COMMERCIAL BANKS AS A CATALYST FOR ECONOMIC GROWTH IN NIGERIA (1980-2013)

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CERTIFICATION

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DEDICATION

This project is dedicated to Almighty God, for his guidance and protection over me from ages, who have not left nor forsake me in all my endeavours both physically and academically, and also to my lovely parent MR & MRS ALEBIOSU OLUWAKEMI thank you. I will forever be grateful for your Love and kindness.

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ABSTRACT

The study examines commercial banks as a catalyst for economic growth in Nigeria between 1980 and 2013. Given the economic trend of the commercial banking industry, one wonders what has hindered economic growth, for the past three decades, the Nigerian economy has not shown any favorable sign of growth. The objective of the study is to examine the contribution of commercial banks on economic growth in Nigeria. Consequently, the researcher used time series analysis to estimate the model of the study and also tested for autocorrelation in the study. Based on this study, the researcher found out that majority of the individuals are more responsive to capital accumulation and fund re-investing than depositing them in the banks. Also commercial banks mobilize funds from surplus units in the economy to the deficits unit for investment. It is observed that a positive sign of real interest rate is favorable to the RGDP. This research also shows that interest rate and total loans have more favorable and economic relationship with the RGDP growth than aggregate deposit. Based on the foregoing, the researcher recommends that commercial banks should provide incentives that will encourage individuals to save more and also commercial banks should make interest rate favorable to the customers so as to increase the level of investment in the country.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The banking system is the engine of growth in any economy, given its function of financial intermediation. Through this function, banks facilitate capital formation, lubricate the production engine turbines and promote economic growth. However, banks' ability to engender economic growth and development depends on the health, soundness and stability of the financial system. The need for a strong, reliable and viable banking system is underscored by the fact that the industry is one of the few sectors in which the shareholders' fund is only a small proportion of the liabilities of the enterprise. It is, therefore, not surprising that the banking industry is one of the most regulated sectors in any economy. Commercial banks have long been recognized to play an important role in economic development of Nigeria economy. This recognition dates bank to Gold Smith 1955 which demonstrated that commercial banks could be a catalyst of economic growth if it is well developed and healthy. Commercial bank is the oldest banking institutions in Nigeria with the First Commercial Bank being established in 1892. Commercial banking is the most important financial institution and also the most popular with the Nigeria public it is unique in its performance of services. According to Osubor (1951:25) Commercial banks are destiny wished financial institution, through its saving mobilization and efficient financial intermediary roles. In essence, commercial banks are those institutions that keep deposits and render payment mechanism for their customers.

By payment mechanism, it means that individuals and corporate bodies only make payments to one another through commercial banks. In this wise, commercial bank functions like a departmental store of financial services. It is the only financial institution where one can get various departments for different service such as saving department, paying department, foreign remittances and so on like departmental store. In light of this, commercial banks activities towards the development of Nigeria economy could be seen as follows:

- Firstly, they play financial intermediary functions such as saving and borrowing which are linked up and this reduce transactions and search cost. They allow their customers to keep deposits with them in form of saving, current and fixed time deposits i.e. they provide savings facilities for their customers. Equally, they borrow out loan to their customers in form of short term or long term loan. Other borrowing service include overdraft etc.

- Secondly, they create liquidity in the economy by borrowing short term and lending long term.

- Thirdly, they reduce information costs, provide risk management services and reduce risk involved in financial transactions.

- Fourthly the intermediaries bring the benefits of assets diversification to the economy.

- Fifthly, they mobilize savings from atomized individual for investment, thereby solving the problem of indelibility in financial transactions.

- Finally, they mobilize saving in order to invest it in the most productive venture irrespective of the sources of the saving.

However, despite these potentials of financial development in influencing economic growth, economists and policy makers seemed to have neglected it, when Schumpeter (1952) observed that financial markets (banks in particular) play a significant until role in the growth of the real economy by channeling funds from savers to borrowers in an efficient way to facilitate investment in physical capital, spur innovation and the 'creative destruction process. He contends that entrepreneurs require credit in order to finance the adoption of new production techniques and banks are viewed as key agents in facilitating these financial intermediating activities and promoting economic development. Therefore, the creation of credit through the banking system was an essential source of entrepreneurs' capability to drive real growth by finding and employing new combinations of factor use (Allen and Ndikumana, 1998; Blum, et al., 2002). There are a number of reasons why the financial sector and its activities may influence the rate of economic growth. Financial intermediaries channel resources to the most profitable sectors of any economy. According to Nzotta (2004), financial institutions channel resources from surplus economic units to deficit units for investment purposes. This consists of the provision of loans and advances to the private and public sectors for the purpose and for the growth of domestic output and promotion of the export trade, agricultural production and provision of infrastructure. Similarly, Jhingan (2004) argues that banks in developing economies play an effective role in their economic development. He says there is acute shortage of capital. People lack the initiative and enterprise. Means of transport are undeveloped. Industry depressed. Financial institutions help in overcoming these obstacles and promote economic development. Financial intermediaries monitor managers and exert corporate control ameliorating moral hazard risk. In particular, by providing liquidity, financial institutions permit

risk averse savers to hold deposits rather in liquid but unproductive assets. This mobilization of savings allows increase in the amount of resources available to entrepreneurs.

1.2 Statement of Research Problem

Given that the economic trend of the commercial banking industry, one wondered what has hindered economic growth, though an important avenue for banks to boost the growth of the economy through efficient and effective saving investment process(financial intermediation) to stimulate investment and productive activities.

For the past three decades, the Nigerian economy has not shown any favorable sign of growth. For example, the real GNP growth rate figure was 2.8% in 1995 with negative figures in years like 1982, 0.3% etc as depicted in the CBN periodic bulletin in 1986. This shows that the Nigerian economy is not one that can inspire confidence, if no drastic improvement is shown by financial institutions with its economy especially in the new millennium.

1.3 Research Objective

The main objective of this study is to examine the contribution of the commercial banks to economic growth in Nigeria.

The specific objectives include examining the following:

(i) To determine whether the capacity of the financial intermediaries (proxy by total deposit money banks' assets) contribute to the growth of the Nigerian economy;

(ii) The impact of aggregate bank lending (as a measure of importance of banks) on the growth of real sector in Nigeria;

(iii) Examine the level of activity and efficiency of financial intermediaries in Nigeria (using private sector credit as a measure of efficiency); and

(iv) Examine the trend of reforms in the banking sector and impact on the sector and economic growth of Nigeria.

1.4 Research Questions

Against the above backdrop, answering these pertinent questions is crucial.

i) Does the provision of credit by banks have a significant impact on the growth of Nigerian economy?

ii) Does the capacity of the financial intermediaries (proxy by total deposit money banks' assets) in Nigeria have a significant impact on the growth of real sector in Nigeria?

iii) To what extent do the various reforms in the banking sector influence the performance of the sector and economic growth in Nigeria?

iv) Does the efficiency of the financial intermediaries have a significant impact on the growth of Nigerian economy?

