities for MSMEs, though challenges of accessibility and affordability remain (CBN, 2023).

For Nigeria's economic growth and diversification agenda, improving private sector access to affordable and sustainable credit is essential. PSC is directly linked to investment, innovation, and productivity, which are the foundations of inclusive economic development.

Theoretical Literature

McKinnon–Shaw Hypothesis (Financial Liberalization Theory)

The seminar works of McKinnon (1973) and Shaw (1973) argue that financial repression manifested in interest rate ceilings, directed credit, and high reserve requirements hampers savings mobilization and restricts credit to the private sector. They propose that liberalization, by allowing interest rates to be market-determined and reducing distortions, encourages savings, enhances financial deepening, and increases the availability of credit to the private sector.

The Structural Adjustment Programme (SAP) of 1986 embodied McKinnon–Shaw principles, emphasizing deregulation of interest rates and removal of credit controls. Later reforms such as bank recapitalization (2005) and digital banking innovations further deepened financial intermediation, consistent with this work.

For this study, the McKinnon–Shaw hypothesis directly relates to bank lending rate which is expected to encourage savings and credit supply when market-determined; and M2/GDP (financial deepening), which is an outcome of liberalization, reflecting the efficiency of the financial system.

Financial Intermediation Theory

Financial intermediation theory emphasizes the role of banks and financial institutions in bridging the gap between savers and borrowers by reducing transaction costs and mitigating problems of asymmetric information. Levine (2005) highlights that a well-functioning financial sector mobilizes savings, allocates capital efficiently, and facilitates innovation and growth.

In Nigeria, restructuring measures such as bank recapitalization, branch expansion, and digital banking adoption have sought to improve intermediation efficiency. By strengthening balance sheets and reducing systemic risk, these measures have enhanced the banking sector's ability to channel credit to the private sector. This theory is relevant to bank lending rate as it reflects the cost of intermediation and risk, while M2/GDP indicates the size and depth of intermediation, and inflation rate influences banks' ability to intermediate efficiently, as high inflation raises uncertainty and erodes real returns.

Credit Rationing Theory

Stieglitz and Weiss (1981), developed the credit rationing model to explain why banks may restrict credit, even when borrowers are willing to pay higher interest rates. Higher rates increase the likelihood of attracting riskier borrowers, thereby raising default risks. To protect themselves, banks ration credit instead of adjusting interest rates upward. In Nigeria, this is particularly relevant in periods of high bank lending rates and inflation volatility. Despite liberalization, many Nigerian firms, especially SMEs, remain credit-constrained because banks prefer to lend to low-risk, high-collateral clients. This theory helps explain why restructuring do not always translate into broader private sector credit access. This theory relates bank lending rate negatively to credit due to rationing effects with inflation amplifying uncertainty, thereby worsening rationing.

Empirical Literature

Private Sector Credit

Nwagu and Udeagbala (2024) investigated the effect of bank credit to the private sector on the performance of manufacturing sector in Nigeria, from 1981 – 2021. The objective of the study was to determine the effect of bank credit to the private sector (CPS) on the manufacturing output in Nigeria. The dependent variable for the study was manufacturing output while the proxies for exploratory variable include; credit to the private sector (CPS); interest and exchange rates. For analysis and estimation, Autoregressive Distributed Lag (ARDL) method was adopted. The result of the study revealed that credit to the private sector (CPS), interest rate; and exchange rate (independent variables) on the aggregate accounted for 93.9% of the total variations on manufacturing output (dependent variable) in Nigeria during the study period while 6.1% was due to stochastic error. The result further found out that exchange rate had a positive coefficient value and a significant impact on manufacturing output in Nigeria during the period of study while other explanatory variables that include credit to the private sector and interest rate were statistically insignificant on manufacturing GDP during the study period

The work by Olorunmade et al (2019), examined the determinant of private sector credit and its implication on economic growth in Nigeria. The main objective of their study was to examine the relationship between Private Sector Credit and Gross Domestic Product. Their study used the simple regression analysis, employing key variables such as private sector credit, money supply (M2), and Gross Domestic Products, with two core equations showing: 1) determinants of private sector credit (supply of credit equation); and (2) relationship between private sector credit and economic growth. Findings revealed that there's a significant positive relationship between private sector credit and money supply in Nigeria and that private sector credit is significantly related to economic growth.

