### A CRITICAL ANALYSIS OF THE CONTRIBUTIONS OF COMMERCIAL BANKS TO THE ECONOMIC GROWTH OF NIGERIA

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**ABSTRACT**

*This study investigates the contribution of commercial banks to economic growth in Nigeria using secondary data covering the period of 1980-2016 that were sourced from the Central Bank of Nigeria (CBN). The analysis of the study was conducted using regression model of the Ordinary least Square (OLS) technique to ascertain the relationship between financial intermediation (also including other growth- inducing variables) and economic growth in Nigeria. The results show that financial intermediation-our yardstick for commercial banks operation, has a positive and significant impact on economic growth in Nigeria. Hence, it is therefore recommended that monetary authority should be sensitive to the behavior of the aforementioned variables so as to ensure economic growth and development in the country. Government should enforce a guiding principles or laws that will be regulating and monitoring the banking activities to curb corrupted practices which are a bane for growth. The study strongly recommends the strict implementation of the risk-focused and rule-based regulatory framework by the regulators. This it is believed will reduce the high incidence of huge bad debts profile of banks and consequently improve the assets quality of banks for better performance. The Central Bank of Nigeria (CBN) being banks’ supervisory/regulatory agent should intensify its efforts towards effective monitoring and ensure that the gains from the commercial bank activities are sustained in the growth of the Nigerian economy.*

**CHAPTER ONE**

**INTRODUCTION**

**1.1 BACKGROUND OF THE STUDY**

Nigeria as a nation is characterized by a developing economy due to the fact that the various sectors responsible for economic development are not optimally utilized as a result of which we have not being able to tap fully the natural resources that Nigeria is blessed with as it could increase our national earnings leading to an increase in per capita income instead. We have a reverse situation where there is low per capital income. Low standard of living increase in the level of insecurity etc.

The first task every government put in its table of priority is economic development. Nigeria among other nations of the world is not excluded. In order to keep the development of the country in progress Bank plays a pivotal role especially the commercial banks. It is of importance to not that of this point the bedrock of every economy is the banking sector, of which the commercial bank is a leading pace. As a matter of fact, no country in the world in this present dispensation can boast of having developed or tested development without the adequate and timely contribution of commercial banks.

However, one of the major setbacks to economic development in countries today is the inadequate supply of capital. It is in this regard, the commercial banks serve as ling between those who need capital and those willing to save and make the money available to investors. They are expected to provide to an extent large credit facilities and divert voluntary savings into productive channels. In addition, they are to offer technical advice to industrialist by way of feasibility studies which ensure that investment are made in the right direction.

Furthermore, there are numerous agencies/sectors involved in economic development, but of all the sector that stimulate growth and development into the economy of Nigeria is the commercial banks perhaps the commercial banks the most important role such as help to pool savings and excess liquidity from millionaires or rather millions of individuals and firms within the country making them available to those that require them for various purposes.

Economic development requires sustained improvement in social welfare that are pervasive through the society and modern economic growth that is confined to a small enclose within a developing society particularly if a non-indigenous people dominate that enclose, it is not economic development. Economic development requires that modern economic growth affect a broader segment of the total populace in a way that will enhance their welfare. It entails the provision of basic needs, acceleration of economic growth, reduction of inequality and unemployment, eradication of absolute poverty as well as changes in attitudes. Subsequent to the above provisions that stimulated the establishment of commercial banks in Nigeria is to meet the aspirations of the citizenry. This research work is aimed at identifying the contributions that commercial banks have made to the development of the Nigerian economy.

**1.2 STATEMENT OF PROBLEM**

The role of commercial banking system as it relates to economic growth of a nation has been empirically attested for positively in the literature (Yakubu and Affoi, 2014; Aurangzeb, 2012; Olokoyo, 2011; McKinnon, 1973; Shaw, 1973; Schumpeter, 1911). This it does from the enormous and impeccable growth-inducing functions this financial sub-sector plays in the development of an economy. Moreover, this ideal channel of growth has been accepted within the Nigerian context, which has motivated series of banking reforms and laws in the banking system in order to create a competitive, resilient, vibrant and healthy commercial banking system. For instance, the establishment of the Central Bank of Nigeria in 1959 to regulate the activities of commercial banks; the indigenization policy of 1977, which paved way for Nigerians to become active participants and to halt capital flight out of the sector needed for further expansion; the financial liberalization starting from the mid80’s (during the SAP period) that brought in an explicit partial deregulation of the sector to encourage healthy competition and marketbased/oriented financial sector as well as series of other reforms like the recapitalization and consolidation strategy by the Soludo-led administration. However, in spite of these structural changes and remarkable growth observed in the commercial banking sector in terms of the number of banks in operation, bank density and their assets portfolio relative to other non-bank institutions in the financial sector in Nigeria, its performance has remained relatively unsatisfactory with respect to the growth process.

 In line with this assertion, Maduka and Onwuka (2013) wrote thus, despite the growth record of banks and non-bank financial institutions in Nigeria, and financial liberalization policy, the Nigeria economic growth is sluggish. The per capita income is less than $4,000. Most of the industries are winding up and thus giving rise to unemployment. At this juncture, it might be necessary for one to ask if the financial market in Nigeria is underdeveloped to support the investment needed to boost economic growth. This may be partly due to dearth of empirical studies which will shed light on how commercial banks can contribute meaningfully to economic growth in Nigeria. In particular, to contribute to economic growth the nexus between growth and investment, quality of service, savings mobilization must be clearly understood through an empirical investigation. This is so far lacking or insufficiently explored.

**1.3 OBJECTIVES OF THE STUDY**

This study is primarily aimed at examining critically an assessment of contribution of commercial bank to the economic development of Nigeria. Specifically, the study aims to;

1. To explore the relationship between growth and the level of financial intermediation.
2. Ascertain the impact of banks’ lending interest rate on growth through investment.

1.4 **RESEARCH QUESTION**

1. What is the relationship between growth and the level of financial intermediation?
2. What is the impact of banks’ lending interest rate on growth through investment?