1.5 Justification of the Study

Commercial banks in Nigeria have been facing several reforms to improve the efficiency of financial intermediation, achieve financial deepening, and promote economic growth, against this back drop therefore, it becomes imperative to examine the impact of the activities of the commercial banks on the growth of Nigerian economy. This study is important because it add to

the literature by empirically examining the impact of financial intermediation of banks in inducing economic growth in Nigeria. This work will in no doubt will add and contributed to the already similar literature in abound. It will help researcher who will work further on this problem to afford him with material and act as a searchlight for those who are interest to duel on it for practical application. Finally, policy recommendations of this study would provide policy-makers on ways to improve operations and activities of the commercial banks in Nigeria.

1.6 Scope of the Study

It intends to evaluate the contributions of commercial banks to Nigerian economic growth and development. The choice of this sector is based on the fact that the banking sector's stability has a large positive externality and banks are the key institutions maintaining the payment system of an economy that is essential for the stability of the financial sector. Financial sector stability, in turn has a profound externality on the economy as a whole. It intends to cover the periods between 1980 and 2013.The period 1980-2013 is chosen based on the fact that it was within this span of time that financial intermediaries (commercial banks) in Nigeria experienced major developments in terms of regulatory framework and restructuring programmes. Financial intermediaries for the purpose of this study refer to banks (commercial banks) that mobilize savings for investment purposes. They act as intermediaries between ultimate savers and ultimate borrowers. The justification for using commercial banks as our financial intermediaries is based on the fact that banking system plays a crucial role in economic growth. For example, in Nigeria, banks represent 87.4% of the financial system assets and 63.6% of the total credit extended to the private sector (King, 2003). Furthermore, banks are the oldest, biggest, and

fastest growing financial intermediaries in Nigeria. They are also the most important depositories of public saving and the most important disbursers of finance.

1.7 Limitation of the Study

The main limitation of this study is that it is restricted to only commercial banks in Nigeria. Commercial banks are a component of financial institution in Nigeria. The focus on commercial banks will therefore facilitate adequate coverage. Though in carrying out a research, the researcher would encounter some constraints, such as inaccessibility of data, time, and finance. However, the following limitations set a barrier to achieving the total objective of the study:

- The scarcity of data deprived the researcher from extending the scope of the study.
- The cost associated with data collection is exorbitant thereby depriving the researcher of some useful information.

1.8 Outline of Chapters

This research work is divided into Five Chapters. Chapter one is devoted to introduction, Chapter Two shall deal with the review of relevant literature on the constructs and variables of the study as well as the theoretical and empirical frameworks. Chapter Three shall disclosed the research methods, research design, sampling, sampling techniques, validity and reliability, while Chapter Four would focus data presentation and Analysis and Chapter Five would focus on summary of findings, Conclusions, recommendations, limitation and suggestions for further studies.

1.9 Definition of Terms

Some of the terms used for the purpose of this research work are hereby define to give clear understanding of the study.

- **Banking Business:** Banking business is the business of raising deposits or current account, savings account or other related account, paying or collecting cheques drawn by or paid in by customers, provision of finance or such other business as the governor (CBN) may be order published in the gazette – section 61 BOFIA 1991. Therefore any organize or entity that carryout the above is referred to as a bank. It can also be defined as business of receiving monies from outside sources as deposits irrespective of payment of interest or the granting money loans and acceptance of credits or the purchase of bills and cheques or the purchase and sale of securities for of others or the incurring of the obligation to acquire claims in respect of loans.
- **Economic Growth:** As we can recall is one of the objective of macroeconomic policy, it can be seen as the increase overtime of an economy's productive capacity as regards to the goods and services needed to improve the welfare of its citizens. It can also be said to be a steady process by which the productive capacity of the economy is increased overtime to bring about rising levels of national income (Todaro, 1977).
- **Financial intermediation:** The process that facilitates the transferring of the savings of some economic units to others for consumption or investment at a price (Blum, *et al.*, 2002).

- **Financial System:** A financial system is a conglomerate of institutions, markets, instruments and operators that interact to provide such financial services as resource mobilization and allocation, financial intermediation and facilitation of foreign exchange transactions.
- **Gross Domestic Product:** It refers to the total monetary value of all final goods and services produced within the geographical boundaries of a country during a given period of time usually one year.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers an extensive and critical review of the literature relevant to the operation of the banking sector as relates to their contribution to economic growth of Nigeria. In this chapter, ideas, concepts, theories, among others are assessed and criticized. It is the objective of the researcher that this review will foster a better understanding of the various contribution of the banking sector to the economic development of Nigeria in general.

2.1 Conceptual Review

A bank is a financial institution that accepts deposits and channels those deposits into lending activities. Banks primarily provide financial services to customers while enriching investors. Banks are important players in financial markets and offer services such as investment funds and loans. Banks perform many economically beneficial functions. These functions can be classified into primary and secondary functions. Among the primary functions of banks are: acceptance of deposit; and granting of loans and advances.

Writing on the role of banks on economic growth, Steiner, et al (1963) opined that banks are important to the economy because they influence the level of economic activities in two ways, namely: by expansion and contraction of loans and investment. These activities alter the nation's money supply, and by extension affect the size of loans, influence what is produced, how much is produced and where it is produced. Similarly, Ubom (2009) identified banks as

agents of economic development. This is because they invest directly in the economy (e.g. by buying the shares of other companies) and also grant loans to others for investment and purchase of securities.

The process of financial intermediation involves the mobilization and allocation of financial resources through the financial (money and capital) market, by financial institutions (banks and non – banks) and by the use of financial instruments (savings, securities and loans) (Ofanson, Aigbokhaevbolo and Enabulu, 2010). In the words of the above authors the efficiency and effectiveness of financial intermediation in any economy depend critically on the level of development of the country's financial system. In effect, the underdeveloped nature of the financial system in most developing countries accounts largely for the relative inefficiency of financial intermediation in those economies. In these countries, the financial system is dominated by banks, which are typically oligopolistic in structure and tend to concentrate on short – term lending as against investment with long – term gestation period (Ofanson, Aigbokhaevbolo and
Enabulu 2010).