The study by Olowofeso, Adeleke and Udoji (2017), examined the impacts of private sector credit on economic growth in Nigeria using the Gregory and Hansen (1996) cointegration test that accounted for structural breaks and endogeneity problems and the error correction model. The method was applied to quarterly data spanning 2000: Q1 to

2014: Q4, on the following macroeconomic variables: real gross domestic product (RGDP) (as the dependent variable), credit to private sector (CPS), real gross fixed capital formation (RGFC), nominal exchange rate (NER), total government expenditure (GEXP) and prime lending rate (PLR), using the fully modified ordinary least squares procedure to estimate the model coefficients. They found a cointegrating relationship between output and its selected determinants, albeit, with a structural break in 2012Q1, amongst other findings.

Adeleye, Osabuohien, Bowale, Matthew and Oduntan (2017), empirically analyzed the impact of financial reforms on credit growth in Nigeria using annual data from 1980 to 2016. Their research work hinged on the theoretical underpinning of the McKinnon-Shaw hypothesis on the relevance of financial reforms in a lagging economy. Analyzing the data with autoregressive distributed lag (ARDL) error correction representation and bounds testing techniques, they found evidence to the hypothesis and stated that at higher real interest rate there is increased financial intermediation evidenced by credit growth. Other findings were that in the long-run, financial system deposits, inflation rate and per capita GDP were strong asymmetrical predictors of credit growth and real interest rate (the financial reform indicator) while the short-run relationships were indicator-specific. They further showed that a long-run cointegration relationship existed between domestic credit and other covariates and likewise between the real interest rate and its regressors.

Onoja, Onu and Ajodo-Ohiemi, (2011), analyzed the trends and patterns of institutional credit supply to agriculture during pre- and post-financial reforms along with their determinants. They then compared the effects of reform policies on access to institutional credits in Nigerian agricultural sector before and after the reforms (1978-1985; 1986-2009), using Volume of loans guaranteed by Agricultural Credit Guarantee Scheme Fund (ACGSFR) as dependent variable, and Price deflator for agricultural commodities index (AGRIPRICDF), Interest rate (Intrt), Stock market capitalization (Stcmkcp), Nominal exchange rate of naira to dollar (Forex), Value of agricultural output as share of total real GDP (Agrgdp), Volume of credit advanced to core private sector (Privscrd) and Value of immediate past loans guaranteed by ACGSF (ACGSFpstr) as independent variables. The study used ordinary least-square method (Linear, semi-log and double-log) to model the determinants of banking sector lending to the agricultural sector during the review period. Results indicated an exponentially increasing trend of agricultural credit supply in the economy after the reform began. Econometric analysis showed that stock market capitalization from an interest rate and immediate past volume of credit guaranteed by ACGSF significantly influenced the quantity of institutional credit supplied to the agricultural sector over the period in review. The study found a significant difference between the credit supply function during the pre-reform and post-reform periods.

Financial sector restructuring

The study by Iloanya (2023), examined the financial sector reforms and their effects on the growth of Nigerian economy. The study adopted GDP as the dependent variable while the independent variables were credit to the private sectors, investment, loan and lending rate. The result of the regression analysis showed that the variables were all significant to economic development. It was observed that the financial reforms that were experienced in the Nigerian economy at one point or the other had effects on the activities of the economy. However, it did not imply that the reforms in the financial sector were solely responsible for the sector being better off.

Olowefela et al (2018), analyzed the impact of financial reforms on economic growth in Nigeria covering the period between1986–2016. They choose the period because

liberalization of Nigeria financial sector began in 1986 with the introduction of Structural Adjustment Programme (SAP), which policy thrust included deregulation of interest rates. The research model specified Gross Domestic Product (GDP) as the dependent variable. While, the explanatory variables are commercial/deposit money banks loan and advances (LOAN); Credit to Private Sector (CPS); investment/capital formation (INV); and lending rate (LEND). The research used econometrics analysis, Ordinary Least Squares (OLS) technique and Cochrane Orcutt iterative method to analyse the data. The results showed that implemented financial reforms during the period has positive impact on economic growth.