**1.6 SIGNIFICANCE OF THE STUDY**

 Nevertheless, this study is significance in that it tries to analyze the assessment of commercial banking in relation to economic development. In addition, this study will contribute to the existing literature and it will serve as a reference to any researcher or organization who may be conducting research in similar or related field in the future. To the bank, particularly First Bank of Nigeria Plc, it will serve as an appraisal of their performance therefore they can make amendments where they are missing and serving as a means of encouragement where they are doing well. Furthermore, the external users include prospective shareholders the government and the general public can use these project as a way of encouragement. To the shareholders, it can encourage them to invest especially if the bank is performing well. This is because they are sure that they will not run into loss at the end of the day or their investment in stock. To the government, it shall serve as a mirror to see the effect of directives in respect of bank lending and how it affects economic development of the country. And in addition to the government decision and policy it can use the bank as a means of channeling it’s capital project through the bank. To the general public especially customers of the bank due to the sound track record, recorded by the bank in term of service delivery and the safe keeping of customer money and valuables, this study is sure of increasing the level of confidence to the bank customers.

**1.7 SCOPE OF THE STUDY**

This study investigates the contribution of commercial banks to economic growth in Nigeria using secondary data covering the period of 1980-2016 that were sourced from the Central Bank of Nigeria (CBN).

**1.8 LIMITATION OF THE STUDY**

Besides time and resources constraint the researcher encountered some problems in the cause of gathering materials and analyzing data. The bank uses unwilling to release all the necessary data for the research work, probably for the fear of competitors. This passed a little problem for the researcher. Information that is vital to this study is considered secret and as such not released. The uncooperative attitude of some respondents which led to the non-return of some questionnaires was another setback to the researcher. The time given to the researcher to complete the research work was limited couple with daily lecture’s, the time allowed for this project is too short considering the academic activities all tied up with a short period of time.

****CHAPTER TWO****

**LITERATURE REVIEW**

**2.0 INTRODUCTION**

Our focus in this chapter is to critically examine relevant literature that would assist in explaining the research problem and furthermore recognize the efforts of scholars who had previously contributed immensely to similar research. The chapter intends to deepen the understanding of the study and close the perceived gaps.

**2.1 CONCEPTUAL FRAMEWORK**

**The Concept of Economic Growth**

 Economic growth can be defined as an increase in a nation’s output, which is most commonly measured by the gross domestic product (GDP). The benefits stemming from economic growth are wide ranging. (Harper, 2011)

 Ekpeyong and Acha (2011) also affirm that expansion of economies with intent to improving the welfare of citizens is a desirable goal and this further explains why economic literature is replete with theories and studies investigating variables required by economies to achieve sustainable growth.

 Economic growth remains one of the macroeconomic goals of every government and there are several studies on the subject. Harper (2011) however suggests that to achieve economic growth, that two options are available. These options are;…Using resources ‘extensively’ (that is producing more by using more of the available resources) or ‘intensively’ (that is producing more, while using the same amount of available resources). However, the key to sustainable economic growth is to use resources ‘intensively’, that is to realize productivity gains (Harper, 2011:89).

 Cecchetti & Kharroubi (2012) states that one of the principal conclusions of modern economics is that finance is good for growth. They affirm that the idea that an economy needs intermediation to match borrowers and lenders, channeling resources to their most efficient uses, is fundamental to our thinking.

**Determinants of Economic Development**

**Human Capital**

 This is an intangible quality asset which is not included in the company’s balance sheet. Human capital has an effect on the economic growth since it focus on the provision of quality services and goods in the economy. It entails assets such as skills, education, intelligence which are valuable to the employers globally. In this case, employers invest much in employees for realizing quality production hence improvement of the economy of the country. Surge in human capital contributing to enhanced quality production hence profitability of the country which contributes to advancement in economy (Barro, 2001). 14 Financial institutions lately is investing in human capital. Through investing in training their employees to be competent they intern provide quality services which are adopted by the people hence increasing profitability and economic growth. They have also been financing the needy students in various countries for the purpose of promoting education activities hence providing skilled workers for economic development (Pelinescu, 2014).

**Financial Institution**

 Assets According to Bondie and Kane (2009) financial institution assets are the liquid assets that are in ownership claim they are either tangible or intangible but their value is placed on documents. They include, investments, mutual funds, stock, fixed assets, credit portfolio and current assets. The financial institution assets promotes economic growth since it facilitates the financing of the company’s investments. Through usage of financial institution assets, the company’s investors are able to evaluate different investments options for realizing profits. This makes the firm to welcome various investors who are provided free investment options and willingly given an opportunity to choose the areas they want to invest in depending on the risk, personal decision and market efficiency. The financial institution assets has two roles in the economy, firstly is to transfer of investments from those who have surplus to those who need to invest on tangible assets. Secondly, is to ensure that the investments is redistributed evenly in the market depending on the risk preferences. The financial assets of an institution is expected to generate future cash for the investors and the firms by the person or institutions that were offered the investments. Therefore, the financial assets are known to improve the economy of the country since investments have been done in which the cash has circulated hence generating profits (Roncalli & Weisang, 2015).

 **Deposits**

 Bankand Lawrenz (2013) stated that this is money that is transferred from one party to another for the purpose of safe keeping. In this case, the parties involving themselves in the keeping of the money should have a mutual argument between each other to avoid conflicts. Money placed in banking institutions by individuals who are customers of the bank is referred to as deposit. The deposited cash basically belongs to the customer and he or she can withdraw it at their own comfort and also transfer it to another account, in this case transaction fees is charged. When opening accounts, the banks has to ensure that one deposits an amount to their accounts for activation purposes hence accountability. Banks largely contributes to economic growth since they allow individuals or businesses to deposit and invest money in which they in turn use for lending other people hence earning profit through interest charges. Through lending money to the people by the banks, they are able to start their own businesses or rather investments which is directly introduced to the economy hence facilitates economic growth. By turning the liability into useful longterm loan investments the bank is able to earn it profits (Sharma, 2016).