2.1.2 The Principal Role of Banks in Nigerian Economy

While many people believe that banks play only a narrow role in the economy taking deposits and making loans, the modern bank has had to adopt new roles in order to remain competitive and responsive to public needs. Rose (1999) states that the banking industry principal roles today are as follows: -

- **The Intermediation Role:** Banks transform savings received primarily from households into credit (loans) for business firms and others in other to make investments in new buildings, equipment, and other goods.
- **The Payment Role:** Banks carry out payments for goods and services on behalf of their customers (such as by issuing and clearing cheques, remitting funds, providing a conduit for electronic payments, and dispensing currency and coin).
- **The Guarantor Role:** Banks stand behind their customers to pay off customer debts when those customers are unable to pay (such as by issuing letters of credit).
- **The Agency Role:** Banks act on behalf of customers to manage and protect their property or to issue and redeem their securities (usually provided through the bank's trust department).
- **The Policy Role:** Bank serves as a conduit for government policy in attempting to regulate the growth of the economy and pursue social goals.

According to Anyaele (2005), the role of banks in the economic development of

Nigeria

1. Commercial banks make both short-term and medium term loans and overdrafts available to those involved in economic activities.

- **Short Term Loans:** These loans are advanced for the period of six months to one year. This loan attracts interest that is charged on the account.
- **Medium Term Loans:** These loans are given for the period of one to five years. This loan attracts interest that is charged on the account.

- **Overdrafts:** This is a facility which allows trustful customers to draw more than the deposit they have in the bank. Banks charge interest on overdrafts.

2. Commercial banks through issuance of traveler's cheques and opening of letters of credit help in the development of international trade which contributes to the economic development of Nigeria

3. Banks render expert financial advice to those engaged in various businesses that involved directly or indirectly in economic development activities.

4. Commercial banks play significant role in food production by directly or indirectly giving agricultural loans to farmers, and sponsoring agricultural conferences/seminars.

5. Banks offer employment opportunities in their banks to many citizens thereby contributing to manpower development and reducing the rate of unemployment in Nigeria.

6. Commercial banks discount bills of payments for their customers before their maturity dates, this help to make more money available for economic activities in a country. Commercial banks use the difference types of cheques provided them to assist in increasing economic activities and also making remitting of money easy. Commercial banks participate in the buying and selling of shares and stocks and Federal Government treasury bills which contributes in the development of money and capital markets which are important indices to economic development.

2.1.3 Banking Sector Reforms in Nigeria

Financial system reforms are motivated by the desire to improve the efficiency and stability of the financial structure. In most cases, such reforms are aimed at ensuring that market forces perform greater roles in the allocation of resources. Umoh further identifies the objective of financial reform as: improvement in the efficiency of resources allocation through the market system.

In Nigeria, we recognize four phases of banking sector reforms (Balogun, 2007).

- The financial system reforms of 1986 – 1993 which led to the deregulation of the banking industry, dominated by indigenized banks that had over 60% Federal and State governments' stakes in addition to credit, interest rate and foreign exchange policy reforms.
- In the late 1993 – 1998 experienced a re-introduction of regulations. The banking sector, during this period, suffered deep financial distress which necessitated another round of reforms designed to manage the distress.
- The third phase began with the advent of civilian democracy in 1999 which saw the return of liberalization of the financial sectors accompanied with adoption of distress programmes. This era also witness the introduction of universal banking, putting an end to the commercial banks, merchant banks and other developmental banks in Nigeria.
- The fourth phase began in 2004 to date, characterized by the structural and operational weaknesses as a result of poor corporate governance practices, lax credit administration processes and absence or non-adherence to bank's credit risk management practices (Sanusi, 2009).

The banking sector reforms are fundamentally to improve the scope and potentials of the sector and enhance its ability to perform developmental roles in the economy. The primary objective of the reforms is to guarantee an efficient and sound financial system. The reforms are designed to enable the banking system to develop the require resilience to support the economic development of the nation by efficiently performing it function as fulcrum of financial intermediation (Lemo, 2005). The government aimed to establish a reliable and efficient banking sector so as to guarantee the safety of the depositors' money and become major players in the sub-region, regional and global financial market. The reforms have since commencement introduced several structural adjustment and policy shift.

A reform is predicated upon the need for reorientation and repositioning of the existing status quo in order to attain an effective and efficient state. Obstacles within the banking industry that impede growth and proper functioning of the institution from achieving its core objective needed to be removed. Hence, the banking sector in Nigeria needs to be reform in order to enhance its competitiveness and capacity to play its vital role of financing investment. The reform is propelled by the need to:

- Deepening the financial sector and reposition it for growth
- Integrate into global financial architecture
- Involve a banking sector that consulting with regional integration requirements and international best practices.

There are several efforts by the Central Bank of Nigeria to reform the banking sector in Nigeria. One of the most recent carried out in the banking sector since 2004 have the following key elements of the13-point reform:

- Minimum capital base of N25billion
- Consolidation of banking institutions through merger and acquisition
- Phased withdrawal of public funds from banks
- Adoption of a risk-focused and rule-based regulatory framework
- Zero tolerance for weak corporate governance, misconduct and lack of transparency
- Accelerated completion of Electronic Financial Analysis Surveillance System (e-FASS)
- Establishment of an asset management company
- Promotion of the enforcement of dormant laws
- Revision and updating of relevant laws
- Closer collaboration with the Economic and Financial Crime Commission (EFCC) and the establishment of Financial Intelligence Unit.

2.1.4 Reasons for the Reforms

In Soludo's (2004) assessment, the banking industry was characterized by low and weak resource base, and it was heavily dependent on public sector deposits. The public sector accounted for over 20% of aggregate deposits with poor assets quality and as high a 19.8% incidence of non-performing loans. The system was non-supportive to the real sector of the economy.

In term of number of banks and minimum paid-up-capital, most banks had capitalization levels of less than $10 million. Two decade after independence, the banking sector recorded fifty-four (54) banks between 1979 – 1987 with various minimum paid-up capitals for foreign, Nigerian

and Merchant banks. The number increased to a hundred and twelve (112) by the end of 1991with substantial varying increase in capitalization. The number dropped to one hundred and ten (110) between 1997 – 2002, following a rise in minimum paid-up capital to N500 million. The number further reduced to 89 banks between 2003 – 2004 with yet another adjustment in minimum paid-up capital to N2 billion in January, 2004 and to N25 billion in July 2004 further reducing the number of the banks to 25 at the end of the consolidation. In 2007, the number of banks further reduced to 24.

These major policy shifts by the Central Bank of Nigeria became necessary following the steady increase in the number of distressed deposit money banks. The banks abandoned strict banking business of funds intermediation and preferred to trade in foreign exchange, treasury bills and indirect importation of goods through surrogate companies (Arua, 2007).

These monetary policy shifts by the Central bank of Nigeria brought about a revolution in the banking industry in Nigeria. In 2004, the banking industry in response to these policy shifts, largely experienced mergers and acquisition of a number of marginal and unsound banks by the sound ones.

