

## ***The Role of Banks in Capital Formation and Economic Growth: The Case of Nigeria***

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**Abstract:** *This study investigates the role of banks in capital formation and economic growth: The case of Nigeria for the period 1980-2009. The economies of all market-oriented nations depend on the efficient operation of complex and delicately balanced systems of money and credit. Banks are an indispensable element in these systems. This study employed the Ordinary Least square method in carrying out the research. The explanatory variables employed include Commercial Banks Deposit Liability (BDL), Maximum Lending Rate (MLR), Commercial Banks' Credit (CBC) and Investment by banks in Nigeria (BINV). The dependent variables are Gross Fixed Capital Formation (GFCF) and Gross Domestic Product (GDP), which is a measure of a nation's economic performance – economic growth in this instance. From the various test carried out it was found out that Commercial Banks Deposit Liabilities is elastic to Gross Fixed Capital Formation in Nigeria. This positivity of the coefficient of Commercial Banks Deposit Liabilities is in conformity to the economic a priori expectation of a positive impact of Commercial Banks Deposit Liabilities on Gross Fixed Capital Formation. Also, the regression result shows that Commercial Banks Credits (CBC) has a positive impact on Gross Fixed Capital Formation (GFCF). It is therefore recommended that efforts should be made by the monetary authorities to effectively manage the banks' maximum lending. This policy thrust will most likely result into increased investment activities which will enhance capital formation in Nigeria needed for its real sector investments and industrial growth.*

**Keyword:** *deposit liability; credit; capital formation.*

### **Introduction**

The Nigerian banking industry is majorly composed of Deposit money banks, development banks and the Central Bank of Nigeria (CBN), which is the apex bank. The apex bank exercises supervisory and regulatory authority over the banking industry. The Central Bank of Nigeria was established by the Central Bank of Nigeria Ordinance 1958 following the report of J. B. Loynes. The bank commenced operations on 1st July, 1959 (CBN Ordinance). Banks have always been perceived as engine of growth in an economy because they perform a resources allocation function, by mobilizing and channeling resources from surplus economic units to deficit units. They help in stimulating the level of economic activities in various sectors of the economy, thus increasing the level of utility and want to the individual and the community at large.

The relevance of banks in the economy of any nation cannot be overemphasized. They are the cornerstones, the linchpin of the economy of a country. Economic activity cannot be smooth sailing without the continuing flow of money and credit. The economies of all market-oriented nations depend on the efficient operation of complex and delicately balance systems of money and credit. Banks are an indispensable element in these systems. They provide the bulk of the money supply as well as the primary means of facilitating the flow of credit." Consequently, it is submitted that the economic well being of a nation is a function of advancement and development of her banking industry [3,8].

The financial deregulation in Nigeria that started in 1987 and the associated financial innovations have generated an unprecedented degree of competition in the banking industry. The deregulation initially pivoted powerful incentives for the expansion of both size and number of banking and non-banking institutions. The consequent phenomenal increase in the number of banking and non-banking institutions providing financial services led to increased competition amongst various banking institutions, and between banks and non-banking financial intermediaries.

Apart from the keen competition with the range of financial activities, banks have also faced problems associated with a persistent slowdown in economic activities, severe political instability, virulent inflation, worsening economic financial conditions of their corporate borrowers and increasing incidence of fraud and embezzlement of funds. Another major problem banks have had to content with is the inconsistency in monetary and regulatory policies. The surveillance and regulatory measures of the Central Bank of Nigeria (CBN) have unfortunately been unable to keep the pace with the rapidity of the charges in the financial system.

All these factors – deregulation, competition, innovation, economic recession, political instability, escalating inflation, and frequent reversal in monetary policy have combined to create a challenging and precarious financial environment for banks. Consequence of the new financial environment has been rapidly declining profitability of the traditional banking activities. Thus, in a bid to survive and maintain adequate profit level in this highly competitive environment, banks have tended to take excessive risks. But, then the increasing tendency for greater risk taking has resulted in insolvency and failure of a large number of the banks [9].

The continuing deterioration in the financial health of the banks and increasing incidence of bank failure since deregulation have raised question about the nature and state of the Nigerian banking sector.

### **1. Statement of the Problem**

It is a known fact that banks play several vital roles in any economy. And these roles are aimed at ensuring sound financial system and economic stability. It is incontrovertible that 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 banking system itself. 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.

Yet it has been argued in the public domain that the commercial banks have not been performing the desired roles in improving capital formation and promoting economic growth in the country.

Capital formation refers to the net addition to the capital stock after of any nation after depreciation. It is defined as an addition to stock of capital assets set aside for future productive endeavours in real sector which will lead to more growth in physical capital assets of the country. Capital formation captures all the real-value-added to the economy in real-asset-terms which will lead to further enhancement of savings, investment and generation of more wealth in future. Capital formation derives from savings accumulation. It has a positive impact on private savings accumulation in the sense that increase in capital formation will lead to more savings. When savings accumulate it will lead to an increase in gross domestic investment (GDI) and income generated as a result of the investment projects made will, in turn, lead to GDP growth [7, 356-367].