**Liquid Liabilities**

 This are the compulsions which are supposed to be paid within the year by the firm. They include short term deposits done by the firm. It is calculated through adding the cash overdraft and the cash credit facilities, the sum is then subtracted from the current liabilities hence obtaining liquid liabilities. Liquid liability is acts as an intermediary between the economy and the financial sector since it measures the level of real per capita GDP and also the rate of change (Levine & King, 1993). 16 Liquid liabilities which are introduced by the banks enables cash to propel in the economy equally for the purpose of economic growth. When the commercial papers are circulated for instance traveler’s checks, market funds held by residents, foreign currency deposits and shares of mutual funds people all those sectors gain profits which are dependent on the nature of the company. This enables them to improve their living standards hence gross domestic product. It also allows them to trade and invest in other sectors hence economic development since majority of the people are benefiting. Countries with improved technology has highly indicated economic development due to their innovation in realizing increased liquid liabilities, hence technology and innovation acts as catalyst of liquid liabilities in the economy hence development (Bakhang, 2015)

**The Banking System**

 In his work on financial intermediation by banks and economic growth, Badun (2009) notes that there might be some confusion with the terms used in existing research on financial intermediation and growth. He noted that different terms like financial intermediation, finance, financial development, financial system, financial markets and so on, have been used by different authors. However, in almost all papers same indicators are used and all refer to financial intermediation by banks. According to Otto et al. (2012), there are four vital components of a financial system. These include; financial institutions, financial markets, the regulatory authorities and financial instruments. The study also noted that the system in Nigeria has undergone remarkable changes in terms of ownership structure, the depth and breadth of instruments employed, the number of institutions established, the economic environment and the regulatory framework within which the system operates currently. The Nigerian financial system include banks, capital markets, insurance, pension asset managers and other financial institutions with the Central Bank as the apex institution. The banking industry in Nigeria is dominated by the commercial banks. The commercial banks dominate in both size and profitability In Nigeria, the financial system is the hub of productive activity, as it performs the vital roles of financial intermediation and effecting good payments system, as well as assisting in monetary policy implementation. Ofanson et al. (2010) note that the process of financial intermediation involves the mobilization and allocation of financial resources, through the financial (money and capital) markets by financial institutions (banks and non-banks) and by the use of financial instruments (savings, securities and loans). They also suggest that 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 10 by banks, which are typically oligopolistic in structure and tend to concentrate on short-term lending as against investments with long-term gestation period. The alternative/complementary source for financing development projects is the development of debt or equity markets which at best, is at the rudimentary stage of development. It is in this regard that specialized financial institutions, including government owned development banks have been established in Nigeria to bridge the gap.

**The Evolution Of The Nigerian Banking Sector.**

 The banking operation began in Nigeria in 1982 under the control of the expatriates and by 1945, some Nigerians and Africans had established their own banks. The first era of consolidation ever recorded in Nigerian banking industry was between 1959-1969. This was occasioned by bank failures during 1953-1959 due to the liquidity of banks. Banks, then, do not have enough liquid assets to meet customer demands. There was no well organised financial system with enough financial instruments to invest in. Hence, banks merely invested in real assets which could not be easily realised to cash without loss of value in terms of need. This prompted the federal government then, backed by the World bank report to institute, of the loynes commission on September 1958.

 The outcome was the promulgation of the ordinance of 1958, which established the Central bank of Nigeria(CBN). The year 1959 was remarkable in the Nigerian banking history not only because of the establishment of Central Bank of Nigeria(CBN) but that the treasury bill ordinance was enacted which led to the issuance of our first treasury bill in April, 1960.

 The period (1959-1969) marked the establishment of former money, capital markets and portfolio management in Nigeria, in addition,Â the company acts of 1968 were established. This period could be said to be the genesis of serious banking regulation in Nigeria. With the CBN in operation, the banking industry restructing was motivated by the need to establish a healthy banking sector that will carry out its financial intermediation role at a minimal cost which effectively provides services consistent with world standards. The major aim of the consolidation program was to store up the capital base of banks consolidated through mergers and take-over to local banks. This allows foreign banks to participate in the banking industry by providing additional capitalisation through investment infrastructure in new banking products, operating technologies and buying shares of the existing banks. The banking sector reforms, involve the reform of the regulatory and supervisory framework, the safety net arrangement as well as mechanisms to speed up attempts at resolution of banks non-performing loans. In an attempt to revitalize the banking system, a package were comprising among others.

**Commercial Bank**

 The banking industry in Nigeria comprises of the commercial banks, the merchant banks and the development bank. At the apex of the industry is the central bank of Nigeria (CBN). The commercial banks provides services like acceptance of deposits, granting of short and (very recently) medium term loans to customers, safe-keeping of valuables, offering of pieces of advice to investors ect. The merchant bank on the other hand provide medium and long-term loans etc. The development banks services the development activities by making available about medium and long-term finances for this purpose. The central bank functions regulate the activities of these banks.

 Easily, we can point at a member of factors that may be contributing to the unhealthiness and instability in the banking sector. Such factors as unstable macro-economic and fiscal policies, unethical and unprofessional practices, as well as inadequate supervisory activities, rank high on the scale. Developments in the Nigerian political economy since the mid 80s have greatly led to changes in the structure and art of banking. The period witnessed the proliferation of banks and other financial institutions. From CBN annual report (1994), there were 66 (sixty-six) commercial banks and 54 fifty-four) Merchant banks in Nigeria. According to the CBN diary 2003, as at June 2002, we had the following licensed financial institution 89 (eighty-nine) commercial and Merchant banks, 6 (six) development finance institutions, 97 (ninety-seven), finance companies and 125 (one hundred and twenty five) Bureau de change companies in Nigeria.

**BANKING SERVICES**

Since the day that the job of the service in regular day to day existence got clear, the services quality issue was considered as the principle highlight of rivalry among organizations with the goal that given the quality of services, the organization can be become different from its competitors and this results in achieving competitive advantage. Gronroos (2000) defined service as, “A service is a process consisting of a series of more or less intangible activities that normally take place in interactions between the customer and service employees or physical resources or goods and/ or systems of service provider, which are provided as solutions to customer problems”. Services are a continuous process of on-going interactions between customers and service providers comprising a number of intangible activities provided as premium solutions to the problems of customers and including the physical and financial resources and any other useful elements of the system involved in providing these services (Grönroos, 2004). Premium service quality is a key to gain a competitive advantage in services industry. The satisfaction level of customers is dependent on their perception of service quality and the trust in service provider (Ismail et al., 2006; Aydin & Özer, 2005; and Parasuraman et al., 1988). By providing better quality services to customers, a firm revives the perception of customers about quality of services.

Fogli (2006) defined term service quality as “a global judgment or attitude relating to particular service; the customer’s overall impression of the relative inferiority or superiority of the organization and its services”. The connection between services quality and consumer satisfaction has been submitted to exceptional investigation by leading service quality specialists (Bitner and Hubbert,1994; Bolton and Drew, 1994), just as the connections between quality, consumer satisfaction, client maintenance and gainfulness (Storbacka et al., 1994). Thus, as a core competitive strategy banks need to concentrate on service quality (Chaoprasert and Elsey,2004). One of the ways to improve quality of service is by fulfilling customers’ expectations. Kotler and Keller (2009: 143) characterize client focused quality and state quality is the entirety of highlights and attributes of an item or service that relies upon their capacity to satisfy expressed or inferred needs. We can say that the seller has conveyed quality when the item or service has met or surpassed client desires.