Table 2.3.1

Bank Structure and Minimum Capital Requirement and Number of Banks in Nigeria (1979 – 2014)

YEAR	MINIMIUM CAPITAL REQUIREMENT (#)	MINIMIUM CAPITAL IN US ($)	OWNERSHIP TYPE	CUMMULATIVE NO OF BANKS
1979-1987	1,500,000	1,500,000	FOREIGN	57
	600,000	600,000	NIGERIA	
	2,000,000	2,000,000	MERCHANT	
1988- FEB,1988	5,000,000	250,000	COMM BANK	66
	3,000,000	150,000	MERCHANT	
MARCH 1988- OCT.1988	10,000,000	500,000	COMM.BANK	66
	6,000,000	300,000	MERCHANT BANK	
1989-1990	20,000,000	235,294	COMM.BANK	107
	12,000,000	141,176	MERCHANT BANK	
1991-1996	50,000,000	586,235	COMM.BANK	112
	40,000,000	470,588	MERCHANT	

			BANK	
1997-2002	**500,000,000**	**5,880,000**	**COMM.BANK**	**110**
	500,000,000	**5,880,000**	**MER. BANK**	
2003-JAN2004	**2,000,000,000**	**16,600,000**	**UNIVERSAL COMM. BANK**	**89**
FEB2004-2008	**25,000,000,000**	**200,000,000**	**UNIVERSAL**	**25**
2009-2011	**25,000,000,000**	**156,250,000**	**UNIVERSAL**	**24**
2012-2014	**25,000,000,000**	**156,250,000**	**UNIVERSAL**	**22**

Source: CBN Various Financial Publications from 1979 – 2014 and Financial Markets

2.1.5 THE CONCEPT OF ICT AND A PERSPECTIVE OF NIGERIAN BANKS

Technology can be referred to as the application of knowledge for the execution of a given task. It entails skills and processes necessary for carrying out activities (works) in a given context. While ICT encompasses computer systems, telecommunication, networks, and multimedia applications (Frenzel, 1996). It came into use in the late 1980's replacing earlier terms like Electronic Data Processing (EDP), Management Information System (MIS), although the latter terms are still in use (Frenzel, 1996). Information and Communication Technology (ICT) has now been accepted as one of the main driving force behind organizational competitiveness in the present day business environment. Presently, ICT is having dramatic influence on almost all areas of human activities and one of the areas of economic activities in which this influence is most manifest is the banking sector. The banking industry is one of the critical sectors of the

economy which makes invaluable contributions to the pace of economic growth and development of nations.

There is no gainsaying the fact that globalization has brought about intense competition in the financial services industry and this necessitates that those firms in this industry operate at their best. To remain competitive, firms need to be flexible to be able to respond rapidly to the fast changing market environment to which they are exposed. Actually, banking environment worldwide has become transformed over the years and the banking public has become more sophisticated in their purchase decisions. To respond to increasingly sophisticated customer and market demand therefore, banks need to put in place operational processes that ensure greater customer convenience, better delivery of and increased accessibility to financial services and products.

In reality, the banking sector has traditionally been one of the main users of technological innovations. Grainger-Smith and Oppenheim (1994) aver that the banking sector is an old time beneficiary of the offerings of Information Technology (IT) and that IT has played key roles in the development of the banking industry based on the fact that the main function of banks can be viewed not really as that of money, but that of the capture, distribution, analysis and processing of financial information. They indicated that IT can enable banks to widen the range of services offered to their customer, transform their operating systems, increase the volume of their services, operate at a higher level of efficiency and realize economics of scale. In similar vein, Ehikhamenor (2003) noted the range of benefits that banks can derive from investing more in IT as time reduction, improved operations, increased profitability, better management

- customer relationship, streaming of operations, expansion of activities, improved service, minimization of exposure to risk in turbulent markets, among others.

Today's business environment is very dynamic and undergoes rapid changes due to technological innovation, increased awareness and increased demands from customers. The banking industry of the twentieth century operates in a complex and competitive environment characterized by these changing conditions and a highly volatile economic climate, and Information and Communication Technology (ICT) is at the centre of this global change curve (Agboola, 2006). Hence, the banks that will survive and compete effectively in today's business environment must necessarily integrate ICT into its operational processes.

2.1.6 Information and Communication Technologies and Their Use in Banks

Technology generally refers to the application of knowledge for the execution of a given task. It entails skills and processes necessary for carrying out activities in a given context. Information technology, the technology that empowers information, is a term that generally covers the harnessing of electronic technology for the information needs of a business at all levels. It refers to the automation of processes, controls, and information production using computers, telecommunication software and ancillary equipment such as Automated Teller Machines, and debit card, (Khalifa 2000). It was defined by the Nigerian National Policy for Information

Technology (2001) as: computer, ancillary equipment software and firmware (hardware) and similar procedures, services (including support services) and related resources, any equipment or inter connected system or subsystem of equipment that is used in the automatic acquisition,

storage, manipulation, management, movement, transmission or reception of data or information".

Today, a variety of ICT products are increasingly being used in the banking industry of the Less Developed Countries in response to increased sophistication of the customers and greater competition emanating from the increased globalization of the financial services industry. These products include Automated Teller Machines (ATMs), telephone banking, MICR cheques, Electronic Funds Transfer, Electronic Data Interchange, Electronic Home and Office Banking, Electronic Fund Transfer at Point of Sale, Electronic Letter of Credit, Electronic Card, Debit Card, Electronic Cash, Electronic Billing, Local Area Network, Wide Area Network, etc (Agboola 2006; Shokan 2005).

Banks have made extensive use of Information and Communication Technology (ICT) for many years in operations. The following Information and Communication Technology (ICT) Systems have made great impact on the banking activities

(i) Banker's Automated Clearing Services (BACS)

Banker's Automated Clearing Services (BACS) use computers to carry out most financial transactions between banks. These consist of, clearing cheques, paying salaries, payment of standing orders or direct debits. The BACS does its processing by batch processing in which all transactions from the previous day are processed at one time. The processed data is passed between banks on magnetic tapes. Logs are kept of all the transaction (Mishkin and Strahan, 1999)

(ii) Automated Teller Machines (ATM)

Rose (1999) describes Automated teller machines (ATMs) "An ATM combines a computer terminal record-keeping system and cash vault in one unit, permitting customers to enter the bank's book keeping system with a plastic card containing a Personal Identification Number (PIN) or by punching a special code number into the computer terminal linked to the bank's computerizes records 24 hours a day" once access is gained, it offers several retail banking services to customers. They are mostly located outside of banks, allowing customers to have access anytime of the day. ATMs are able to provide a wide range of services, such as making deposits, fund transfer between two accounts and bill payments.

(iii) Telephone Banking

Telephone Banking "Telebanking" can be considered as a form of remote or virtual banking, which is essentially the delivery of branch financial services via telecommunication devices where the bank customers can perform retail banking transactions by dialing a touch-tone telephone or mobile communication unit, which is connected to an automated system of the bank by utilizing Automated Voice Response (AVR) technology" (Balachandher el al, 2001).