Now, the supposed relationship between banking, capital formation and economic growth is that banking through its activities such as savings and deposit mobilization, credit creation, etc increases the accumulation of capital formation which in turn is expected to enhance economic of the country. So, whether or not this relationship holds in Nigeria is also the essence of this study.

### **2. Objectives of the Study**

The central objective of the study is to empirically investigate the role of Nigerian banks in Capital Formation and economic growth. The specific objectives are as follows:

- i. To analyze the impact of banks' deposit mobilization on capital formation and economic growth in Nigeria.
- ii. To investigate the impact of other banks' performance indicators such as credits to the economy and banks investment on Nigeria's economic growth.
- iii. To determine the association existing between capital formation and economic growth in Nigeria.

- iv. To evaluate the role banks have played in mobilizing gross domestic savings towards filling the existing savings - investment gap in a bid to achieve desired investment goals and/or growth objectives in Nigeria in the years ahead.

### **3. Organization of the Study**

For a systematic and scientific approach, this research work will be divided into five parts. The introductory part will present the background of the study; the statement of problem and organization of the work. In Part two, the relevant Literature will be presented and discussed. The methodology of the research will be presented in part three. While part four will concentrate on the presentation and analysis of data. The policy implications of such analysis or results are also identified. Part five will conclude the research work with emphasis on findings and recommendations.

### **4. Review of Related Literature**

The relevance of banks in the economy of any nation cannot be overemphasized. The economies of all market-oriented nations depend on the efficient operation of complex and delicately balance systems of money and credit. Banks are an indispensable element in these systems. They provide the bulk of the money supply as well as the primary means of facilitating the flow of credit." Consequently, it is submitted that the economic well being of a nation is a function of advancement and development of her banking industry.

#### ***Savings and capital formation***

Savings, which we define as the part of incomes not immediately, consumed, but reserved for future consumption, investment or for unforeseen contingencies is considered as an indispensable weapon for economic growth and development. Its role is reflected in capital formation through increased capital stock and the impact it makes on the capacity for an economy to generate more and higher incomes. Rose (1986) sees the importance of savings beyond capital formation. To her, savings are a catalyst for capital formation but equally, a major determinant of the cost of credits based on the law of scarcity, which holds that 'when the former is low and scarce, it becomes more costly to obtain'. The classics as well as modern growth models hold that savings constitute the principal parameter, and determinant of economic growth. This idea is upheld by [15] which showed that on the average, third world countries with higher growth rates incidentally are those with higher saving rates. Capital mobilized from domestic sources is very fundamental for a country's development not only because it has a low cost, but also due to the fact that it is durable and permanent. Adam (1985) considers that most of this domestic savings will come from the rural areas especially in countries with a dominant rural because there is a greater saving capacity and growth potentials. Thillairajah (1994) and Padmanabhan (1988) sharing the same opinion, explain the high marginal propensity to save by the unstable economic conditions that generally prevails in these areas (unstable incomes, fluctuations in harvest etc).

But unfortunately, in spite of these advantages, most of the saving potentials of rural communities in developing economies remain not mobilised especially in respect to the formal financial system on which an economy depends for growth [8]. To permit an efficient and sustainable mobilisation of savings in general and rural savings in particular, a number of factors must be fulfilled. These, according to [6] are classified into the capacity to save and the willingness to save. Whereas the capacity to save is influenced by the level of per capita income, growth of these incomes, population age structure and income distribution; the willingness to save on the other hand depends more on the country's financial system through variables such as the level of financial deepening, and inflation. They however concludes that the number, proximity and diversity of financial institutions (willingness to save factor) serving the various needs of savers play a dominant influence over the primeval factor of the capacity to save. But there appear to be a strong link between the rates of growth of financial circuits and how develop and efficient a country's financial system can sustainably mobilize domestic savings.

Bomda (1998) stressed on the influence of certain factors on the supply of savings and empirically showed the existence of a negative correlation between the rate of savings and the costs/risks incurred by customers. These include transportation cost and risk involve in moving with large sums of money through long distances. Whatever motive an individual may have for savings, the rate of savings in any given community according to [12, Schmidt & Kropp, 1988, 10] depends on the available savings

institutions which themselves must fulfill conditions like an efficient number, diversity, accessibility, attractive terms of operations, perfect knowledge on their existence and the usefulness and trust people have on them.

Thus, an efficient and sustainable savings mobilization will certainly depend on the availability and or number of financial variables, their accessibility and nature of and the way such services are rendered to customers. Unfortunately, Cameroon’s formal financial system seems poorly developed, poorly diversified and inefficient. It is also fragmented and records a low financial deepening ratio (M2/GDP) which witnessed a decline from 22 percent in 1989 down to 17 percent in 1995 according to (Heidhues and Weinschenck, 1989; Kammogne, 1988). Due to this low financial deepening ratio, Cameroon was ranked behind countries like Gambia, Ghana, Nigeria, Senegal and South Africa whose respective per capita incomes were far lower than hers during the same period. But to ensure that the banking industry is efficiently spread equally requires financial soundness of these institutions.

**Functions of Commercial Banks**

Jhingan (2001) and Agu, (1988) discussed the functions of commercial banks and they are divided into two categories:

- i) Primary functions, and
- ii) Secondary functions including agency functions.