According to Blerry (2009) quality of banking services is measured in tangible variables. Those tangibles are things which have a physical existence and can be seen and touched. In context of service quality, tangibles can be referred to as Information and Communications Technology (ICT) equipment, physical facilities and their appearance (ambience, lighting, air-conditioning, seating arrangement); and lastly but not least, the services providing personnel of the organization (Blery et al., 2009). These tangibles are deployed, in random integration, by any organization to render services to its customers who in turn assess the quality and usability of these tangibles.

**Reliability of Services:** Reliability means the ability of a service provider to provide the committed services truthfully and consistently (Blery et al., 2009). Customers want trustable services on which they can rely. Reliability explains the promptness of delivering Ebanking services in an accurate way an inline advertised attributes. Many studies (Bacinello et al., 2017; Graupneret al., 2015; Masoud & AbuTaqa, 2017) argues that the success of e-banking heavily depend on e-banking services and reliability. Hasandoust & Saravi, (2017) confirmed that reliability is among the key factors that customers consider before and even during usage of E-banking services. Consequentially, prior researchers have revealed that reliability (such as prompt responses, attentiveness, and error free E-banking plat forms) have a considerable impact on customer satisfaction

**Assurance:** Assurance is developed by the level of knowledge and courtesy displayed by the employees in rendering the services and their ability to instill trust and confidence in customer (Blery et al., 2009).

**Empathy:** Empathy means taking care of the customers by giving attention at individual level to them (Blery et al., 2009). It involves giving ears to their problems and effectively addressing their concerns and demands.

**Convenience:** Convenience is considered to be the dimensions of E-banking that enables customers to access Ebanking services at any time and beyond the limit of geographical location (Villa-Real, 2014; Chu et al., 2012; Fonchamnyo, 2013; Chavan, 2013). The conveniences of E-banking for enabling customers to check their account balance, pay bills, apply for loan, trade securities and conduct other financial transactions 27/7; have make customers to become satisfied when they are able to perform their banking transition at any geographical location. Previous studies have also empirically acknowledged a positive relationship between e-banking convenience and customer satisfaction. For example, Chu et al., (2012); Raza et al., (2015); Amin, (2016) and Mou et al., (2017) explained convenience as the critical dimensions for the success of adopting and patronising E-banking among customers. Thus, it's therefore hypothesis in this study that conveniences a dimension of e-banking services has a positive impact on customer satisfaction.

**Availability:** E-banking availability is recognised as the ability of users to access banking information and services from the web. Customers can access e-banking services only when the services is available (Rao, 2017).

Quality customer service is the assessment of the merits or feature of a product or service”. Characterized as clients' appraisal on advantages or uniqueness of an item (Zeithaml, 2008:89). The service quality factors recognized by Parasuraman et al., (1994) are reliability, responsiveness, competence, accessibility, courtesy, communication, credibility, security, understanding and tangibility. According Zeithaml and Bitner (2008:112), service consists of five dimensions: Reliability, Assurance, tangibility, Responsiveness and Empathy.

1. Reliability is the ability to perform the services certainly and correctly. While responsive is the capacity to support clients and give quick services.
2. Assurance serves to increase customer confidence from service providers, who meet customer requirements.
3. While tangible dimension is physical appearance of service providers such as buildings, equipment layout, interior and exterior, and physical appearance of service providers ’personnel.
4. Empathy, is specialist co-ops' capacity to focus on clients. Service quality has several indicators: a) Ability to perform the promised services b) Knowledge and politeness c) Care for customers d) Willingness to help customers e)

Appearance of physical facilities One of the reasons of the switching of clients starting with one bank then onto the next bank is on the grounds that clients aren't happy with the manner in which the bank takes care of issues or handles issues. For researchers, Service quality is one of the most attractive areas over the last decade in the retail banking sector (Avkiran, 1994; Stafford, 1996; Johnston and Jeffrey, 1996; Angur et al., 1999; Lassar et al., 2000; Bahia and Nantel, 2000; Sureshchandar et al., 2002; Gounaris et al., 2003; Choudhury, 2008). Service quality is considered as one of the critical success factors that influence the competitiveness of an organization. A bank by providing high quality service, can make a difference from competitors (Mistry, 2013,).

 Levine et al., (1997) as quoted in Badun(2009) distinguish five basic functions of financial

system, and these include;

i. Facilitation of risk management

ii. Allocation of resources

iii. Monitoring of managers and control over corporate governance

iv. Savings mobilization

v. Causing the exchange of goods and services

They also assert that financial systems differ in how successfully they are performing these

functions.(Badun, 2009).

**CONTRIBUTIONS OF COMMERCIAL BANKS (CB) TO THE ECONOMIC GROWTH (ED) OF NIGERIA**

 Amongst other indices, banks’ performance is basically evident in their level of efficiency and ability to manage costs and post healthy profit figures, but more importantly money creation. Performance reflects in several ways, which include; improved lending to various sectors of the economy, due to enhanced capital base; stronger banks with healthier balance sheets; innovation in banking products / service delivery; improvement in technology and globalization of operations in the industry; employment generation especially at the middle and lower levels of the industry in the short and long run; increased branch network, thereby aiding employment of both capital and labour; more challenges on the supervisory authorities especially in terms of capacity and capability thereby aiding better management of the banking / financial aspect of the economy; adherence to preferential treatment (by policy direction) on certain priority sectors (like agriculture and manufacturing).

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 Machiraju (2008) defines commercial bank is a financial establishment whose function is to take deposits, provide credit and account checking services as well as general financial products such as savings accounts and certificates of deposit to individuals and small enterprises. Song, Yu and Lu (2018) note that it is a financial establishment undertaking the functions of deposits acceptance from individuals and offering credit for investment in order to gain profit. According DaCosta (2019) it is a financial establishment offering general investment products like savings and current accounts, and many more to people and businesses. CBS perform a function in the ED of the developing countries (Jha, 2018). They accumulate individuals' savings that are idle and avail them for investment. They similarly offer new demand deposits while they are offering credit and buying investment products. They promote trade both within and outside the nation through the bills of exchange acceptance and discounting. CBs similarly enhance the mobility of capital. In a countries such as Kenya that is still developing. Additionally, they are the most effective mechanism of facilitating flow of credit the market (Saksonova & Koļeda, 2017). Therefore, for their effectiveness in promoting EG and development, it is imperative for them to do their operations under certain established standards such that their functions and services to various key economic sectors for growth and development could facilitate it. 4 Also, it is imperative that CBs effectively manage various risks they are exposed, so that their solvency can be maintained in the long-term and be capable of providing various sectors with long-term capital which is essential for EG. Hence, to foster ED, there is a need for a robust banking system that is resilient to turbulent environment and effectively act as financial intermediary to facilitate EG and ED.

