European Journal of Accounting, Auditing and Finance Research
Vol.7, No.1, pp.12-26, February 2019
Published by European Centre for Research Training and Development UK (www.eajournals.org)

INTERACTIONS BETWEEN DEPOSIT MONEY BANKS BUSINESS AND THE NIGERIAN ECONOMY

Adesola Wasiu Adebisi[1], Okwe Melchizedek David[2], Ewa Uket Eko[3], Arikpo Oka Felix[4] and Eleng David Mbotor[5]

[1]Department of Accountancy, Faculty of management Science, Cross River University of Technology
[2]University of Calabar
[3]Department of Accountancy, Faculty of management Science, Cross River University of Technology
[4]Department of Banking and Finance, University of Calabar, Calabar.
[5]Department of Accountancy, Faculty of Management Sciences, Cross River University of Technology

ABSTRACT: *The major objective of this study is to examine the impact of commercial banks operations on the economic growth and development of Nigeria for the period (1980-2014). The study specifically examined the impact of private sector credit, deposit mobilization, interest rate spread and commercial bank holding of treasury bills on the growth of the Nigerian economy. The ex-post facto and exploratory designs were adopted and secondary data were sourced from the CBN statistical bulletin and collected using desk survey. Error correction mechanism was employed to assess the impact of private sector credit, deposit mobilization, interest rate spread and commercial bank holding of treasury bills on the growth of the Nigerian economy. Our result revealed that there is a positive and significant relationship between private sector credit, commercial bank deposit mobilization, interest rate spread and the development of the Nigerian economy; while there is no significant relationship between deposit money bank holding of treasury bills and the development of the Nigerian economy. Based on these findings, it is recommended that government and other monetary authorities should use selective credit control measures in order to persuade banks to grant more loan and advances to the private sectors which are the engine of economic growth in Nigeria. Efforts should be made by government to regulate the interest rate charged by banks on lending to businesses in Nigeria and finally, the holding of treasury bills by commercial banks should be reduced to enhance the ability to lend to the public for productive purposes.*

INTRODUCTION

There is a growing concern that commercial banks in Nigeria have not been living up to expectation in terms of service delivery, to their customers. Many people allege that these banks have abandoned their traditional banking functions in pursuit of short-term money spinning ventures like round tripping in foreign exchange, money laundering and other criminal tendencies, which are inimical to the growth of the economy (Barakat & Waller, 2010). Because most of the Nigerian banks are involved in these illegal ventures, which are short term in nature and usually unstable, illegitimate and often easily check-mated by government policies, the banks themselves have become unstable, and often suffer from financial crisis and sometimes outright failure (Nnanna, 2004). In the event of total failure, the depositors bear the brunt of huge losses of their monies. The meager payment of maximum of N50, 000 to

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

depositors irrespective of the amount of deposits by Nigerian Deposit Insurance Corporation (NDIC) does little to mitigate such losses. This to a large extent has eroded the confidence of the banking public in Nigerian banks.

Consequently, the banking industry and in particular the commercial banks in Nigeria are said to have failed to develop and impact positively on the economy as expected, even though commercial banking started in Nigeria over one hundred years ago. Another dimension to the problem is that the so-called new generation banks are not interested in retail banking which touches the masses, rather, their interest lies in government funds (free funds) and monies from big organizations – high net worth customers. It is said that these funds are subsequently used for round-tripping in foreign exchange, purchase of treasury bills and financing of local purchase orders (L. P. Os) of reputable companies and other similar short-term ventures (Christopolous, & Tsionas, 2004). Because of the very high returns in these areas of business, unhealthy competition has developed amongst these banks in their efforts to attract government funds into their banks. All sorts of crooked and unethical practices have been indulged in by commercial banks to influence government officials to open government accounts in their banks in order to attract these funds. It is not an un-common knowledge that government officials now dictate the ratio of sharing commission on turnover (C. O. T) between themselves and the banks; despite the fact that C.O.T. on government account (Federal Government) are deemed to be free (Nnanna, 2004). .