(iv) Personal Computer Banking

"PC-Banking" is a service which allows the bank's customers to access information about their accounts via a proprietary network, usually with the help of proprietary software installed on their personal computer". Once access is gained, the customer can perform a lot of retail banking functions. PC-Banking virtually establishes a branch in the customers' home or office, and offers 24-hour service, seven days a week. It has the benefits of Telephone Banking and ATMs (Chorafas, 1988).

(v) Electronic Funds Transfer at Point of Sale (EFTPoS)

An electronic Funds Transfer at Point of Sale is an on-line system that allows customers to transfer funds instantaneously from their bank accounts to merchant accounts when making purchases (at purchase points). A POS uses a debit card to activate an Electronic Funds Transfer Process (Chorafas, 1988). Increased banking productivity results from the use of EFTPoS to service customers shopping payment requirements instead of clerical duties in handling cheques and cash withdrawals for shopping.

(vi)Internet Banking

The idea of Internet banking according to Essinger (1999) is; "to give customers access to their bank accounts via a web site and to enable them to enact certain transactions on their account, given compliance with stringent security checks". To the Federal Reserve Board of Chicago's Office of the Comptroller of the Currency (0CC), Internet Banking Handbook (2001), Internet Banking is described as "the provision of traditional (banking) services over the internet.

Internet banking by its nature offers more convenience and flexibility to customers coupled with a virtually absolute control over their banking. Service delivery is informational (informing customers on bank's products, etc) and transactional (conducting retail banking services).

As an alternative delivery conduct for retail banking, it has all the impact on productivity imputed to Telephone Banking and PC-Banking. It is most cost-efficient technological means of yielding higher productivity. It eliminates the barriers of distance, time and provides continual productivity for the bank to beyond belief distant customers (Suoranta and Mattila, 2003).

2.2 Theoretical Framework

Financial intermediation theory was first formalized in the works of Goldsmith (1969), McKinnon (1973) and Shaw (1973) who sees financial markets as playing a pivotal role in economic development, attributing the differences in economic growth across countries to the quantity and quality of services provided by financial institutions. This view contrasts with Robinson (1952) who argued that financial markets are essentially handmaidens to domestic industry, and respond passively to other factors that produce cross-country differences in growth. Accordingly, Robinson (1952) asserts: "there is general tendency for the supply of finance to move the demand for it. It seems to be the case that where enterprise leads, finance follows. The same impulse within an economy, which set enterprises on foot, make owners of wealth venture-some, and when a strong impulse to invest is fettered by lack of finance, devices are invented to release it, habits and institutions are developed".

Financial repression hypothesis: This theory is usually associated with the works of Cameron et al. (1973), McKinnon (1973) and Shaw (1973), and holds that financial development would contribute most significantly to economic growth if the authorities were not to interfere in the operations of the financial institutions. Poor performance by banks and other financial institutions is thus often attributed to interest rate regulation, ceilings on deposit and loan rates and official guidelines pertaining to lending operations. Such interference results in a low and often negative real rate of return on financial assets and therefore, in deficient savings being mobilized and channeled into investment projects (Agu, 1988).

The proponents of this hypothesis therefore advocate a positive real interest and financial liberalization. Free market forces would then ensure an optimal financial structure for development and eliminate the fragmentation of markets that is financial dualization and all the attendant distortions of the proper operation of the market mechanism. According to the financial repression hypothesis, government legislation and policies may distort the operation of the market mechanism in determining the "prices" of financial resources. As the major effects of such repression are limited savings because of interest ceilings, the hypothesis can be ultimately reduced to official interest rate policies. It is however, recognized that other forms of financial repression might result from such other factors as portfolio regulation and oligopolistic financial markets (Galbis, 1982). The financial repression hypothesis also focuses attention on the level of interest rates on the savings instruments available to the public in relation to the rate of inflation. If real rates of interest have been positive over a period of time, it may be said that there has been no financial repression, but financial deepening.

2.2.1 Finance- Growth Theory

The Robinson school of thought therefore believes that economic growth will lead to the expansion of the financial sector. Goldsmith (1969) attributed the positive correlation between financial development and the level of real per capita Gross National Product (GNP) to the positive effects that financial development has on encouraging more efficient use of the capital stock. McKinnon (1973) argued that there is a complimentarity between money and physical capital, which is reflected in money demand.

According to McKinnon, complimentarity links the demand for money directly and positively with process of physical capital accumulation because the condition of money supply has first order impact on decision to save and invest. In addition, positive and high interest rates are necessary to encourage agents to accumulate money balances, and complimentarity with capital accumulation will exist as long as real interest rate does not exceed the real rate of return on investment.

Shaw (1973) proposes a debt intermediation hypothesis, whereby financial intermediation between savers and investors resulting from financial liberalization (higher real interest rates) and development increase the incentive to save and invest, stimulates investments due to an increased supply of credit, and raises the average efficiency of investment.

However, since the emergence of new growth theories or endogenous economic growth theories, there has been revival interest in the role played by financial intermediaries in the process of economic growth. Endogenous growth theory or new growth theory was developed in the 1980s as a response to criticism of the neo-classical growth model.

2.2.2 Endogenous Growth Theory

Endogenous theory holds that policy measures can have an impact on the long run growth rate of an economy. In neo-classical growth models, the long run rate of growth is exogenously determined by either assuming a savings rate (the Harrod-Domar model) or a rate of technical progress (Solow model). However, the savings rate and rate of technological progress remain unexplained.

Endogenous growth theory tries to overcome this shortcoming by building macroeconomic models out of microeconomic foundations. Households are assumed to maximized utility subject to budget constraints while firms maximize profits. Crucial importance is usually given to the production of new technologies and human capital.

The engine for growth can be as simple as a constant return to scale production function or more complicated set ups with spillover effects, increasing number of goods, increasing qualities, and so on. While there are divergent views on the relationship between finance and economic growth, the immediate outcome is the emergence of two broad schools of thought with two contrasting views; these are the supply-leading view and the demand-following view.

2.2.3 Supply Leading Theory

The supply leading theory is of the view that finance plays an important role in growth and development (Bagehot, 1873; Schumpeter, 1912; Hicks, 1969; and Miller, 1988).

This school of thought (supply leading theory) used it models to show that economic agents created debt contract and financial intermediaries ameliorate the economic consequences of informational asymmetries, with beneficial implications for resources allocation and economic activity. In terms of policy, financial intermediaries exert an economically large impact on growth, then raise the degree of urgency attached to legal, regulatory, and policy reforms, designed to promote financial development. Specifically, financial intermediaries emerge to lower the costs of researching potential investments, exerting corporate control, managing risk, mobilizing savings and conducting exchanges.