Akinwale (2018), examined the relationship between financial sector reforms and economic growth in Nigeria, regressing real GDP against market-capitalization ratio, broad money supply-GDP ratio, bank credit to private sector-GDP ratio, prime interest rate, prime interest rate, deposit liability-GDP ratio, money deposit banks loan and advances, and investment rate. Data treatment was done through stationarity and cointegration tests and the result of cointegrated established a long run relationship among the variables. The result further showed negative relationship between financial sector reforms proxied by market capitalization-GDP ratio and economic growth. The variables contributed significantly to increase industrial output within the study period. However, he found that positive relationship existed between economic growth, financial sector reforms proxied by credit to private sector and commercial bank loan and advances.

Bank Lending Rate

In their paper, Akpansung and Babalola (2011), examined the relationship between banking sector credit and economic growth in Nigeria over the period 1970-2008. The causal links between the pairs of variables of interest were established using Granger causality test while a Two-Stage Least Squares (TSLS) estimation technique was used for the regression models. The results of Granger causality test show evidence of unidirectional causal relationship from GDP to private sector credit (PSC) and from industrial production index (IND) to GDP. Estimated regression models indicate that private sector credit impacts positively on economic growth over the period of coverage in this study. However, lending (interest) rate impedes economic growth.

Inflation

Ishioro (2017), investigated the banking sector reforms and economic growth using time series data from 1970 to 2013 for the Nigerian economy. The researcher divided the variables into macroeconomic and banking or financial sector variables. The macroeconomic variables were economic growth and rate of inflation. For economic growth, the data (RGDPT) RGDPT was obtained from the CBN Statistical Bulletin (CBN, 2004, 2010, 2013). He explained that economic growth has two strands. The RGDPT represents the real gross domestic product per capita at the current period, while rgDPt-1 is the real gross domestic product per capita lagged by one year. Both RGDPT and rgDPt-1 were used as a proxy for economic growth. Meanwhile, for the rate of inflation RFT represents the rate of inflation at time t. Inflation was defined as Consumer Price Index (CPI). He used the banking or financial sector variables included bank performance indices (IRMT), bank-specific variables (BSCT, i.e., banking sector credit to the private sector) and banking system-specific variables (BSSZT i.e., banking sector size). Interest rate margin (IRMT) represented interest rate margin at time t, and was defined as the difference between savings and lending rates. Data on savings and lending rates are from the CBN Statistical Bulletin (CBN, 2004, 2010, 2013).

Interest rate margin is preferred to savings or lending rate because it accommodates the effectiveness and efficiency of the banking sector and reflects a relative improvement in

the quality of borrowers in the economy. Autoregressive Distributed Lags (ARDL) Bounds test was applied for the specific determination of the long and short-run relationships between banking sector reforms and economic growth. The research finds that the interest rate margin is more significant than other variables in the model in explaining the banking sector reforms and economic growth. Banking sector credit to the private sector was negative and statistically insignificant in economic growth in Nigeria.

Gap to be filled

This study fills the gaps by empirically examining the effect of financial sector restructuring on private sector credit in Nigeria over the period 1986–2024, covering major reform episodes from SAP to the 2024 recapitalization. Unlike earlier studies, it employs bank lending rate, M2/GDP ratio, and inflation rate as restructuring indicators to capture both price, depth, and stability dimensions of restructuring. Furthermore, it focuses specifically on private sector credit as the dependent variable, thereby shifting attention from growth outcomes to the actual credit channel. By applying robust econometric techniques that test for cointegration and long-run relationships, the study contributes fresh evidence on how financial sector restructuring has shaped credit delivery in Nigeria.

RESEARCH METHODOLOGY

Research Design

This study employs an ex-post facto time series research design**,** utilizing secondary data to investigate the relationships among the selected variables. The research methodology involves initial testing for the stationarity of the variables, which is a prerequisite for examining both long-run and short-run dynamics among them. Following this, the order of integration of each variable is determined to inform the appropriate analytical techniques. Hypotheses are subsequently tested, and decisions are drawn based on the empirical outcomes of the analysis.