2.2 THEORETICAL FRAMEWORK

**Endogenous Growth Theory**

Q The theory was propounded by Romer (1990) argued that for endogenous factors contributes to economic growth rather than external factors. The theory explains two factors that contribute to economic development, one innovation; knowledge and human capital and the other are external factors. The man underlying factor for the theory is the contribution of financial intermediaries in ensuring EG (Aghion and Howitt, 1998). Three authors supported this model illustrates that financial intermediaries are responsible for ED. As stated by Saint-Paul (1992) EG is facilitated by a functioning stock market among the business persons, in this case the business persons are the financial intermediaries between the economy and financial institution. Levine (1997) agrees with Saint-Paul view whereby he added that liquid assets are relevant for increasing the investments by financial institution therefore frequent investment in the economy ensures economic development overtime.

 Lastly, Smith (1991) asserts that financial intermediation allows the liquidity assets to be exposed to minimum risk; this is because the customers are encouraged to invest their savings in the economy, and this in turn ensures that economic growth. The following paradigm was pertinent to this investigation as it assess the role of CBS as financial intermediaries in ensuring economic growth. CBS are financial intermediaries due to the activities they conduct such as stock marketing and management of economic risks due to encouraging saving of finances from its customers. These activities are essential for realization of economic development. Pack (1994) criticized the theory by arguing that it is exposed to much assumptions and the empirical evidence is lacks validation.

**Bi-Directional Theory**

The theory was propounded by Jovanovic and Greenwood (1990) it is a hypothesis that illustrates the dependency between the financial improvement and economic growth that’s why it called bi-directional. The theory emphasizes the correlation between the economic growth and financial improvement, in this case, it emphasizes on the relevance of the economy in improving the market of financial institutions hence realizing profits which contributes to EG of the country (Jovanovic & Greenwood, 1990). According to Schumpeter (1934) technological innovation, product and service development are catalysts for economic growth and the financial systems should endorse them for the realization of economic growth.

 Financial institutions have adopted technological innovation for realizing profits through focusing on retention of many customers hence economic growth since more money is circulating in the economy. The following hypothesis provided evidence for the correlation between the financial improvement and EG and various studies have proved the following hypothesis is true. Through the theoretical evidence, the government will be able to formulate legal policies that encourages sustainability of financial institutions since they understand the relevance it possess to economic growth. Finally, the theory assist the upcoming financial institution to realize the importance of adopting various technological innovation activities for the purpose of realizing profits hence improvement of the country’s economic growth. Carby and Wright (2012) criticize the theory since it fails to focus on the role of the financial institution in dealing with factors such as inflation that occurs in the economy and hinders economic growth.

**2.3 EMPIRICAL STUDIES**

 Saini and Sindhu (2014) researched on the function that CBs have on the ED in India. Indian economy is highly supported by agricultural engagement by the local people. CBs provides direct investments to the people since they provide for them saving channel. Through depositing of cash, the customers are able to be provided loan which they inturn use as capital for their business. They also increase the mobility in accessing capital for the farmers in the rural areas who are actively engaging in agriculture hence promoting economic development. Through trading within and outside the country, the CBs are able to increase their profits hence earning the country foreign revenue. Effective and efficient banking systems provides capital for the people, controls the flow of the capital in realization of economic growth and also provides future saving opportunities and hence supports the individuals living standards. 17 The study recommends that the government should support the CBS since they improve the agricultural system directly which is an important element for economic growth.

 Akubu and Affoi (2014) did an analysis on how the CBS of Nigeria has brought about ED in Nigeria. The study aimed at investigating the role of CBS in the realization of ED. The people from the management were interviewed the researcher managed to interview ten management officials. Through interview conclusions on the findings were made. Also records from 1992 to 2012 were gathered by the researcher and used in making conclusions. The findings indicate that, CBS as any private sector globally brings about EG. It mostly increases the GDP of the country’s economy hence ED. This happens through creation of employment and hence improvement of the individuals' living standards. The investigation recommends that in order to ensure EG, CBS should be encouraged to strengthen and improve their credit for the purpose of accommodating more people as employees since they are making more profits hence increasing the GDP. The government should promote the CBS and come up with policies that favors their existence in the market. The CBS should also come up with legal framework for ensuring that they are able to sustain themselves in the market for the purpose of realizing profits hence EG through supporting of other people such as provision of capitals through loans.

 Alkhazel (2017) did a research in Jordan in assessing the role of the CBS in ED. The investigation aimed at investigating whether the CBS promotes EG or not and how. The investigation adopted secondary data collection technique, whereby records form the 2010 to 2015 from CBS were obtained, analyzed and conclusions made. The findings indicated that, increase in profitability of the bank improves its performance hence EG, through increase of GDP. 18 This is because the bank improves the living standards of the people through offering those loans as capital for their investments. It also offers employment opportunity to people hence improvement of their living standards. Recommendations were made that the policy creators should come up with specific measures for ensuring that the CBS in Jordan are sustained hence advancing the economic growth. It was also noted that technology and innovation of the banks should be embraced for the purpose of catalyzing economic growth.

 Muniswamy (2018) researched on the role played by CBS in economic growth. The study examined the role of CBS as capital formation and EG. The study adopted secondary data technique, whereby records from the 1980 to 2009 of CBS in India were used to determine the findings. Findings indicated that, gross fixed capital formation and GDP resulted to EG. Through frequent deposits made by the customers at the bank, it led to increase in gross fixed capital which was given to the customers as loan hence earning the banks interests. Also they used the deposits to invest more in other projects hence increasing its profitability and also circulating the cash in the economy. This also increased the GDP of the country since living standards are improved through increased employment and investments. Therefore, the GFCF and GDP has direct effect on economic development hence should be actively embraced by the CBS.