The supply leading theory, further suggest that, by providing these services to the economy, financial intermediaries influence savings and allocation decisions in ways that may alter long-run growth rates. This school of thought also suggested that enhanced liquidity has an ambiguous effect on saving rates and economic growth. In most of their models, it is assumed that; greatest liquidity (a) Increases investment returns and (b) lower uncertainty. Higher returns ambiguously affect saving rates due to well –known income substitution effects. Furthermore, the supply-leading theory assumes that lower uncertainty affects savings rates. Information acquisition costs create incentive for financial intermediaries to emerge (Diamond, 1984).

2.3 Empirical Review

Many studies have been conducted locally and internationally in this area of study with the view of helping developing countries to increase savings so as to improve the efficiency of their financial system and economic growth. This section of the study is therefore concerned with looking at some of those studies as follows.

2.3.1 Empirical Review on Other Countries

Kar and Pentecost (2000) examine the causal relationship between financial development and economic growth in Turkey from 1963-1995 using co-integration based on vector error correction methodology (VECM) and Granger causality tests. The results show that when financial development is measured by the money to income ratio the direction of causality runs

from financial development to economic growth, but when the bank deposits, private credit and domestic credit ratios are alternatively used to proxy financial development, growth is found to lead financial development. On balance, however, growth seems to lead financial sector development. This implies that Turkey is a transition economy where developed equity market dis-intermediates fund mobilization and allocation from banks, so banks are merely responding to the needs of the real sector.

Aziakpono (2003) examine domestic financial institutions and economic growth in South Africa. He used ratio of private credit to nominal GDP and ratio of liquid liabilities of commercial banks to GDP as measures of financial development and employed Zellner seemingly unrelated regressions estimation (SURE) method, he found that domestic financial intermediation is still relevant in such financially integrated markets, meaning that even in the presence of foreign capital flow, domestic financial institutions still matter for growth. Moreover, the results also indicates that in order for the smaller countries of the union with less developed financial institutions to optimize gains from financial intermediation, they would need to take steps to strengthen their weak financial system and resolve the institutional and structural problems in their economies.

Nazmi (2005) uses a general equilibrium model to analyze the impact of deregulation and financial deepening on the real sector. The model suggests that deregulation and a more developed banking sector prompt firms to increase the capital intensity of production, thereby, fostering more rapid growth. Testing the model with data from four Latin America countries

from 1960-1995 supported the main result of the model by showing the positive impact of deregulation and financial development on investment.

Ang and Mckibbin, (2007) examine whether financial liberalization and development leads to economic growth in Malaysia. Using time series data from 1960 to 2001 and co-integration and causality tests, the empirical evidence suggests that financial liberalization has a favourable effect in stimulating financial sector development and that financial depth and economic development are positively related; but contrary to the conventional findings, their results support Robinson's hypothesis that economic growth leads to higher financial depth in the long-run.

Güryay and Şafakli (2007) who examined the relationship between financial development and economic growth in Northern Cyprus from 1986 to 2004 by employing Ordinary Least Square Estimation Method (OLS). The result showed that there is a negligible positive effect of financial development on economic growth. On the other hand Granger causality test showed that financial development does not cause economic growth, whereas economic growth was found to cause development of financial intermediaries.

Esso (2010) in a study that re-examine the co-integrating and causal relationship between financial development (ratio of private credit to GDP) and economic growth in the Economic Community of West African States (ECOWAS) over the period 1960-2005. The results Show that there is a long-run relationship between financial development and economic growth but with different direction of causality. In Ghana and Mali financial development leads economic growth while growth causes finance in Burkina Faso, Cote d'Ivoire and Sierra Leone, and

bidirectional causality is found in Cape Verde and Liberia. The policy implication is that Cape Verde, Ghana and Mali should give policy priority to financial reform while Burkina Faso, Cote d'Ivoire and Sierra Leone should promote economic growth. This negates the view that stages of development determines the causal relationship between financial development as these countries are about at the same stage of development, yet they show inconsistent causality, the fact that the study used a single measure of financial development (ratio of private credit to GDP) might have limited the chances of revealing more relationship between finance and development in these countries.

2.3.2 Empirical Review on Nigeria.

Azege, (2004) empirically investigated the relationship between the level of development of financial intermediaries and economic growth in Nigeria from 1970-2003. Using correlation coefficient he established that a moderate positive relationship exist between aggregate deposit money banks credit over time and Nigeria's corresponding GDP. However, the finding of this study cannot be reliable because he used a non-parametric statistical tool which neither indicates the magnitude of the relationship nor the direction of causality between finance and growth.

Dele (2007) investigates the banking reform in Nigeria of the perspective of Soludo's by using the data of 40 commercial and merchants bank variables used for the study are lending, interest rate and the foreign exchange policy. The study uses the descriptive statistics to test the hypothesis Hence results indicates that recapitalization has shown significance to reform the banking services and to the growth of economy as whole. Hence the study suggested that a

procedure to implement in which interest rate should be operate through monetary policy in order to move the GDP growth continuously toward the unique price and single market for local and international markets.

Fadare, (2010) explore the effect of banking sector reforms on economic growth in Nigeria over the period 1999 - 2009. Using the ordinary least square regression technique, he found that interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation rate, inflation rate lagged by one year, size of banking sector capital and cash reserve ratios account for a very high proportion of the variation in economic growth in Nigeria. Although there is a strong and positive relationship between economic growth and the total banking sector capital other indicators of financial development have wrong signs. This revealed that for financial reform to boost growth there ought to be other conditions, such as macroeconomic stability in terms of stable prices and manageable budget deficit. Even though this study used a variety of financial development indicators, it however, suffered by small sample bias as it covers only ten years.

Iganiga (2010) examined the effectiveness and efficiency of financial reforms on Nigerian financial institutions with emphasis on the banking sub-sector. Using the classical least squares techniques, the results showed that the performance of the financial sector has been greatly influenced over time by these reforms that began in 1986.

Kayode et al (2010) investigates the effect of bank lending and economic growth on the manufacturing output in Nigeria. By using the times series data which covering a period of 36 years (1973-2009) the technique has been used for analysis the model is the co-integration and

vector error correction model (VECM) techniques. The empirical outcomes of the study show that production volume utilize in manufacturing and bank rate of lending loans significantly affect manufacturing output in Nigeria. However, at the other h and relationship between manufacturing output and economic growth could not be successfully made and progress in the country. Hence the results shown that a mix consideration of monitory policy for central bank to ceiling off the borrowing rate effort by the government, for the manufacturers and the other development financial institution for revised the lending and growth regulations and provide competitive environment, in order to motivate investments to this sectors and made easy procedures for borrowing loans and advances from these institutions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the steps or procedure used in carrying out a research work. Research methodology specified the various ways of carrying out the research work to provide a meaningful and unbiased result. The objective of this research is to examine the contribution of the commercial banks to economic growth in Nigeria.