Although free on paper, in practice, C.O.T. is charged and shared as agreed; thereby making the government and the economy the losers. The economy loses in the sense that these charges are built into the banks' lending rates, thereby scuttling government policy thrusts on interest rate level. It is claimed that a bank that fails to play along this line is left behind and can hardly attract government funds. It is through these measures that commercial banks have become very susceptible to top government officials, who use them to siphon public funds to oversee countries where they are stashed in foreign banks, thereby depriving the economy of the needed funds for growth.

Furthermore, due to lack of interest in retail funds most banks prefer to establish their branches in big cities where government institutions are located rather than penetrate the hinterland where majority of the people live. The result is that a larger proportion of the Nigerian public has remained un-banked. Indeed, it is estimated that over 60% of the total money in circulation in Nigeria is un-banked. This has led to severe underdevelopment in Nigeria's country-side. A lot of people are still "putting their money under the mattresses or dig holes in the ground to cover the money". These funds, which constitute leakages to the financial system, ought to be intermediated to the needy sectors which are in dire need of funds. That way, the real sectors like agriculture and manufacturing which together employ over 80% of the population would receive a turn-around.

It is based on the above, that this study is focused on the activities of commercial banks in Nigeria and the contributions these banks have made towards national economic growth and development.

Objective Of The Study

The general objective of the study is to appraise the contribution of commercial banks on the development of the Nigeria economy. The specific objectives include:

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

(i) To determine the extent to which the credit to the private sector relate with the development of the Nigeria economy.

(ii) To examine how commercial bank deposit mobilization, relate with the development of the Nigeria economy.

(iii) To assess the extent to which deposit money banks holding of treasury bills relate with the development of the Nigeria economy.

(iv) To ascertain the relationship between interest rate spread and the development of the Nigeria economy.

Research Hypotheses

The following hypotheses are formulated for this study:

Ho: There is no significant relationship between private sector credit and the development of the Nigerian economy

H_0: Commercial banks deposit mobilization does not have any significant relationship with the development of the Nigerian economy.

Ho: the holding of treasury bills by commercial banks does not exert any significant influence on the development of the Nigerian economy.

H_0: There is no significant relationship between interest rate spread and the development of the Nigerian economy.

.

EMPIRICAL LITERATURE REVIEW

Theoretical framework

In order to give direction to the empirical investigation, this study was built on the foundations of theory of financial intermediation, concentration theory and endogenous growth theory.

Financial intermediation theory was first formalized in the works of Goldsmith (1969), McKinnon (1973) and Shaw (1973) who see financial markets as playing a pivotal role in economic development, attributing the differences in economic growth across countries to the quantity of services provided by financial institutions. This contrasts with Robinson (1953), who argued that financial markets are essentially handmaidens to domestic industry, and respond passively to other factors that produced cross-country differences in growth.

Deposit taking banks play an important function in the development and growth of a nation. The principal role carried out by deposit money banks is to ensure there is adequate flow of money units. This movement referred to as financial intermediation is usually from units of surplus to units of deficits/needs (Ufot, 2004). Supply of finance can retard economic development if it is repressed or stimulate it if it is liberalized.

Concentration theory explains how few large dominant banks can use their market power to improve the intermediation efficiency of banks through economies of scale, cost reduction and reduction in credit risk. While the endogenous growth theory offers useful link through which

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

accumulated savings (deposits) held by banks are channeled to productive investments (through lending activities) for economic development.

Over the years, there has been plethora of empirical studies on the financial intermediation growth hypothesis. Results from these studies are varied and even contradicts one another; and considerable doubt exist as to which one best explain the impact of financial intermediation on economic growth in countries all over the world but with special focus on Nigeria.

In this study we reviewed the works of Odedokun (1998); Hao (2006); Shittu (2002); Agada and Osuji (2013); Ogege and Boloupremo (2014); Odedokun (1996); Basher (2013), Haruna (2012), Idries (2010) and Christopoulos and Tsionas (2004). Odedokun (1998) used a cross country data from seventy one developing countries for 20 years, using Ordinary least square (OLS) techniques found among others a positive relationship between financial intermediation and economic growth. Further results revealed that it is at par with export growth and capital accumulation. He concluded that the overall effect of financial intermediation on economic growth is stronger than growth rate of labour.

