Deposit Money Bank and Economic Growth in Nigeria

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ABSTRACT

This study examined the impact of deposit money banks (DMBs) activities on economic growth in Nigeria. The study reviewed related literature on deposit money banks activities and economic growth. Secondary data covering the period 1994 to 2018 was used. Data analysis was carried out with estimation technique through multiple linear regressions to examine the impact of some deposit money banks activities on economic growth in Nigeria. One (1) dependent variable and three (3) independent variables were used namely: Gross Domestic Product (GDP), Broad Money Supply (MS), Credit to private sector (CPS) and Total Private Sector deposit (TPD). The study established that a long-run meaningful relationship exist between the independent variables and the dependent variable in Nigeria. From the findings of the study, this paper concludes that deposit money banks activities have significant impact on economic growth in Nigeria. The study recommended that DMBs should ensure proper supervision and monitoring of credits availed to the private sector in order to prevent diversion and ineffective use of funds so that the impact of their lending activities could be felt on the economy

Keywords: Gross Domestic Product, Broad Money Supply, Credit to private sector , Total Private sector deposit

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1. INTRODUCTION

A robust financial system has been acknowledged as a catalyst for economic growth and development of any nation as it enhances the economic performance of the participants by improving the overall welfare of the people (Ogege & Shiro , 2013). Financial system is made up of financial institutions that engaged in the mobilization of funds from the deficit unit to the surplus unit in the economy, this intermediation role of the financial institutions help to accelerate economy growth and development of which the most developed segment of the financial system is the deposit money banks in terms of assets, liabilities, products and branch network (Yewande ,2019).

Deposit Money Banks (DMBs) have been identified as a channel that mobilizes savings from the surplus unit of the economy and make it available to others who need them for productive activities. DMBs are the most relevant financial institution in the world and they also provide foundation for the development of the financial system. Their contributions to the development of world economies cannot be under-estimated in terms of the services rendered by them such as acceptance of deposits, lending to businesses and individuals, financial advisory services, and other investment products.

Economic growth is an important indicator of a healthy economy as its impact is reflected on the national income, rate of employment and the standard of living of the people. It is defined as an increase in the market value of goods and services produced in an economy from one period to another. The growth of the economy is highly influenced by a sound and stable financial system of which the deposit money banks have been seen as a vehicle. Studies on the relevance of these banks abound in the literature (Okpala, Ezanolue & Edoko, 2018; Yakubu & Affoi, 2014; Aurangzeb 2012).

Over the years Nigerian Deposit Money Banks have witnessed several reforms to ensure the soundness and stability of the sector as well as to enhance their ability to perform their financial intermediation process which in turn influences the growth of the economy. Due to this, they have been able conduct their activities in line with international standard and have embraced new internet technologies and accounting procedures which has helped in the introduction of new banking products meant to meet the need of their customers and to provide convenient mode of transacting banking businesses and these moves have resulted in increased financial inclusion in the country (Yewande ,2019). The banking sector is known to provide two core traditional functions which are acceptance of deposits and granting of loans and advances. Apart from the aforementioned functions, deposit money banks provide other functions such as safekeeping of valuables, investment, mortgage, advisory services, leasing, hire purchase, bill discounting and much more which are packaged as products. The growth function of this sub-sector has been acknowledged by the Nigerian government which prompted the establishment of the apex regulatory authority in the Nigerian financial sector which is the Central Bank of Nigeria in the year 1958 to monitor and regulate the activities of the DMBs in order to have a resilient, vibrant and healthy deposit Money Bank.

The CBN controls and regulate the activities of the DMBs through various reforms, guidelines and policies to enhance their efficiency and soundness. Some of these reforms are focused on increased risk management procedures, enhanced corporate governance, improved regulatory and surveillance framework, expansion of savings mobilization base. These have resulted in a remarkable growth of the DMBs in terms of capital adequacy, bank density in terms of branch network , asset portfolio relative to other non- bank institutions (Okpala, Ezanolue and Edoko, 2018).