Sources of Data

This research is based primarily on secondary data**,** which is deemed appropriate given the non-behavioral and macroeconomic nature of the study. The data were obtained from reputable and authoritative sources, specifically the World Bank Development Indicators and the 2024 edition of the Central Bank of Nigeria (CBN) Statistical Bulletin**.**

Model Specification

To effectively assess the effect of financial sector restructuring on private sector credit in Nigeria, it is essential to establish a functional econometric model aligned with the objectives of the study. The theoretical foundation of the model is anchored in a modified IS-LM framework**,** as adapted from previous studies such as Adeleye et al. (2017) and Iloanya (2023). The model has been tailored to reflect the specific characteristics of the Nigerian economy, the structure of the available data, and the inclusion of relevant macroeconomic variables that influence financial and private sector dynamics. Accordingly, the model specifies a functional relationship where private sector credit serves as the dependent variable**,** while bank lending rate**,** broad money supply as a ratio of GDP**,** and the inflation rate constitute the independent (explanatory) variables**.**

This specification allows for a comprehensive analysis of the influence of key monetary and financial indicators on credit allocation to the private sector within the context of financial sector reforms in Nigeria.

The model is stated in a functional form as follows:

$$PSC = f(BLR, M2/GDP, INF) \quad (3.1)$$

The log-linear multiple regression model is proposed as thus:

$$PSC_t = \beta_o + \beta_1 BLR_t + \beta_2 M2_t + \beta_3 INF_t + \mu_t \quad (3.2)$$

Where,

PSC	= Private Sector Credit
BLR	= Bank Lending Rate
M2/GDP	= Broad Money to GDP ratio
INF	= Inflation Rate
β_o	= Constant term
$\beta_1, \beta_2, \beta_3$	= Coefficients of independent variables
μ_t	= Error term,
t	= Time period (1986–2024)

A-priori Expectation

The variables are expected to have positive effect on the dependent variable. Hence, $\beta_1 < 0, \beta_2 > 0, \beta_3 < 0$

Method of Data Analysis

The Unit Root Test

To fully explore the data generating process, we first examine the time series properties of the model variables using the Augmented Dicky-Fuller test.

The ADF test regression equations with constant is given as:

$$\Delta Y_T = \alpha_o + \alpha_1 Y_{T-1} + \sum_{j=1}^{k} a_j \Delta Y_{T-1} + \varepsilon_T \quad (3.3)$$

Where Δ is the first difference operator, ε_T is the random error term, K = number of lagged differences and Y = the variable(s) of interest. The unit root test is then carried out under the null hypothesis $\alpha = 0$ against the alternative hypothesis of $\alpha < 0$. The test statistic is compared with the relevant critical value for the Dickey-Fuller test.

$$ADF_T = \frac{\alpha}{SE(\alpha)} \quad (3.4)$$

The null hypothesis is rejected if the test statistic is greater than the critical value level of significance, otherwise, we accept.

Auto Regressive Distributed Lag

The Auto Regressive Distributed Lag (ARDL) model used in this study is presented thus;

$$\Delta PSC_t = \sum_{t=i}^{p} \alpha_i \Delta PSC_{t-i} + \sum_{t=0}^{q} \alpha_i \Delta BLR_{t-i} + \sum_{t=0}^{q} \alpha_i \Delta M2_{t-i} + \sum_{t=0}^{q} \alpha_i \Delta INF_{t-i}$$
$$+ \sum_{t=i}^{p} \beta_i \Delta PSC_{t-i} + \sum_{t=0}^{q} \beta_i \Delta BLR_{t-i} + \sum_{t=0}^{q} \beta_i \Delta M2_{t-i} + \sum_{t=0}^{q} \beta_i \Delta INF_{t-i} + \varphi ECT + \varepsilon_t \quad (3.5)$$

$$ECT_t = Y_t - \alpha_0 - \sum_{i=1}^{p} \gamma_l \Delta Y_{t-1} - \sum_{i=0}^{p} \beta_i \Delta X_{t-i} \text{ and } \phi = 1 - \sum_{i=1}^{p} \gamma_l \Delta Y_{t-i} \quad (3.6)$$

Where

The Bound test procedure used equations (3.5) and (3.6) into (3.7) as

$$\Delta Y_t = -\sum_{i=1}^{p-1} \gamma_l Y \ * \Delta Y_{t-i} + \sum_{i=0}^{p} \beta_i \Delta X_{t-i} - \rho Y_{t-1} - \alpha - \sum_{i=0}^{p} \delta X_{t-i} + \mu_{it} \quad (3.7)$$

Then we test the existence of level relationship as $\rho = 0$, $\delta_1 = \delta_2 = \cdots = \delta_k = 0$. Where $\Delta =$ difference operator, $\alpha =$ the short-term coefficient, $\beta =$ the long run coefficients and $\mu =$ white noise error term.