Hao (2006) used country specific data to determine the impact of financial development on economic growth in China in the period 1985 to 1998. He applied generalized method of moments(GMM) to estimate the functional relationship of firm model. The result established that financial robustness facilitates GDP growth in two ways: mobilization of household savings and the substitution of loans for state budget appropriation. Also, the results indicated that due to allocation inefficiency, increase in credit distribution does not enhance growth in China.

Basher (2013) examined the linkage between open markets, financial sector developments and economic growth to know if markets along with financial sector development affect economic growth in Nigeria. The study made use of Granger causality test, Johansen co-integration test and vector error correction model. Result revealed that causation between open markets, financial sector development and growth in Nigeria is weak and insignificant, and such cannot be used to forecast economic growth in Nigeria

Haruna (2012) investigates the determinants of cost of financial intermediation in Nigeria's pre-consolidated banking sector using 13 banks quoted on the Nigeria Stock Exchange. The study made use of panel data regression models. It was found that operating expenses and loan loss provision account for greater variation in Commercial banks financial intermediation cost.

Shittu (2012) investigated the impact of financial intermediation on economic growth in Nigeria using ratio of domestic credit to private sector(CPS)/nominal GDP and money supply(M2)/nominal GDP as measure of financial intermediation and real GDP as a proxy for economic growth. The result shows that broad money(M2) was more influential on economic growth than credit to the private sector. Further findings from the study indicates that the last ten decades of the study saw the highest level of loans to the private sector but yet had the worst annual manufacturing growth rate.

Idries (2010) examined the cost of financial intermediation in Jordan from 2000 to 2008 using panel vector autoregressive random effects estimation approach. The study revealed that high and increasing financial intermediation costs are derived from efficiency level complemented by capital adequacy ratio and loan to total asset ratio.

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

In supporting the theory of financial intermediation Odedokun (1996) used a different approach in his study hypothesis by using time series regression analysis; his work examined 71 countries using a different time range from 1960 to 1980. His findings revealed that financial intermediation accounts for eighty-five percent of the growth of the nations. He also found that the level of economic development of each of the nations examined was dependent on the level of financial intermediation of the countries and regions examined.

In another related but different research Christopoulos and Tsionas (2004) examined data from ten emerging nations from 1979 to 2000. The outcome of their research indicated that long run causality exist between financial intermediation and economic growth but that, there is no evidence of bi-directional causality. However, they do not find any short run causality between financial intermediation and economic growth.

Similarly, Agbada and Osuji (2013) used time series data for Nigeria from 1981 to 2011to ascertain the relationship between financial intermediation and output growth. They found a positive and significant relationship between demand deposit and output and this is contrary to theoretical expectation.

Ogege and Boloupremo (2014) studied the effect of sectorial credit allocation by deposit money banks in accelerating GDP growth in Nigeria. They used time series data from 1973 to 2011. Using error correction model they found out that credit to the production sector has a significant and real effect on the growth rate of Nigeria while general commerce services and other sectors has a negative and insignificant relationship with GDP in Nigeria

RESEARCH METHODOLOGY

This study adopts the exploratory and ex-post facto design. The exploratory design will be used to gather relevant materials from text books, journal articles and so on while the ex-post facto design was adopted on the basis that it does not provide the study an opportunity to control the variables mainly because they have already occurred and cannot be manipulated. The data employed in this study consist of secondary time series data for the period 1980 to 2014; sourced from the Central Bank of Nigeria (CBN) statistical Bulletins, Journals, the internet and other related publications.

Model Specification

The mode for the empirical study will be based on the liquidity management and financial intermediation theories. For the purpose of this study the econometric model will be specified.

$GDP = f(PSC, DMB, HTB, INS)$

The above functional relationship will be expressed econometrically in this form:

$GDP = b_0 + b_1PSC + b_2\ DMB + b_3\ CHTB + b_4\ INS + \mu$

Where

GDP = Gross Domestic Product

PSC = Private Sector Credit

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

CHTB	=	Commercial Bank holdings of Treasury Bills
DMB	=	Deposit Mobilization
INS	=	Interest Rate Spread
b_0	=	Regression constant
b_1-b_4	=	Regression parameters
μ	=	White noise

The a priori expectation about the signs of the parameters of the independent variables is stated thus: $b_1, b_2, b_3 > 0$; $b_4 < 0$.