Despite government efforts to ensure a sound and healthy banking system in Nigeria, the deposit money banks are still faced with the challenge of increased non-performing loans, bad debt, high lending rates which discourages borrowing, highly risky economic environment, inflation and capital weakness (Yewande, 2019). CBN has taken steps to address some of these problems such as introduction of several guidelines across different segments of the banking sector and rescuing of some banks with the help of Asset Management Corporation of Nigeria (AMCON) and Nigerian Deposit Insurance Corporation (NDIC). CBN also enforces local and foreign financial legislations with the imposition of fines on delinquent financial and non-financial institutions. Despite these measures Deposit Money Banks still continue to struggle with significant non performing loans (NPL), regulatory hurdles and unstable economic environment. With the persistence of some of these problems, the growth of DMBs in Nigeria could be slowed down compared with their counterparts in developed and developing economies

2. RELATED LITERATURE

Several studies have been conducted on the impact of deposit money banks' activities on economic growth. Some studies are in support of the financial repression theory hypothesis which recognizes the critical role of the financial system in the economy. Study of the Jordanian economy by Ayman (2017) on the impact of commercial banks performance on economic growth shows that a significant positive relationship exists between measures of bank performance and economic growth. Mohammed (2017) studied the impact of banking sector development on economic growth of palestine using credit facilities, depositors fund, number of branches and interest rate as banking sector indicators whereby GDP was used as proxy for economic growth. His findings are in support of the positive role banking sector plays in economic development.

Some studies concluded that deposit money banks have negative relationship with economic growth. Petkovski and kjosevski (2014) evaluated the impact of development in the banking sector on the economic growth of central and South Eastern Europe using banking credits, interest rate and the ratio of quasi money as proxy for banking sector development while gross domestic product was used as proxy for economic growth. The result revealed that banking credits and interest margin are negatively related to economic growth. Also, Medjahed and Gherbi (2016) investigated the impact of banking sector development on economic growth using 11 MENA countries. The study showed that financial development has negative impact on the economic growth of the counties studies both on the short and long-run.

On Nigeria economy, Courage & Leonard (2019) examined the effect of commercial banks credit to the real sector on economic growth in Nigeria. The result of the study showed that commercial bank credit to the manufacturing and agricultural sub-sectors significantly affects economic growth in Nigeria both in the short run and in the long run. Sogules & Nkoro (2016) also studied the influence of bank credits to agricultural and manufacturing sectors on economic growth in Nigeria reveals that the impact of banks credit to agriculture was insignificant on economic growth while credit to the manufacturing sector was significant.

Okpala, Ezeanolue & Edoko (2018) investigated the relationship between financial intermediation and economic growth in Nigeria using ordinary least square technique. The result showed that bank performance, financial intermediation, liquidity ratio and bank bad debts have a positive impact on economic growth while capital stock, prime rate and inflation rate have a negative impact on economic growth.

However, scholars are not in agreement on the impact of DMBs activities on economic growth as some are in support of supply leading hypothesis while some support demand following hypothesis of the role of deposit money banks and economic growth.

This study intends to evaluate the impact of DMBs on economic growth in Nigeria testing the supply leading hypothesis while the specific objective of this study is to:

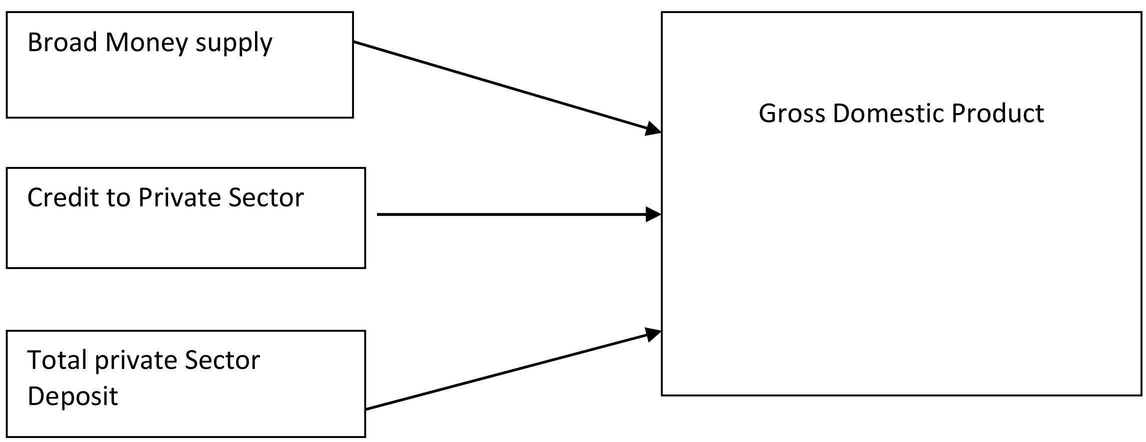
1. Examine the impact of money supply on economic growth in Nigeria.
2. Examine the impact of credit to private sector on economic growth in Nigeria.
3. Examine the impact of private sector deposit on economic growth in Nigeria.

3. METHODOLOGY

The methodology for this study comprises of data collection, model specification and estimation technique. This study employed secondary data which are obtained from Central Bank Statistical Bulletin 2009 and 2018 respectively and this data cover a span of twenty five (25) years (1994-2018).

Model Specification.
The model for this study is based on the insights from the theoretical framework and empirical literature reviewed and this is represented by the diagram below:

Independent Variables **Dependent Variable**



Money supply, Credit to private sector, Total deposit of private sector are the independent variables while the Gross Domestic product is the dependent variable for this study. In order to evaluate the impact of deposit money Banks activities on economic growth in Nigeria, multiple linear regression would be used as method of analysis. The functional relationship between the variables is expressed as
GDP = f (MS, CPS, TPD)
Where GDP= Gross Domestic product
MS = Broad Money supply
CPS = Credit to private Sector
TPD = Total Private Sector Deposit

- Money supply is to measure the size and depth of the banking Sector development in Nigeria.
- Credit to Private sector measures the financial intermediation of the Deposit Money Banks
- Total private sector deposit measures the liquidity and financial inclusion of Deposit Money Banks in Nigeria.

The model is specified as
GDP= $\beta_0 + \beta_1 MS + \beta_2 CPS + \beta_3 TPD + U$
Where β_0= constant
β_1= Slope
U=error term

4. DISCUSSION OF RESULTS

Unit Root Test

Unit root test is essential as it is used to ascertain the stationary of data. Non-stationary data produces spurious results which cannot be relied on for any meaningful interpretation or predictions. We test for stationary using Augmented Dickey-Fuller (ADF) tests on the data. This test is conducted on level series, first and second order difference series. The decision rule is that we cannot reject the null hypothesis of a unit root if ADF t- statistics is less than 5% critical Value and this implies that the variables are non stationary.

Table 4.1: Summaries of Unit Root Tests:

Variables	ADF statistics	5% Critical Values	Order of integration
GDP	-3.159564	-3.040391	I(2)
MS	-7.813011	-3.004861	I(2)
CPS	-5.595990	-3.020686	I(2)
TPD	-8.477309	-3.004861	I(2)

Source: Authors' computation

Result from the unit root test table above shows that none of the variables are stationary at level difference 1(0)and first difference I(1) rather all the variables are stationary at second difference I(2). Hence we accept stationarity since ADF statistics of all the variables in their absolute values are greater than 5% critical value. Therefore the variables are stationary at second difference.

Co-Integration Test

Having established the time series properties of the data, the study proceeds to conduct the Johansen multivariable co-integration test by first determining the number of co-integrating vectors in the model. When time series variables are non-stationary at level series, it is important to ascertain if a long-run meaningful relationship exist among the variables. The variables are said to be co integrated if a long-run meaningful relationship exist among them. The Johansen's co-integration test using both trace statistics and maximum Eigen value is given in the tables below.