Test of Hypotheses

The hypotheses formulated in this study were evaluated using both the individual t-test and the overall F-test within the context of the regression analysis. The t-test was employed to assess the statistical significance of each independent variable in explaining variations in the dependent variable, while the F-test was used to evaluate the joint significance of all the explanatory variables in the model.

The decision criterion is based on the probability (p-value**)** associated with each test. Specifically, a p-value less than 0.05 is considered statistically significant at the 5% level, indicating sufficient evidence to reject the null hypothesis. Conversely, p-values equal to or greater than 0.05 suggest that the variable or model lacks statistical significance at the conventional threshold.

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Data Presentation

The data used in this study are; Private Sector Credit (PSC), Bank Lending Rate (BLR), Broad Money Supply (M2) as a ratio of GDP, and Inflation rate (INF) in Nigeria.

Unit Root Test

Table 4.2: Summary of ADF test results at 5% critical value

Variable	ADF Test Statistics	Critical Value 5%	Order of Integration	Decision Rule
PSC	**-3236218**	**-2943427**	**I ~ (1)**	**Reject Ho**
BLR	**-3.183793**	**-2.941145**	**I ~ (0)**	**Reject Ho**
M2	**-3.297524**	**-2.943427**	**I ~ (1)**	**Reject Ho**
INF	**-3.939509**	**-2.943427**	**I ~ (0)**	**Reject Ho**

Source: Authors computation with E-views 2025

Unit Root Test and Order of Integration

As presented in Table 4.2, the Augmented Dickey-Fuller (ADF) unit root test results indicate that Private Sector Credit and Broad Money Supply are stationary at first difference, i.e., integrated of order one, I(1). Conversely, Bank Lending Rate and Inflation Rate were found to be stationary at level, i.e., integrated of order zero, I(0).

The decision rule for the ADF test is based on a comparison between the test statistic and the critical value at the 5% significance level. If the ADF test statistic is less than the critical value (in absolute terms), we fail to reject the null hypothesis of non-stationarity; if it is greater, we reject the null and conclude that the series is stationary. Given that the variables in the model are integrated at mixed orders some at I(0) and others at I(1). This justifies the use of the Autoregressive Distributed Lag (ARDL) Bounds Testing approach for co-integration analysis.

ARDL Bounds Co-Integration Test

In line with the methodology proposed by Pesaran, Shin, and Smith (2001), the ARDL Bounds Testing approach is appropriate when the variables in a model are integrated at different orders, specifically I(0) and I(1), but not I(2) or higher. Since the variables under

consideration in this study meet this requirement, the ARDL Bounds Test is applied to assess the existence of a long-run co-integrating relationship among them.

The null hypothesis (H_o) of the ARDL Bounds Test posits that no long-run co-integration exists among the variables, while the alternative hypothesis (H_1) suggests the presence of a long-run co-integrating relationship. The decision rule is based on the computed F-statistic: if the F-statistic exceeds the upper bound critical value at the chosen level of significance (e.g., 5%), the null hypothesis is rejected, indicating evidence of co-integration. Conversely, if the F-statistic falls below the lower bound, the null hypothesis cannot be rejected. If it lies between the bounds, the result is inconclusive.

Table 4.3: ARDL Bound Co-integration (5% critical value) Test Result for the model

Model	F-Statistics	K	Significance level	Critical Bound Value	
				1(0)~(Lower Bound)	1(1) ~ (Upper Bound)
	7.672887	**3**	**5%**	**2.79**	**3.67**

Source: Authors computation with E-views 2025

ARDL Bounds Co-Integration Test

As shown in Table 4.3, the computed F-statistic from the ARDL bounds test is 7.672887**,** which exceeds the upper critical bound value of 3.67 at the 5% level of significance. Based on this result, we reject the null hypothesis of no co-integration and conclude that a long-run equilibrium relationship exists among the variables **(**bank lending rate, broad money supply, inflation rate) and private sector credit in Nigeria. The existence of this long-run relationship justifies the estimation of both the long-run and short-run dynamics of the ARDL model.