The techniques to be employed in examining the contributions of commercial banks on the development of the Nigerian economy include the unit root test, the co-integration test, Granger causality test and error correction mechanism. The unit root test will be used to ascertain the stationarity property of the variables under study. To achieve this, the study shall adopt the Augmented Dickey- Fuller (ADF) unit root test and the Philip-Peron (pp) unit root test. The study will also use the Johansen co-integration to examine the long run equilibrium relationship among integrated time series variables.

With the presence of the long run relationship with the variables, the study shall proceed to test for the casual relationship among the variables of the study using the pair wise model and then determine the adjustment of the error on disequilibrium in the long run.

EMPIRICAL RESULTS

Table 1: Unit root test using the Augmented Dickey-Fuller (ADF) statistics

Variables	ADF Test Statistics		Order of integration
	Level	1st Difference	
LGDP	0.225786	-5.554393	I(1)
LPSC	0.418256	-7.686414	I(1)
LCHTB	-0.444090	-6.515246	I(1)
LDMB	0.254223	-5.128404	1(1)
INS	-1.148464	-7.167782	I(1)

Test critical values at level: 1% = -3.653730, 5% = -2.957110, 10% = -2.617434

Test critical values at 1st Diff: 1% = -3.65370, 5% = -2.957110, 10% = -2.617434

Source: Researcher's Computation from E-views 9, 2017.

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

Table 2: Unit root test using the Philips-Peron (PP) statistics

Variables	PP Test Statistics		Order of integration
	Level	1st Difference	
LGDP	0.229583	-5.566253	I(1)
LPSC	0.778250	-7.793281	I(1)
LCHTB	-0.471358	-8.811643	I(1)
LDMB	0.283100	-5.645507	1(1)
INS	-1.899010	-11.56083	I(1)
Test critical values at level: 1% = -3.639407, 5% = -2.951125, 10% = -2.614300			
Test critical values at 1st Diff: 1% = -3.646342, 5% = -2.954021, 10% = -2.615817			

Source: Researcher's Computation from E-views 9, 2017.

Tables 1 and 2 present the unit root tests for all the variables used in the equations. The test is conducted using two different unit root models. That is, the Augmented Dickey Fuller (ADF) model and the Philips - Peron (PP) model. The essence of using the two testing procedures is for confirmatory purpose. All variables were regarded as non-stationary at their levels since each reported t-value was not significant at level of ADF and PP. The null hypothesis of non stationarity was accepted for all series investigated at level. This means that there is the presence of unit root in each of the variable investigated at level. However, after the first difference of each variable, all variables became stationary at 1, 5 and 10% critical t value of ADF and PP respectively.

Co-Integration Test

Table 3: Unrestricted co-integration rank test (trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.872742	122.6808	69.81889	0.0000
At most 1 *	0.667892	58.77296	47.85613	0.0034
At most 2	0.398091	24.60178	29.79707	0.1762
At most 3	0.235672	8.864643	15.49471	0.3780
At most 4	0.017051	0.533139	3.841466	0.4653

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values
Source: Researcher's Computation from E-views 9, 2016.

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

Table 4: Unrestricted co-integration rank test (maximum eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.872742	63.90780	33.87687	0.0000
At most 1 *	0.667892	34.17117	27.58434	0.0062
At most 2	0.398091	15.73714	21.13162	0.2406
At most 3	0.235672	8.331505	14.26460	0.3460
At most 4	0.017051	0.533139	3.841466	0.4653

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values
Source: Researcher's Computation from E-views 9, 2017.

In order to establish the long non-equilibrium relationship among the variables of this study, the study employed the Johansen and Jesulius (1990) multivariate co-integration approach based on trace and maximum eigenvalue tests as shown in tables 3 and 4 above.

The co-integration test results indicated two co-integration equations for both the trace and maximum eigenvalue statistics at five per cent significance level. The values of the test statistics in the co-integration equations was found to be greater than it critical values at 5 per cent significance level. These results concluded that, since there is at least one co-integrating equation among the variables, there is the existence of the long run relationship among the variables.