 Wandera (2016) did an evaluation of the role of CBS and the effect they have on EG and development in Nakuru County, Kenya. The investigation involved a total of 33 banks which have branches in Nakuru town. Both the customers and the management were involved in the study, whereby, the key informant interview was conducted to the mangers at each bank branch and also, questionnaires administered to the customers of the banks. The study findings indicated that the CBS plays a big role in realization of EG in Nakuru County. CBS have ensured capital formation for both high and low income earners, this is because it gives them a platform for saving their money and earn interest for the purpose of individual or group investments hence economic growth of the city. It enhances trade through provision of forex for both the importers and exporters in and out of the town. It also finances its customers for engaging in trading activities. Through providing loans to the farmers of Nakuru town, CBS have directly supported agricultural activities hence economic growth and finally, it has created employment to the people of Nakuru town hence improving their living standards as a result of increase in GDP. In conclusion, CBS have enhanced economic growth in different cities of the county and should be embraced by the government. Mulu (2014) realized that the CBS activities has an effect on the EG of the nation. He assessed the roles of the CBS roles in the realization of ED. Records from the year 2008 to 2012 was used and 48 CBS in Kenya were involved in the investigation. The outcomes pointed out that, the loans offered by the Kenyan CBS has a direct effect on the ED. This is because the bank offers loans to its customers, the customers are required to invest the cash given to them and return it back to the ban with a given interest percentage. This enhances circulation of money in the economy since they want to gain profits and return the interest to the bank. Hence the CBS as a catalyst for economic development. The interest accumulated by the CBS after payment of loans is used by the bank to further their investments hence EG of the nation because of increased taxation. Finally the CBS offers scholarship opportunities to support the needy students through their foundations hence contributing to supporting education systems which intern led to economic development. 2In conclusion, other than the CBS loans, there are many activities that the banks involves themselves in which spearhead the economic development.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

3.1 **INTRODUCTION**

This section extensively examines the method and procedure adopted to conduct and advance the study of the impact of commercial banking on Nigerian economic growth under the following subheading: model specification, method of data analysis, evaluation of parameter estimates and test of research hypothesis and decision rules

**3.2 MODEL SPECIFICATION**

The model for this study will be based on the insight gain from the theoretical framework and modifications made. This modification was the introduction of some of the commercial bank variables in the model. These commercial banking variables include bank performance, financial intermediation, capital stock, bank bad debts, liquidity ratio, prime rate and inflation rate. Thus, economic growth which will be the dependent variable will be proxied by gross domestic product growth rate (GDP) while the explanatory variables include bank performance proxy by bank profit, financial intermediation measured as ratio of private credit to GDP, capital stock proxy by rate of domestic investment to the GDP, bank bad debts, liquidity ratio, prime rate and inflation rate. Therefore, the model for this study is stated as followed:

Y = f(X1, X2, X3, X4, X5, X6, X7) ... … … … (1)

Mathematically, the model is specified as:

Y = β0 +β1X1 +β2X2 +β3X3 +β4X4 +β5X5 +β6X6 +β7X7

The econometric form of the model can be express, thus: … (2)

Y = β0 +β1X1 +β2X2 +β3X3 +β4X4 +β5X5 +β6X6 +β7X7 + μi…. (3)

Where Y = Economic growth proxied by GDP growth rate X1 = Bank Performance proxy by bank profit

X2 = Financial Intermediation measured as ratio of private credit to GDP X3 = Capital Stock proxy by rate of domestic investment to the GDP

X4 = Liquidity ratio X5 = Bank Bad Debts X6 = Prime Rate

X7 = Inflation Rate β0 = Intercept

β1 - β7 = Partial slope coefficients or Parameters of the model

μi = Stochastic error term, which is normally distributed

**3.3 Evaluation Technique and Procedure**

The economic technique employed in the study is the ordinary least square (OLS). This is because the OLS computational procedure is fairly simple a best linear estimator among all unbiased estimation, efficient and shown to have the smallest (minimum variance) thus, it become the best linear unbiased estimator (BLUE) in the classical linear regression (CLR) model. Basic assumptions of the OLS are related to the forms of the relationship among the distribution of the random variance (μi).

OLS is a very popular method and in fact, one of the most powerful methods of regression analysis. It is used exclusively to estimate the unknown parameters of a linear regression model. The Economic views (E-views) software will be adopted for regression analysis.

**3.4 STATIONARITY (UNIT ROOT) TEST**

The importance of this test cannot be overemphasized since the data to be used in the estimation are time-series data. In order not to run a spurious regression, it is worthwhile to carry out a stationary test to make sure that all the variables are mean reverting that is, they have constant mean, constant variance and constant covariance. In other words, that they are stationary. The Augmented Dickey-Fuller (ADF) test would be used for this analysis since it adjusts for serial correlation.

**Decision Rule**

If the ADF test statistic is greater than the MacKinnon critical value at 5% (all in absolute term), the variable is said to be stationary. Otherwise it is non stationary.

**Table1. Economic a priori expectation**

|  |  |  |
| --- | --- | --- |
| **Parameters** | **Variables** | **Expected Relationships** |
| **Regressand** | **Regressor** |
| β0 | GDP | Intercept | +/- |
| β1 | GDP | BFOR | + |
| β2 | GDP | FINT | + |
| β3 | GDP | CAPS | + |
| β4 | GDP | LQR | + |
| β5 | GDP | BADT | - |
| β6 | GDP | PRIM | - |
| β7 | GDP | INFL | - |

A positive '+' sign indicate that the relationship between the regressor and regressand is direct and move in the same direction i.e. increase or decrease together. On the other hand, a '-' shows that there is an indirect (inverse) relationship between the regress or and regress and i.e. they move in opposite or different direction.

3.4 **Evaluation based on statistical criteria:**

First Order Test This aims at the evaluation of the statistical reliability of the estimated parameters of the model. In this case, the F-statistic, standard error, t-statistic, Co-efficient of determination (R2 ) and the Adjusted R2 are used. The Coefficient of Determination (R2)/Adjusted R2 The square of the coefficient of determination R 2 or the measure of goodness of fit is used to judge the explanatory power of the explanatory variables on the dependent variables. The R2 denotes the percentage of variations in the dependent variable accounted for by the variations in the independent variables. Thus, the higher the R2 , the more the model is able to explain the changes in the dependent variable. Hence, the better the regression based on OLS technique, and this is why the R2 is called the co-efficient of determination as it shows the amount of variation in the dependent variable explained by explanatory variables. However, if R2 equals one, it implies that there is 100% explanation of the variation in the dependent variable by the independent variable and this indicates a perfect fit of regression line. While where R2 equals zero. It indicates that the explanatory variables could not explain any of the changes in the dependent variable. Therefore, the higher and closer the R2 is to 1, the better the model fits the data. Note that the above explanation goes for the adjusted R2 .