Estimation of Short-Run Relationship

Following the confirmation of a long-run co-integrating relationship among the variables, the next step involves estimating the short-run dynamics of the model. This is achieved through the Error Correction Representation of the ARDL model, which captures the short-run adjustments toward the long-run equilibrium. The short-run analysis provides insights into the immediate impacts of changes in the explanatory variables; bank lending rate, broad money supply, and inflation rate, on private sector credit in Nigeria, while accounting for the speed at which deviations from the long-run path are corrected.

Table 4.4: Summary of Parsimonious short relationship result between Bank Lending Rate, Broad Money Supply, Inflation Rate and Private Sector Credit in Nigeria.

Conditional Error Correction Regression				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
CointEq(-1)*	**-0.186291**	**0.085898**	**-2.168748**	**0.0368**

Source: Authors computation with E-views 2025

Error Correction Representation and Short-Run Dynamics

As presented in Table 4.4, the coefficient of the error correction term **(**CointEq**)** is statistically significant at the 5% level and bears the expected negative sign. This confirms the existence of a short-run relationship among bank lending rate, broad money supply, inflation rate, and private sector credit in Nigeria. The magnitude of the error correction coefficient **is -**0.186291**,** indicating that approximately 18.6% of the deviation from long-run equilibrium is corrected within one period (typically one year in annual data). This relatively

moderate speed of adjustment suggests that, while the system converges toward equilibrium following short-term shocks, the adjustment process is gradual.

Estimating the Long Run Relationship Between Financial Sector Restructuring and Private Sector Credit in Nigeria

It's imperative to ascertain the long run relationship that exists between the explanatory(independent) and the explained(dependent) variables in our model.

Table 4.5: Long Run ARDL Model

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BLR	**-0.585666**	**0.248379**	**-2.357955**	**0.0265**
M2	**0.043552**	**0.037724**	**1.154465**	**0.2592**
INF	**0.098799**	**0321977**	**0.618968**	**0.5415**
C	**1.653669**	**0.321977**	**5.135983**	**0.0000**

Source: Authors computation with E-views 2025

The long-run estimates presented in Table 4.5 indicate a negative relationship between the bank lending rate and private sector credit in Nigeria. Specifically, the coefficient of -0.58567 suggests that, holding other factors constant, a one-unit increase in the bank lending rate leads to a decrease of approximately 0.59 units in private sector credit. Furthermore, the associated probability value of 0.0265 confirms that this negative effect is statistically significant at the 5% level**.** This finding implies that higher lending rates pose a constraint on credit expansion to the private sector, potentially dampening investment and economic activity.

The long-run results further reveal that broad money supply ratio exerts a positive influence on private sector credit in Nigeria, with an estimated coefficient of 0.043552**.** However, the corresponding probability value of 0.2592 indicates that this positive effect is not statistically significant at the conventional levels. This suggests that, although an increase in broad money supply is theoretically expected to enhance credit availability, its actual impact on private sector credit during the study period was limited.

Similarly, the inflation rate was found to have a positive effect on private sector credit, with a coefficient of 0.098799**,** implying that a unit increase in inflation is associated with a marginal increase in credit to the private sector. Nonetheless, this effect was also statistically insignificant**,** indicating that inflationary changes did not exert a meaningful influence on private sector credit within the context of financial sector restructuring during the study period.

Diagnostic Tests

- Adjusted R-Squared**:** The model yielded an adjusted R-squared value of 0.958438, indicating that approximately 95.84% of the variation in Private Sector Credit in Nigeria is explained by the variables associated with Financial Sector Restructuring**.** This suggests a very high explanatory power of the model, reflecting a strong goodness of fit.
- Test for Autocorrelation**:** The Durbin-Watson (DW) statistic is estimated at 1.924545. According to the rule of thumb, a DW value close to **2** suggests the absence of first-order autocorrelation. Given that the value is near 2, it can be inferred that the model is free from the problem of autocorrelation, indicating that the residuals are independently distributed.

Test of Hypotheses

Hypothesis 1

***H_{o1}**: Bank lending rate has no significant effect on private sector credit in Nigeria.*

Decision:

As shown in Table 4.5, the bank lending rate has a t-statistic of -2.357955 and a corresponding p-value of 0.0265, which is less than the conventional significance level of 0.05**.** Based on this result, the null hypothesis **(H_{01}) is** rejected**.** Therefore, it is concluded that the bank lending rate has a statistically significant effect on private sector credit in Nigeria.