Table 5: Grange causality test

Null Hypothesis:	Obs	F-Statistic	Prob.
LPSC does not Granger Cause LGDP	33	0.55978	0.5776
LGDP does not Granger Cause LPSC		4.10874	0.0272
LDMB does not Granger Cause LGDP	33	1.35912	0.2733
LGDP does not Granger Cause LDMB		3.43419	0.0464
LCHTB does not Granger Cause LGDP	33	0.35697	0.7029
LGDP does not Granger Cause LCHTB		3.39840	0.0477
INS does not Granger Cause LGDP	33	0.69321	0.5083
LGDP does not Granger Cause INS		3.64912	0.0391
LDMB does not Granger Cause LPSC	33	2.71329	0.0837
LPSC does not Granger Cause LDMB		3.72694	0.0367
LCHTB does not Granger Cause LPSC	33	1.21501	0.3119
LPSC does not Granger Cause LCHTB		2.93186	0.0698
LCHTB does not Granger Cause LDMB	33	0.94018	0.4025

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

LDMB does not Granger Cause LCHTB		3.87960	0.0326
INS does not Granger Cause LDMB	33	0.40596	0.6702
LDMB does not Granger Cause INS		2.62157	0.0904
INS does not Granger Cause LCHTB	33	12.7662	0.0001
LCHTB does not Granger Cause INS		2.66912	0.0869

Source: Researcher's Computation from E-views 9, 2017.

Since the variables are co-integrated, this suggests that there is some sort of causal relationship among the variables. The Pairwise Granger causality test was employed in order to establish the causality relationship among the variables; this is presented in table 5 above.

From the test result, it showed a unidirectional relationship running from private sector credit, deposit mobilization, commercial bank holding of treasury bills and interest rate spread to GDP. This implies that these variables or instruments are effective means through which commercial banks influences economic growth in Nigeria. Also, the result implies that economic activities do not influence the performance of these variables. Hence, there is a one way relationship between commercial banks and economic development in Nigeria.

Over-Parameterized Results

Table 6: Over parameterization result

Dependent Variable: D(LGDP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.131213	0.122848	1.068098	0.3004
D(LGDP(-1))	0.238528	0.265039	3.899974	0.0807
D(LPSC)	0.196801	0.277590	4.348719	0.0316
D(LPSC(-1))	-0.076079	0.247931	-0.306856	0.7627
D(LPSC(-2))	0.089587	0.222158	2.903260	0.0918
D(LDMB)	0.062550	0.096949	0.645182	0.5274
D(LDMB(-1))	5.727635	0.104059	6.265573	0.0038
D(LDMB(-2))	0.007601	0.092627	0.082059	0.9356
D(LCHTB)	2.405388	0.100229	0.053757	0.9578
D(LCHTB(-1))	0.019613	0.090858	0.215867	0.8317
D(LCHTB(-2))	-3.030316	0.070840	-0.427952	0.6741
D(INS)	0.816973	0.015316	3.108123	0.0232
D(INS(-1))	0.007413	0.019501	0.380125	0.7086
D(INS(-2))	-1.416600	0.017298	-5.959616	0.0507
ECM(-1)	-0.968584	0.215655	-3.570026	0.0348
R-squared	0.959015			
Adjusted R-squared	0.918855			
F-statistic	6.180121	Durbin-Watson stat		2.156684
Prob(F-statistic)	0.000177			

Source: Researcher's Computation from E-views 9, 2017.

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

The above result showed that the factor of the error corrections was correctly signed and found to be significant statistically at 5 per cent in line with theoretical expectation. The coefficient of the error correction variables of 0.9685 showed that about 96.85 per cent of the disequilibrium in economic growth has been corrected each year.