3.2 Sources and Method of Data Collection

The data for this study are obtained from secondary sources. The secondary data comprises annual time series spanning 1980 through 2013. The variables of interest are: Commercial bank deposit liability (BDL), Maximum lending rate (MLR), Commercial banks' credit (CBC), Investment by commercial banks in Nigeria (BINV) and economic growth proxied by (GDP). All these data would be source from various issues of central bank of Nigeria Economic and financial Review; Annual reports and Statement of Accounts; and Principal Economic and Financial Indicators, and Central bank of Nigeria Statistical bulletin (2013).

3.3 Research Hypothesis

Fadiya (2010) asserted that hypothesis testing has become the building block of any scientific research. To this end, it would be appropriate to test the following hypotheses in respect of the contribution of the commercial banks to economic growth in Nigeria from 1980 through 2013.

H_0: Commercial bank deposit liability (BDL), Maximum lending rate (MLR), Commercial banks' credit (CBC) and Investment by commercial banks in Nigeria (BINV) are insignificant related to economic growth (GDP) in Nigeria.

H_1: Commercial bank deposit liability (BDL), Maximum lending rate (MLR), Commercial banks' credit (CBC) and Investment by commercial banks in Nigeria (BINV) are significant related to economic growth (GDP) in Nigeria.

3.4 Model Specification

In order to test the hypothesis above, an econometric model is formulated. The financial repression model provides the framework of this study which hypotheses that holds that financial development would contribute most significantly to economic growth if the authorities were not to interfere in the operations of the financial institutions. Main thrust of this study is to empirical evaluating the contribution of the commercial banks to economic growth in Nigeria.

Therefore, the model for this study is specified thus.

GDP = *f* (Commercial bank deposit liability, Maximum lending rate, Commercial banks' credit, Investment by Banks in Nigeria**)**.. **(1)**

GDP = (BDL, MLR, CBC, BINV) .... **(2)**

This can be specified in operational form and including logarithm as:

$$GDP = \beta_0 + \beta_1 BDL + \beta_2 MLR + \beta_3 CBC + \beta_4 BINV + Ut \quad (3)$$

$$GDP = \beta_0 + \beta_1 \ln BDL + \beta_2 \ln MLR + \beta_3 \ln CBC + \beta_4 \ln BINV + Ut \quad (4)$$

Where:

GDP = Gross Domestic Product;

BDL = Commercial Banks' Deposit Liabilities;

MLR = Maximum Lending Rate;

CBC = Commercial Banks' Credits

BINV = Commercial Banks' Investments.

Ut = Stochastic variable or error term

β_0 = Intercept

β_1, β_2, β_3 & β_4 = Parameter estimates

3.5 Estimation Techniques and Method of Data Analysis

This study employed time series regression analysis that is Ordinary Least Square Method (OLS) to estimate the model of the study with multiple regression analysis to determine the contribution of the commercial banks to economic growth in Nigeria. Test of statistical adequacy, such as the adjusted R-square, t-statistic, F-statistic, standard error of coefficient, Durbin-Watson would be carried out to assess the relative significance of the variables, the desirability and reliability of model-estimation parameters.

3.6 Decision Criteria

(i) Economic Criteria

This refers to the sign and size of the parameters in economic relationships. The expected relationship between the dependent and each of the explanatory variables shall be based on macro-economic principles.

$GDP = \beta_0 + \beta_1 BDL + \beta_2 MLR + \beta_3 CBC + \beta_4 BINV + U_t$

β_0= Intercept of the model

β_1,β_2, $\beta_3$and β_4 = slope of the explanatory variables.

β_0, β_1, β_3, β_4>0 and β_2<0.

However, if the estimates of the parameter turn up with signs or size not conforming to economic theory, they should be rejected, unless there is a good reason to believe that in the particular instance, the principles of economic theory do not hold.

(ii) Statistical Criteria

This aims at the evaluation of the statistical reliability of the estimates of the parameters. In this line, the "t-statistics" will be employed to test the hypotheses concerning the true values of the population parameters. The "R^2 -Statistics is also employed as the coefficient for determination to measure the goodness of fit of the regression line to the observed samples values of the

variable while the "F-statistics" will also be used to test the overall significance of the regression.

(iii) Econometric Criteria

It aims at detecting the violation or validity of the assumption of the econometric technique employed (i.e. OLS). For instance to test the validity of the assumption of non-correlated disturbances, the "Durbin Watson Statistic" would be used in the evaluation of the results of estimates.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS.

4.1. Introduction

The result of the model was estimated using ordinary least square method OLS. The E-view 6.0 software package was used. The estimate was subjected to various statistical as well as econometric tests, after which an in-depth analysis was made on the result generated from the regression. The model was estimated with five variables real gross domestic products, real interest rate, total loans, real investment and aggregate deposit. These variables are added to capture their effects on real gross domestic product (RGDP). The variables used in the model were estimated in their norminal forms in other to get a consistent and unbiased result.

PRESENTATION OF REGRESSION RESULT

Table 4.1: The results of the estimated model are presented below.

Variables	Coefficient	Std.error	t- statistics	Prob
C	85075.54	25314.81	3.360702	0.0027
RINT	135.7367	686.0783	0.147844	0.8449
RINV	-519.0503	203.2779	-2.553403	0.0178
TL	-0.023203	0.010776	-2.153180	0.0420
AGG DEP	0.289970	0.028637	10.12566	0.0000

R^2 = 0.880625 Adjusted R_2=0.859864 Durbin watson statistics=1.940698

1.2 EVALUATION OF RESULT

Evaluation based on economic criteria

The essence of the evaluation of results is to decide whether the estimates of the parameter are theoretically meaningful and statistically satisfactory (Koutsoyannis :1977). The result on the table above would be evaluated under the following evaluation criteria, theoretical prior test, and statistical (first order) test and econometric (2nd order) test.

1.2.1 ECONOMIC (APRIOR CRITERIA TEST)

In this section the theoretical aprior is determined by the principle of economic theory that is, determining how well the estimated parameter of the variable in the model conforms to the aprior expectations. This is the reason for ascertaining the degree of correctness of the sign and magnitude of the parameters. From the result obtained in our model, the introduction of the variables in their norminal form brought about a more reliable estimation of the sign and magnitude.

APRIOR RESULT: From the table above the interpretation of the aprior expected sign is presented thus:

Constant : The aprior result is positive. This is because RGDP will increase by 85075.54 if all factors influencing it are equal to zero.

RINT: The aprior result is positive. This does not conforms to aprior expectation in conformation with the relationship between the independent (RINT) and the dependent (RGDP) growth is positive because an increase in RINT increases RGDP.

TLoans: Total loans which does not conforms to aprior expectation that an increase in total loanable fund granted by the bank to investors,brings about high investment and thus increase economic growth.