Hypothesis 2

***H_{o2}**: Broad money supply ratio has no significant relationship with private sector credit in Nigeria.*

Decision:

According to the results presented in Table 4.5, the broad money supply ratio to GDP has a t-statistic of 1.154465 and a p-value of 0.2592, which exceeds the 5% significance level ($p > 0.05$). Therefore, the null hypothesis (H_{02}) is not rejected. It is concluded that there is no statistically significant relationship between the broad money supply ratio and private sector credit in Nigeria.

Hypothesis 3

***H_{o3}**: There is no significant relationship between the inflation rate and private sector credit in Nigeria.*

Decision:

As shown in Table 4.5, the inflation rate has a t-statistic of 0.618968 and a p-value of 0.5415, which is greater than the 0.05 significance threshold. Hence, the null hypothesis (H_{03}) is not rejected. This implies that there is no statistically significant relationship between the inflation rate and private sector credit in Nigeria.

Discussion of Findings

The key findings of this study are discussed in relation to the specific objectives as follows:

1. **Effect of Bank Lending Rate on Private Sector Credit**: The analysis revealed that the bank lending rate exerts a negative effect on private sector credit in Nigeria in both the short and long run. However, this inverse relationship was found to be statistically significant only in the long run, suggesting that high lending rates may discourage credit expansion to the private sector over time.
2. **Effect of Broad Money Supply Ratio on Private Sector Credit**: The broad money supply ratio to GDP was found to have a positive influence on private sector credit, indicating that an increase in money supply is generally associated with increased credit to the private sector. Nevertheless, this relationship was not statistically significant during the study period, particularly in the long-run analysis.
3. **Effect of Inflation Rate on Private Sector Credit**: The findings indicate that the inflation rate had a positive effect on private sector credit in both the short and long run, implying a tendency for credit to rise with inflation. However, this observed impact was not statistically significant, suggesting that inflationary pressures did not meaningfully influence credit expansion during the period under review.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

This study investigated the impact of financial sector restructuring on private sector credit in Nigeria over the period 1986 to 2024. Data for the analysis were sourced from the 2024 edition of the Central Bank of Nigeria (CBN) Statistical Bulletin, the World Bank Development Indicators, and the National Bureau of Statistics (NBS, 2024). The key variables considered included private sector credit (as the dependent variable), with bank lending rate, broad money supply, and inflation rate serving as the independent variables.

To assess the stationarity properties of the data series, the Augmented Dickey-Fuller (ADF) unit root test was applied. The results indicated that all variables were stationary at first difference, with the exception of the bank lending rate, which was stationary at level. This mixed order of integration justified the adoption of the Autoregressive Distributed Lag (ARDL) Bounds Testing approach to cointegration, which is suitable for such data structures.
The findings of this study are presented in line with the specific objectives as follows:

1. **Bank Lending Rate:** The analysis revealed that the bank lending rate exerted a negative effect on private sector credit in both the short run and long run throughout the study period. However, this inverse relationship was found to be statistically significant only in the long run, suggesting that high lending rates may constrain credit expansion over time.
2. **Broad Money Supply (as a Ratio to GDP):** The broad money supply relative to GDP demonstrated a positive effect on private sector credit in Nigeria. Despite this positive relationship, the impact was statistically insignificant in the long run, indicating that increases in money supply did not translate into a significant expansion of credit to the private sector during the study period.
3. **Inflation Rate:** The inflation rate exhibited a positive effect on private sector credit in both the short and long run. Nonetheless, this positive influence was not statistically significant, implying that inflationary trends did not meaningfully affect the level of credit extended to the private sector within the period under review.

Conclusion

In summary, the study underscores the critical role of interest rate management in promoting credit to the private sector, while also highlighting the limited effectiveness of broad money supply and inflation control when considered in isolation in achieving the same objective. These findings point to the need for comprehensive and coordinated financial sector reforms to improve credit delivery and support private sector-led economic growth in Nigeria.