The R-squared of 0.959 and adjusted R-squared of 0.9189 showed that the estimated model had a good fit. The independent variables were responsible for the total variation of about 91.89 per cent (Adjusted R-squared) in the dependent variable. The model therefore has a high explanatory power. The F-statistics value of 6.18 showed that at five, per cent level of significance, the model was found to be statistically significant. The decision as to whether the model was free from autocorrelation problem could not be reached as the calculated DW value of 2.15 lied within the inconclusive region of the DW table

Table 7: Parsimonious error correction results

Dependent Variable: D(LGDP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.143149	0.087252	1.640625	0.1151
D(LGDP(-1))	0.231016	0.218723	1.056206	0.3023
D(LPSC)	1.037000	0.230044	3.160838	0.0737
D(LPSC(-2))	0.120438	0.175570	5.685983	0.0699
D(LDMB(-1))	0.050523	0.085910	2.588097	0.0625
D(LCHTB)	-0.000425	0.070090	-0.006060	0.9952
D(LCHTB(-2))	-0.032046	0.059208	-0.541242	0.5938
D(INS)	2.013112	0.011015	6.190357	0.0066
D(INS(-2))	-0.019356	0.010625	-1.821663	0.0821
ECM(-1)	-0.262323	0.161449	-1.924803	0.0184
R-squared	0.915025			
Adjusted R-squared	0.834808			
F-statistic	7.124219	Durbin-Watson stat		2.007219
Prob(F-statistic)	0.000353			

Source: Researcher's Computation from E-views 9, 2017.

The variables that were statistically significant in the over-parameterized analysis in table 6 were extracted and engaged in the parsimonious model estimation. From the parsimonious test result above, the factor of the error correction model was correctly signed and found to be significant statistically as expected theoretically. This is a very fast adjustment speed level from the disequilibrium in the short run to equilibrium in the long run. Both the R-squared (0.915) and adjusted R-squared (0.835) confirmed the model to have a good fit and has a high explanatory power regarding the dependent variable. The F statistic value of 7.12 showed that the independent variables have joint effect on the dependent variable. This revealed the degree of high linear relationship between the variables in the model. The result is free from the serial correlation as the DW statistic value of 2.00 fell within the no autocorrelation region of the Durbin-Watson table.

Analysis of the short run coefficient showed positive impact of credit to the private sector on GDP in the current period and in the past two periods. This was found to be in line with

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

theoretical expectation. As such, one per cent increases in the current and last two period value of credit to the private sector would increase GDP by N1.04 and N0.12 respectively ceteris paribus. The results also showed that one period lagged value of deposit mobilization has a positive impact on GDP in Nigeria and conformed to a priori expectation. This result implies that a one per cent increase in the last one period bank deposit mobilization would result in a N0.05 increase in the growth of gross domestic product in Nigeria, other factors remaining the same.

There was an inverse and insignificant relationship between commercial bank holding of treasury bills and GDP in Nigeria both in the current and last two periods. This does not agree with theoretical expectations. In other words, a one percent decreases in the current and two period's commercial bank holding of treasury bills led to N0.0004 and N0.032 billion decrease in GDP in Nigeria. Interest rate spread has a mixed impact on GDP in Nigeria; the current period has a positive impact on GDP but the last two periods have an inverse impact. This implies that a unit increase in interest rate in the current and past two periods leads to 2.01 billion naira increases and 0.019 billion naira decreases in gross domestic product in Nigeria after the first and second lagged periods.

TEST OF HYPOTHESES

Hypothesis one

Ho: There is no significant relationship between private sector credit and the development of the Nigerian economy;

H_1: There is a significant relationship between private sector credit and the development of the Nigerian economy.

Decision Rule

Accept H_0: if calculated t-statistics value < table t-statistics value.'

Reject H_0: if calculated t-statistics value > table t-statistics value.

From the regression result,

Calculated t-statistics value = 3.16

Table t-statistics value = 1.477

Since the calculated t-statistics value of 3.16 is greater than the table t-statistics value of 1.477 at 5 per cent level of significance, we accept the alternative hypothesis and reject the null hypothesis. It therefore implies that there is a significant relationship between private sector credit and the development of the Nigerian economy.

Hypothesis two

H_0: Commercial banks deposit mobilization does not have any significant relationship with the development of the Nigerian economy;

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

H_1: Commercial banks deposit mobilization has a significant relationship with the development of the Nigerian economy.

Decision Rule

Accept H_0: if calculated t-statistics value < table t-statistics value.'

Reject H_0: if calculated t-statistics value > table t-statistics value.

From the regression result,

Calculated t-statistics value = 2.588

Table t-statistics value = 1.477

Since the calculated t-statistics value of 2.588 is greater than the table t-statistics value of 1.477 at 5 per cent level of significance, we accept the alternative hypothesis and reject the null hypothesis. It therefore means that commercial banks deposit mobilization has a significant relationship with the development of the Nigerian economy.