**3.5 The F-test**

The F-statistics is used to test whether or not, there is a significant impact between the dependent and the independent variables. In the regression equation, if calculated F is greater than the table F table value at the chosen level of significance, then there is a significant impact between the dependent and the independent variables in the regression equation.

**Econometric criteria:**

Second Order Test This aims at investigating whether the assumption of the econometric method employed are satisfied or not. It determines the reliability of the statistical criteria and establishes whether the estimates have the desirable properties of unbiasedness and consistency. It also tests the validity of nonautocorrelation disturbances. In the model, autocorrelation, multicolinearity and heteroskedasticity test are used to test for the reliability of the data for predication.

**3.6 Test for Autocorrelation**

The Durbin-Watson (DW) test is appropriate for the test of Second-order autocorrelation and it has the following criteria.

1. If d\* is approximately equal to 2 (d\* =2), we accept that there is no autocorrelation in the function.
2. If d\*= 0, there exist perfect positive autocorrelation. In this case, if 0<d\*< 2, i.e. if d\* is less than two but greater than zero, it denotes that there is some degree of positive autocorrelation, which is stronger the closer d\* is to zero.
3. If d\* is equal to 4 (d\*=4), there exist a perfect negative autocorrelation, while if d\* is less than four but greater than two (2<d\*< 4), it means that there exist some degree of negative autocorrelation, which is stronger the higher the value of d\*.

**3.7 Test for Multicolinearity**

This means the existence of an exact linear relationship among the explanatory variable of a regression model. It is use to determine whether there is a correlation among variables.

**Decision Rule**

From the rule of Thumb, if correlation coefficient is greater than 0.8, we conclude that there is multicolinearity but if the coefficient is less than 0.8 there is no multicolinearity.

**3.8 Test for Heteroscedasticity**

The essence of this test is to see whether the error variance of each observation is constant or not. Non-constant variance can cause the estimated model to yield a biased result. White’s General Heteroscedasticity test would be adopted for this purpose.

**Decision Rule**

We reject H0 if Fcal > Ftab at 5% critical value. Or alternatively, we reject H0 if χ2 cal > χ2 0.05 and accept if otherwise at 5% critical value.

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

**4.1 INTRODUCTION**

The summary of preliminary tests discussed in the methodology is presented in the tables below.

**4.2 Summary of Stationary Unit Root Test**

Establishing stationarity is essential because if there is no stationarity, the processing of the data may produce biased result. The consequences are unreliable interpretation and conclusions. We test for stationarity using Augmented Dickey-Fuller (ADF) tests on the data. The ADF tests are done on level series, first and second order differenced series. The decision rule is to reject stationarity if ADF statistics is less than 5% critical value, otherwise, accept stationarity when ADF statistics is greater than 5% criteria value. The result of regression is presented in appendix 2 and the summary is shown in table 2 below.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Variables** | **ADF****Statistics** | **Lagged****Difference** | **1% Critical****Value** | **5% Critical****Value** | **10% Critical****Value** | **Order of****Integration** |
| GDP | -6.015868 | 1 | -3.653730 | -2.957110 | -2.617434 | *I*(1) |
| BFOR | -5.560503 | 1 | -3.653730 | -2.957110 | -2.617434 | *I*(1) |
| FINT | -5.763376 | 1 | -3.661661 | -2.960411 | -2.619160 | *I*(1) |
| CAPS | -6.592829 | 1 | -3.653730 | -2.957110 | -2.617434 | *I*(1) |
| LQR | -8.016727 | 1 | -3.653730 | -2.957110 | -2.617434 | *I*(1) |
| BADT | -3.765735 | 1 | -3.653730 | -2.957110 | -2.617434 | *I*(1) |
| PRIM | -8.920547 | 1 | -3.653730 | -2.957110 | -2.617434 | *I*(1) |
| INFL | -5.261656 | 1 | -3.661661 | -2.960411 | -2.619160 | *I*(1) |

**Source: Researchers computation**

Evidence from unit root table above shows that none of the variables are stationary at level difference that is, I(0), rather all the variables are stationary at first difference, that is, I(1). Since the decision rule is to reject stationarity if ADF statistics is less than 5% critical value, and accept stationarity when ADF statistics is greater than 5% criteria value, the ADF absolute value of each of these variables is greater than the 5% critical value at their first difference but less than 5% critical value in their level form. Therefore, they are all stationary at their first difference integration.

**Table3. Summary of Johansen Cointegration Test**

|  |
| --- |
| **Unrestricted Cointegration Rank Test (Trace)** |
| **Hypothesized** |  | **Trace** | **0.05** |  |
| **No. of CE(s)** | **Eigenvalue** | **Statistic** | **Critical Value** | **Prob.\*\*** |
| None \* | 0.918806 | 207.2214 | 125.6154 | 0.0000 |
| At most 1 \* | 0.759516 | 126.8723 | 95.75366 | 0.0001 |
| At most 2 \* | 0.625027 | 81.26898 | 69.81889 | 0.0046 |
| At most 3 \* | 0.475212 | 49.88015 | 47.85613 | 0.0319 |
| At most 4 | 0.360774 | 29.24781 | 29.79707 | 0.0578 |
| At most 5 | 0.323563 | 14.92791 | 15.49471 | 0.0607 |
| At most 6 | 0.072795 | 2.418592 | 3.841466 | 0.1199 |
| **Unrestricted Cointegration Rank Test (Maximum Eigenvalue)** |
| **Hypothesized** |  | **Max-Eigen** | **0.05** |  |
| **No. of CE(s)** | **Eigenvalue** | **Statistic** | **Critical Value** | **Prob.\*\*** |
| None \* | 0.918806 | 80.34907 | 46.23142 | 0.0000 |
| At most 1 \* | 0.759516 | 45.60331 | 40.07757 | 0.0108 |
| At most 2 | 0.625027 | 31.38884 | 33.87687 | 0.0963 |
| At most 3 | 0.475212 | 20.63234 | 27.58434 | 0.2990 |
| At most 4 | 0.360774 | 14.31990 | 21.13162 | 0.3393 |
| At most 5 | 0.323563 | 12.50932 | 14.26460 | 0.0930 |
| At most 6 | 0.072795 | 2.418592 | 3.841466 | 0.1199 |

**Summary of Cointegration Test**

Cointegration means that there is a correlationship among the variables. Cointegration test is done on the residual of the model. Since the unit root test shows that none of the variable is stationary at level I(0) but stationary at first difference 1(1), we go further to carry out the cointegration test. The essence is to show that although all the variables are stationary, whether the variables have a long term relationship or equilibrium among them. That is, the variables are cointegrated and will not produce a spurious regression. The result is summarized in the table 3 below for Trace and Maximum Eigenvalue cointegration rank test respectively.