Policy Recommendations

Based on the findings of this study, the following policy recommendations are proposed:

1. **Monetary Policy Reforms to Lower Lending Rates:** Policymakers, particularly the Central Bank of Nigeria, should implement strategies aimed at reducing lending rates to encourage credit expansion to the private sector. Lower interest rates can incentivize borrowing for investment and business activities, thereby stimulating economic growth.
2. **Enhancing the Effectiveness of Money Supply Policies:** Although broad money supply showed a positive relationship with private sector credit, its impact was not statistically significant. This indicates the need for improved transmission mechanisms between money supply growth and credit delivery. Strengthening

financial intermediation and improving liquidity management in the banking sector could enhance this linkage.

3. **Maintaining Macroeconomic Stability:** While inflation did not show a statistically significant effect on private sector credit, sustained macroeconomic instability can distort credit markets. Therefore, maintaining stable inflation through prudent fiscal and monetary policies remains essential for fostering an enabling environment for private sector lending.
4. **Strengthening Financial Sector Reforms:** Continued restructuring of the financial sector is necessary to improve credit delivery. This includes regulatory reforms, enhancing financial inclusion, strengthening institutional capacity, and promoting transparency in lending practices.
5. **Encouraging Diversification of Credit Sources:** Beyond commercial banks, the government should promote the development of alternative credit sources such as microfinance institutions, development banks, and capital markets to ease credit constraints on the private sector.

CONTRIBUTION TO KNOWLEDGE

This study makes significant contributions to both academic research and policy discourse on the relationship between financial sector restructuring and private sector credit in Nigeria between 1986 and 2024. The contributions are summarized as follows:

1. **Empirical Extension of Financial Sector Restructuring Analysis (1986–2024).**
   The study extends existing literature by covering a longer and more contemporary period (1986–2024), encompassing major restructuring phases such as the Structural Adjustment Programme (1986), bank consolidation (2005), FinTech and digital banking reforms (2010s), and the 2024 recapitalization directive. This expanded scope provides a more comprehensive historical assessment of the effects of financial restructuring on private sector credit.
2. **Novel Integration of Multiple Reform Indicators.**
   Unlike most previous studies that employed single proxies of financial reform, this study introduces a multivariate restructuring framework, integrating bank lending rate, broad money supply (M2/GDP), and inflation rate as restructuring variables. This multidimensional approach captures the price, depth, and stability components of the financial system, thereby offering a richer understanding of how different reform dimensions jointly influence credit to the private sector.
3. **Focus on the Credit Channel of Financial Reform.**
   Earlier Nigerian studies predominantly analysed the effect of financial reforms on economic growth, often treating credit as an intermediate variable. This research reverses that direction by using **private sector credit as the dependent variable**, emphasizing the **credit channel** as the main transmission mechanism through which restructuring affects the real economy. This provides fresh insights into how reforms translate into tangible credit outcomes rather than broad growth indicators.
4. **Methodological Improvement through ARDL Approach.**
   Methodologically, the study employs the **Autoregressive Distributed Lag (ARDL)** bounds testing technique, which allows for the simultaneous estimation of short-run and long-run relationships among variables with mixed orders of integration (I(0) and I(1)). This overcomes methodological weaknesses in earlier studies that relied mainly on OLS or static regression methods and could not effectively capture dynamic adjustment processes.

5. **Evidence of Long-Run Equilibrium Relationship.**
   Empirical results from the ARDL model confirm a statistically significant long-run equilibrium relationship between financial sector restructuring variables and private sector credit in Nigeria. Specifically, **bank lending rate** exerts a significant negative long-run effect, highlighting the constraining role of high borrowing costs on credit expansion. Meanwhile, **broad money supply** and **inflation**—though positively related—show statistically insignificant impacts, indicating structural bottlenecks in liquidity transmission and credit responsiveness.
6. **Policy-Relevant Insight for Credit Delivery and Reform Design.**
   The findings provide actionable evidence for policymakers and regulatory authorities such as the **Central Bank of Nigeria (CBN)**. By showing that interest rate management remains a critical determinant of credit supply, the study offers guidance for designing interest rate, liquidity, and inflation policies that can effectively stimulate private sector credit. It also highlights the need for financial reforms that strengthen intermediation efficiency and improve monetary transmission mechanisms.

Overall, this study contributes to knowledge by empirically validating the long-run link between financial sector restructuring and private sector credit, developing a multidimensional restructuring framework, and applying modern econometric methods to Nigerian data spanning almost four decades. It bridges the gap between reform design and credit accessibility—providing both academic enrichment and practical guidance for fostering sustainable financial development.

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