Hypothesis three

Ho: the holding of treasury bills by commercial banks does not exert any significant influence on the development of the Nigerian economy;

H_1: the holding of treasury bills by commercial banks does not exert any significant influence on the development of the Nigerian economy.

Decision Rule

Accept H_0: if calculated t-statistics value < table t-statistics value.'

Reject H_0: if calculated t-statistics value > table t-statistics value.

From the regression result,

Calculated t-statistics value = 0.006

Table t-statistics value = 1.477

Since the calculated t-statistics value of 0.006 is less than the table t-statistics value of 1.477 at 5 per cent level of significance, we reject the alternative hypothesis and accept the null hypothesis. It therefore means that the holding of treasury bills by commercial banks does not exert any significant influence on the development of the Nigerian economy.

Hypothesis four

H_0: There is no significant relationship between interest rate spread and the development of the Nigerian economy;

H_1: There is a significant relationship between interest rate spread and the development of the Nigerian economy.

Decision Rule

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

Accept H_0: if calculated t-statistics value < table t-statistics value.'

Reject H_0: if calculated t-statistics value > table t-statistics value.

From the regression result,

Calculated t-statistics value = 6.19

Table t-statistics value = 1.477

Since the calculated t-statistics value of 6.19 is greater than the table t-statistics value of 1.477 at 5 per cent level of significance, we accept the alternative hypothesis and reject the null hypothesis. It therefore means that there is a significant relationship between interest rate spread and the development of the Nigerian economy.

DISCUSSION OF FINDINGS

The analysis revealed that there is a positive and significant relationship between private sector credit and the development of the Nigerian economy both in the current and past two periods. This result strongly supports the fact that banks should grant loans to the real sector for productive purposes. This finding is in tandem with the findings of Fink, Haiss and Mantier (2004) who studied the relationship between financial sector and economic growth. Their result supported that a strong financial sector triggers economic growth. Also supporting this study is Calderon and Liu (2003) who found a closed link between bank credit and economy growth.

Also, the study revealed a positive and significant relationship between deposit mobilization and the growth of the Nigerian economy. This finding conforms to theoretical expectations that the growth in financial intermediation enhance economic growth. When banks mobilized deposits from the banking public, those deposits are put into productive uses through lending which in turns enhance the economy. This finding is supported by Calderon and Liu (2003) who study the relationship between financial development and economic growth. Using deposits and credits among other variables they found that deposits and credit were highly significant in explaining economic growth.

The result showed an inverse and insignificant relationship between commercial banks holdings of treasury bills and the growth of the Nigerian economy. Investment in treasury bills reduces the loanable funds of the banks in the short run. Since such funds are transfers to the government, hence the liquidity of the bank is reduced. In effect the ability of banks to lend to the public for productive purpose is reduced in the short run.

Finally, the study revealed that there is a mixed and positive relationship between interest rate spread and the growth of the Nigerian economic; the current year being positive and the last two periods been negative. This implies that when interest rate is increased, the impact of such increment is not felt immediately. In the first year where interest rate is increased, the banking public still borrows funds for productivity. However sustained increase in interest rate result in a decrease in productivity and the economy after two years since investors would prefer to fund their activities with internally generated funds. This finding is in line with the finding obtained by Philip, Nkonja, Pender & Oni (2009) who discovered that a favourable interest rate regime for agricultural credits contributes to the growth of agricultural productivity. This by implication means that the lower the interest rates for agricultural production, the higher the growth of the sub sector.