Table 4.2: Johansen Co-Integration Test

Hypothesized No of CE(S)	Eigen Value	Trace Statistics	0.05 Critical Value	Prob**
None*	0.969348	103.8896	47.85613	0.0000

* denotes rejection of the hypothesis at the 0.05 level
** MacKinon-Haug-Michelis (1999) p-values

The co-integration result based on the trace test indicates that the value of the trace statistics is greater than the 5% critical value, hence the variables are co integrated at the 5% level. This result implies that there is a long-run relationship between the variables in the model and if there are shocks in the short run which may affect movement in the individual series, they would converge with time in the long run.

Unrestricted co-integration Rank Test (maximum Eigen Value)

Hypothesized No of CE(S)	Eigen Value	Max-Eigen statistics	0.05 Critical Value	Prob**
None*	0.969348	80.15633	27.58434	0.0000

Max-Eigen value test indicates 1 co integrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
** MacKinon-Haug-Michelis (1999) p-values

The co-integration result based on the maximum Eigen value indicates that the variable are co integrated at the 5% level since there is one co-integrating vector. The result indicates that value of the Max-Eigen statistics is greater than the 5% critical value, hence the variables are co integrated at the 5% level, hence there is a long-run relationship between the variables in the model .

Table 3. Summary of Regression Result
Dependent Variable: GDP

Method: Least Squares

Sample: 1994 2018

Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2844.864	1080.557	2.632776	0.0156
CPS	-1.224868	1.006779	-1.216620	0.2372
MS	4.323305	1.078516	4.008570	0.0006
TPD	1.966082	1.096111	1.793688	0.0873

R-squared	0.993535	Mean dependent var	41694.18
Adjusted R-squared	0.992611	S.D. dependent var	39845.61
S.E. of regression	3425.092	Akaike info criterion	19.26129
Sum squared resid	2.46E+08	Schwarz criterion	19.45631
Log likelihood	-236.7661	Hannan-Quinn criter.	19.31538
F-statistic	1075.696	Durbin-Watson stat	1.012565
Prob(F-statistic)	0.000000		

Source: Researchers computation

4.1 Interpretation of Result on Table 3

The result from the table above shows that broad money supply and total private sector deposits have positive impact on economic growth in Nigeria while Credit to private sector has negative impact on economic growth in Nigeria. This implies that a unit increase in Money supply and Total private sector deposit will lead to increase in economic growth. The result further showed that a unit increase in Credit to private sector would lead to decrease in economic growth; this result does not comply with economic apriori expectation, this result depicts the situation of the business environment in Nigeria as the private sector struggles with harsh economic situation and rising state of insecurity in the country which could hinder their productivity.

This can also affect the optimal utilization of credits obtained by them from the DMBs. The R square shows that the independent variables explain 99.3% of the dependent variable, also the adjusted R square of 99.26% shows that the model is well fit. The F-statistic shows that the model has a goodness of fit and is statistically different from zero which implies that there is a significant impact between the dependent and independent variables in the model. The result further revealed that broad money supply and total private sector deposits are statistically significant in explaining the economic growth while credit to Private sector is not statistically significant. The durbin Watson statistics of 1.01 shows the absence of auto correlation in the model.

5. CONCLUSION AND RECOMMENDATION

The objective of this study is to empirically examine the impact of deposit money banks activities on economic growth in Nigeria. The study confirms that money supply and total private sector deposit are statistically significant in explaining the Nigerian economy while it is revealed that credit to private sector is not statistically significant in explaining growth of Nigeria economy. The study supported the financial repression theory hypothesis on the importance of banking sector to economic growth.

From the result obtained it is recommended that the DMBs should ensure proper supervision and monitoring of credits availed to the private sector in order to prevent diversion and ineffective use of the funds so that the impact of their lending activities could be felt on the economy. The importance of a stable business environment is key for the productivity of the private sector; hence Nigerian government should provide a conducive and safe business environment. Also, the monetary authorities are encouraged to implement policies that would boost the financial intermediation activities of the Deposit Money Banks.

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