Table 3 indicates that trace have only 4 cointegrating variables in the model while Maximum Eigenvalue indicated only 2 cointegrating variables. Both the trace statistics and Eigen value statistics reveal that there is a long run relationship between the variables.

**Table4**. **Summary of regression results**

|  |
| --- |
| **Dependent Variable: GDP** |
| **Method: Least Squares** |
| **Sample: 1980 2016** |
| **Included observations: 37** |
| **Variable** | **Coefficient** | **Std. Error** | **t-Statistic** | **Prob.** |
| C | 10.39384 | 2.743570 | 3.788435 | 0.0008 |
| BFOR | 0.000681 | 0.002028 | 2.835664 | 0.0008 |
| FINT | 1.101821 | 0.158127 | 6.643917 | 0.0005 |
| CAPS | -0.225789 | 0.019114 | -4.349242 | 0.0089 |
| LQR | 0.010829 | 0.034933 | 0.309979 | 0.7590 |
| BADT | 0.002184 | 0.005738 | 0.380595 | 0.7066 |
| PRIM | -0.248487 | 0.107840 | -3.449620 | 0.0067 |
| INFL | -0.150350 | 0.029958 | -4.680660 | 0.0048 |
| R-squared | 0.360525 | F-statistic | 20.94054 |
| Adjusted R-squared | 0.288359 | Prob(F-statistic) | 0.000005 |
| S.E. of regression | 24.34303 | Durbin-Watson stat | 1.883838 |

Source: Researchers computation

**4.4 SUMMARY OF FINDINGS**

The study attempted to explain the impact of commercial banking on Nigerian economic growth from 1980 -2016 using Ordinary least Square (OLS) technique method. All data used are secondary data obtained from the Statistical Bulletin of Central Bank of Nigeria (CBN). In executing the study, the OLS techniques was applied after determining stationarity of our variables using the ADF Statistic, as well as the cointegration of variables using the Johansen approach and was discovered that the variables are stationary and have a long term relationship among the variables in the model. From the result of the OLS, it is observed 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 in Nigeria. This implies that a unit increase in bank performance, financial intermediation, liquidity ratio and bank bad debts, will lead to an increase in the economy.

On the other hand, increases in capital stock, prime rate and inflation rate will lead to a decrease in the economy. From the regression analysis, the result show that capital stock and bank bad debts did not conform to the a priori expectation of the study, where as bank performance, financial intermediation, liquidity ratio, prime rate and inflation rate conform to the study a priori postulation. The F-test conducted in the study shows that the model has a goodness of fit and is statistically different from zero. In other words, there is a significant impact between the dependent and independent variables in the model. The findings of the study also show that bank performance, financial intermediation, capital stock, prime rate and inflation rate are statistically significant in explaining the Nigerian economy while liquidity ratio and bank bad debts are statistically insignificant in explaining the Nigerian economic growth.

Finally, the study shows that there is a long run relationship exists among the variables. Both R2 and adjusted R2 show that the explanatory power of the variables is very low and/or weak. The standard errors show that all the explanatory variables were all low. The low values of the standard errors in the result show that some level of confidence can be placed on the estimates.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 SUMMARY**

This study investigates the contribution of commercial banks to economic growth in Nigeria using secondary data covering the period of 1980-2016 that were sourced from the Central Bank of Nigeria (CBN). The analysis of the study was conducted using regression model of the Ordinary least Square (OLS) technique to ascertain the relationship between financial intermediation (also including other growth- inducing variables) and economic growth in Nigeria. The results show that financial intermediation-our yardstick for commercial banks operation, has a positive and significant impact on economic growth in Nigeria*.* **5.2 CONCLUSION**

 Commercial Banks are known to play a direct role to economic development of different countries across the globe. They are known to increase labor production which directly has an impact on the gross domestic product hence economic development. They create employment for the local people in the areas in which they are situated hence improves their living standards. The also provide the capital for both the low and high income earners to improve their investments through loans in which promotes economic growth. Commercial Banks encourage customers in saving of their money hence financing their own trade. It also lays a platform for foreign trade where the locals can trade with the foreigners freely. Like any private firms in the country, CBS earn the countries revenue through taxation which assists in the ED of the nation by improving the nation.

 The study confirms that bank performance, financial intermediation, capital stock, prime rate and inflation rate are statistically significant in explaining the Nigerian economy while liquidity ratio and bank bad debts are statistically insignificant in explaining the Nigerian economic growth. Based on this, it is concluded that effective commercial banking is a regulatory imperative for a sustainable economic growth in Nigeria. The study brought to the fore, those variables which could be termed as growth-induced variables such as financial intermediation, bank performance, capital stock, liquidity ratio, bank bad debts, prime rate and inflation rate.

**5.3 RECOMMENDATION**

From the findings of the study, the following recommendations were made: **1.** Hence, it is therefore recommended that monetary authority should be sensitive to the behavior of the aforementioned variables so as to ensure economic growth and development in the country. Government should enforce a guiding principles or laws that will be regulating and monitoring the banking activities to curb corrupted practices which are a bane for growth.

1. They study strongly recommends the strict implementation of the risk-focused and rule- based regulatory framework by the regulators. This it is believed will reduce the high incidence of huge bad debts profile of banks and consequently improve the assets quality of banks for better performance.
2. The Central Bank of Nigeria (CBN) being banks’ supervisory/regulatory agent should intensify its efforts towards effective monitoring and ensure that the gains from the commercial bank activities are sustained in the growth of the Nigerian economy.
3. The study recommends that commercial banks should invest more money in handing out short term loans that have proved to have a positive impact on economic development.
4. The study also recommends that commercial banks continue upholding their banking policies that encourages account deposits.
5. The study also recommends that the CBN provides a friendly environment that would continue to encourage commercial banks to give out loans to the people.
6. Banks should consciously engage in developmental lending, with a view of promoting economic growth and not just profit.
7. Government should also endeavor to provide a stable macroeconomic environment. A stable macroeconomic environment is crucial for the development of the financial markets and provision of efficient services needed to support the real sector for economic development. Domestic and foreign investors will be most unwilling to invest in an economy where there are instability in macroeconomic measures of uncertainty namely, interest rate, exchange rate and inflation. S

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