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

SUMMARY OF FINDINGS

This research study was carried out to evaluate the impact of commercial banks on the economic development of Nigeria. In order to validate the work theoretical and empirical literature relevant to the subject matter were reviewed. The error correction mechanism was adopted to examine the performance of independent variables (CPS, DMB, CHTB and INS) on GDP. Consequently, the following findings were revealed:

i. There is a positive and significant relationship between private sector credit and the development of the Nigerian economy;

ii. There is a positive and significant relationship between commercial bank deposit mobilization and the development of the Nigerian economy;

iii. There is an insignificant inverse relationship between deposit money bank holding of treasury bills and the development of the Nigerian economy;

iv. There is a mixed and significant relationship between interest rate spread and the development of the Nigerian economy

CONCLUSION AND RECOMMENDATIONS

In the light of the above findings, the following conclusions were made. Banks credit to the private sector is a major or sole determinant of the development of the Nigerian economy. This implies that the more banks credits and advances are given to the real sector at reasonable interest rates, the higher the level of production of the Nigerian economy. It could be also concluded that bank deposit mobilization has a strong link with the growth of the Nigerian economy while the holding of treasury bills has an inverse impact on the economic performance of Nigeria.

Based on the above finding, the following recommendations were advanced.

(i) Government and other monetary authorities should use selective credit control measures in order to persuade banks to grant more loan and advances to the private sectors which are the engine of economic growth in Nigeria

(ii) Efforts should also be made by government to regulate the interest rate charged by banks on lending to businesses in Nigeria

(iii) The holding of treasury bills by commercial banks should be reduced to enhance the ability to lend to the public for productive purposes.

REFERENCES

Agbada, A.O &Osuji, C.C. (2013). An Empirical analysis of trends in financial intermediation and output in Nigeria. *Global Journal of Management and Business Research*, 13(9), 115-125.

Barakat, M. & Waller, E. (2010). Financial development and growth in middle eastern countries. *International Business and Economics Research Journal, 9(11)*, 121-334.

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

Basher, O.K (2013) Open market, financial sector development and economic growth in Nigeria.

Calderon, C & Liu, L. (2003). The direction of causality between financial development and economic growth, *Journal of development Economics*, 72(1), 321-334.

Christopolous, D. K. & Tsionas, E. G. (2004). Financial development and economic growth: evidence from panel unit root and co integration tests. *Journal of Development Economics, 73(1)*, 55-74.

European Scientific Journal, 8(28): 80-85.

Fink, G., Haiss, P & Mantlier, H(2004). Financial sector macro-efficiency in: In Batling, M, Lieman, F, Mullineux, A (Eds.). *Financial Markets in Central and Eastern Europe*, London, pp. 61-98.

Goldsmith, R. (1969). *Financial structure and development*. New Haven: Yale University Press.

Hao, C. (2006). Development of financial intermediation and economic growth: China Experience. Being a proceedings of the 15th Annual Conference of he association for Chinese Economies, Australia (ACESA)

Haruna, M.A(2012) Determinants of cost of financial intermediation in Nigeria Pre-Consolidated banking sector. *International Journal of Advanced research in Management and Social Sciences*. 1(2): 180-194.

Idries, M.A(2010) Cost of financial intermediation in the Banking Sector of Jordan, *International Research Journal of Finance and Economics*, Issue 56: 7-21

McKinnon, R. (1973). Money and capital in economic development Washington DC: Brookings Institute.

Nnanna, O. J. (2004). *Beyond bank consolidation: The impact on society.* A paper presented at the 4th Annual Monetary Policy Conference of the Central Bank of Nigeria.

Odedokun, M O (1998) Financial intermédiation and economic growth in Nigeria. *Journal of Economic Studies*

Odedokun, M.O (1996) Alternative econometrics approaches for analysing the role of financial sector in economic growth : *Time series evidence from LDCs*, vol. 50, Issue 1, pp. 119-146

Ogege, S. & Boloupremo, T.(2014). Deposit money banks and economic growth in Nigeria. *Financial Assets and investing*, 1(1*).*

Philip, N, Nkonya, E, Pender, J & Oni, O.A (2009). Constraints to increasing Agricultural productivity in Nigeria. A review. *Nigeria Strategy Support Program*(NSSP) Background paper No. NSSP006.

Robinson, J. N (1953). *The generalization of the general theory and other essay.* New York: St. Martin's Press.

Shaw, E. (1973). *Financial deepening in economic development*. London: Oxford University Press.

Shittu, A.I. (2012). Financial intermediation and economic growth in Nigeria. *British Journal of Arts and Social Science.* 4(2).

Ufot, L. (2004). The Nigerian financial system and the role of Central bank of Nigeria, Lagos CBN training centre.

Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)