RINV: This does not conforms to aprior expectation, that states that the higher the investment the higher the output of the economy.

AD: This conforms to aprior expectation. And it has a positive sign, according to Milton Friedman when there is an increase in aggregate deposit loanable fund. Increase along capital investment and overall GDP growth rate increase.

A: Adjusted R^2

In our model R-square adjusted = 0.859864 which implies that 86% of the variations in RGDP is caused by the explanatory variables (Real interest rate,total loans,real investment and aggregate deposits) during the reference period (1980-2007) adjusted for degree of freedom. This signifies that the model is a good fit.

B: **Student t-test**

The t-ratio for each Bi = is compared with the critical value of "t" obtained in the t-tabulated with (n-k) degree of freedom at 5% level of significance.

The underlying assumption for the student t-test of significance is thus:

H_0:Bi = 0 (statistically insignificant)

H_1:Bi ≠0 (statistically significant).

Where Bi is the coefficient of the parameters in the model.

Decision rule:

Reject H_0 if t cal > t tab otherwise we accept H_0,

Where n = number of observation

K = number of parameter estimates

From the t-distribution of a two tail test for 28 observation and 5 variables (n-k) = 28-5=23 implies tons (23)= ± 2.069.

C: F-TEST

The f-test is used to determine the overall significant of the model. It follows an f distribution with degree of freedom k-1 (V1) and n-k (V2). This implies testing

H_0: $B_1 = B_2 = B_3 = B_4 = 0$

H_1: $B_1 \neq B_2 \neq B_3 \neq B_4 \neq 0$

Decision rule: Reject H_0 if f cal > f 0.5 (V1/V2)

Where V1 (numerator) = k-1

V2 (denominator)=n-k.

From our result, f-cal = 42.41749. from the table, f-tab= 2.80, since, f-cal 42.41749 > f-tab (2.80), we reject H_0 and conclude that the variable in the model are jointly statistical significance. This implies that there is a relationship between gross domestic product (GDP) and other explanatory variables, this leads us to say that the model is a good fit.

D: TEST FOR AUTO CORRELATION.

This underlying assumption is that the succession values of the random variable (V1) are temporarily independent. The problem is usually dictated with the Durbin-Waston (DW) statistics.

Decision rule:

$d^* < dl$ reject H0, presence of positive auto correlation of first order

$d^* > (4-dl)$ reject H0, presence of negative autocorrelation of first order.

$du < d^* < (4-du)$ accept H_0, no autocorrelation.

$dl < d^* < du$ or $(4-du) < d^*$ (4-dl), test is inconclusive.

Where du= upper limit

dl = lower limit

d* = Durin- Waston (DW)

dl = 1.104

du= 1.747; (4-du) =4- 1.747=2.253

d* = 1.94

Therefore , 1.747 < 1.94 < 2.253 that is du < d* < (4-du), we accept H_0 and conclude the absence of autocorrelation.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINDS

Banks play crucial role in the process of economic development by mobilizing funds from surplus spending units in the economy and by lending such funds to the deficits spending unit for investment.

These projects was carried out with the intention that it adds value to the existing knowledge in the commercial banks in Nigeria's economic growth and contribute immensely to solving the problems due to these institutions as well as to improve their portent state. It was observed from the econometric test carried out in chapter four that, majority of the individuals are more responsive to capital accumulation and re-investing of funds than depositing them in the banks. This habit also favors the real GDP growth, they see higher net present value in investments and projects than saving cash in the banks.

In the practical sense of it, it could be stated that the positive sign of real interest rate is favorable to the RGDP. From the research, interest rate and total loans has more favorable and economic relationship with the RGDP growth than aggregate deposit. The level of investment and capital accumulation is high, therefore the industrial sector of the economy is sound, and the total capital of companies quoted in the stock market is economically recommendable. This depicts a good measure of economic performance in Nigeria.

5.2. CONCLUSION

The commercial banks have been the wheel of economic growth in Nigeria and will always be, having, thus discussed certain salient facts about the commercial banks upon which some conclusions must be arrived at. It is obvious that banks, in spite of all odds have created great positive impact on the nations economy. The banks have enough room to increase those impacts on the national economy.

With the new capitalization policy, the increase in the number of banks and their branches. The introduction of modern technologies and policies, the financial institution will in the near future occupy a position of mainstay of the economy in Nigeria. It is expected that this research will be a contribution to the idea to boost economic growth through the roles and activities of commercial bank in Nigeria.

5.3 RECOMMENDATIONS

Based on the findings of this study, the researcher recommends the followings:

Commercial banks should provide incentives that will encourage individuals to save more

And also they should make interest rate favorable so as to increase the level of investment in the country.

Commercial Banks should realize potential economics in banking system by opening and operating more offices/ branches in rural areas than concentrating and duplicating bank offices in the same area. Opening of rural branches should direct banks loan in favour of specific

sectors such as small scale industries and agriculture in order to widen their investment interest and targets.

Industries and banks should seek a tradeoff between their principle and there responsibility for commercial profitability.

Commercial banks should wage a war against fraud both from within and outside the banks in the interest of the public and economy at large.

They should adopt more creative banking policies to solve financial and banking issues, so as to initiate conductive monetary and fiscal policies to boost the wellbeing of the people.

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APPENDIX

APPENDIX ONE

Bank Structure and Minimum Capital Requirement and Number of Banks in Nigeria (1979 – 2014)

YEAR	MINIMIUM CAPITAL REQUIREMENT (#)	MINIMIUM CAPITAL IN US ($)	OWNERSHIP TYPE	CUMMULATIVE NO OF BANKS
1979-1987	1,500,000	1,500,000	FOREIGN	57
	600,000	600,000	NIGERIA	
	2,000,000	2,000,000	MERCHANT	
1988-FEB,1988	5,000,000	250,000	COMM BANK	66
	3,000,000	150,000	MERCHANT	
MARCH 1988-OCT.1988	10,000,000	500,000	COMM.BANK	66
	6,000,000	300,000	MERCHANT BANK	
1989-1990	20,000,000	235,294	COMM.BANK	107
	12,000,000	141,176	MERCHANT BANK	
	50,000,000	586,235	COMM.BANK	

1991-1996	40,000,000	470,588	MERCHANT BANK	112
1997-2002	500,000,000	5,880,000	COMM.BANK	110
	500,000,000	5,880,000	MER. BANK	
2003-JAN2004	2,000,000,000	16,600,000	UNIVERSAL COMM. BANK	89
FEB2004-2008	25,000,000,000	200,000,000	UNIVERSAL	25
2009-2011	25,000,000,000	156,250,000	UNIVERSAL	24
2012-2014	25,000,000,000	156,250,000	UNIVERSAL	22

Source: CBN Various Financial Publications from 1979 – 2014 and Financial Markets