**i) Primary functions:**

The primary functions of a commercial bank include:

- a) Accepting deposits; and
- b) Granting loans and advances;

**ii) Secondary functions**

Besides the primary functions of accepting deposits and lending money, banks perform a number of other functions which are called secondary functions. These are as follows -

- a) Issuing letters of credit, traveler’s cheques, circular notes etc.
- b) Undertaking safe custody of valuables, important documents, and Securities by providing safe deposit vaults or lockers;
- c) Providing customers with facilities of foreign exchange.
- d) Transferring money from one place to another; and from one branch to another branch of the bank.
- e) Standing guarantee on behalf of its customers, for making payments for purchase of goods, machinery, vehicles etc.
- f) Collecting and supplying business information;
- g) Issuing demand drafts and pay orders; and,
- h) Providing reports on the credit worthiness of customers.

**5. Methodology**

**Model Specification**

In the model specified below, the researcher attempts to investigate the roles of Nigerian banks in capital formation and how this translates to economic growth in Nigeria within the period of analysis. The explanatory variables employed include Commercial Banks Deposit Liability (BDL), Maximum Lending Rate (MLR), Commercial Banks’ Credit (CBC) and Investment by banks in Nigeria (BINV). The dependent variables are Gross Fixed Capital Formation (GFCF) and Gross Domestic Product (GDP), which is a measure of a nation’s economic performance – economic growth in this instance. Explicitly, the model for the study is specified as below:

$$GFCF = \alpha_0 + \alpha_1 BDL + \alpha_2 CBC + \alpha_3 BINV + \alpha_4 MLR + U_i \quad \text{----- (1)}$$

(+)
(+)
(+)
(-)

Note that the signs in parenthesis show the respective a-priori expectation based on the nature of the relationship between the each explanatory variable and the dependent variable (GFCF). Positive (+) sign implies direct relationship and that  $\alpha_i > 0$ . Then Negative (-) sign implies inverse relationship and that  $\alpha_i < 0$ .

$$GDP = \alpha_0 + \alpha_1 BDL + \alpha_2 CBC + \alpha_3 BINV + \alpha_4 MLR + \alpha_5 GFCF + U_i \quad \text{--- (2)}$$

(+)
(+)
(+)
(-)
(+)

Where:

- GDP = Gross Domestic Product
- GFCF = Gross Fixed Capital Formation

|   |   |                                       |
|---|---|---------------------------------------|
| BDL   | = | Commercial Banks' Deposit Liabilities |
| CBC   | = | Commercial Banks' Credits             |
| BINV  | = | Commercial Banks' Investments         |
| MLR   | = | Maximum Lending Rate                  |
| U <sub>i</sub>  | = | Stochastic variable or error term     |
| $\alpha_0$  | = | Intercept                             |
| $\alpha_1, \alpha_2, \alpha_3, \alpha_4$ & $\alpha_5$ | = | Parameter estimates                   |

### Sources of Data for the Study

Annual time-series data on the variables under study are used in this study for estimation of functions. The Gross Domestic Product (GDP) and Gross Fixed Capital Formation (GFCF) are the relevant dependent variables in models. Then the relevant explanatory variables are Commercial Banks Deposit Liability (BDL), Maximum Lending Rate (MLR), Commercial Banks' Credit (CBC) and Banks investment In Nigeria (BINV).

Data were collected 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.

### PRESENTATION OF DATA AND ANALYSIS OF RESULTS

This chapter focuses on the analysis of, and interpretation of the result generated from the regression result. This chapter helped in providing the set of data used, the result serving as a yard-stick/benchmark for the measurements of the various impacts which the different explanatory variables have on both Gross Fixed Capital Formation (GFCF) and economic growth, measured by Gross Domestic Product (GDP) in Nigeria during the period of analysis, 1980-2009 In order to achieve this, the following model equation was used and the analyses are conducted at 5% level of significance:

#### Presentation of Data

The data employed in the study are presented in table 1. below:

#### Regression Data

Table 1.

| 1. YEAR | 2. GDP       | 3. BDL     | 4. CBC     | 5. BINV.   | 6. MLR | 7. GFCF    |
|---------|--------------|------------|------------|------------|--------|------------|
| 1980    | 50,848.60    | 10,009.10  | 6,379.20   | 344.80     | 9.50   | 10,841.20  |
| 1981    | 102,686.80   | 10,676.90  | 8,604.80   | 2,350.20   | 10.00  | 12,215.00  |
| 1982    | 110,029.80   | 12,018.90  | 10,277.00  | 3,406.90   | 11.75  | 10,922.00  |
| 1983    | 119,117.10   | 13,938.50  | 11,100.00  | 5,730.40   | 11.50  | 8,135.00   |
| 1984    | 125,074.80   | 15,734.80  | 11,503.40  | 9,237.80   | 13.00  | 5,417.00   |
| 1985    | 114,724.10   | 17,597.10  | 12,170.30  | 10,875.80  | 11.75  | 5,573.00   |
| 1986    | 143,623.90   | 18,137.60  | 15,701.50  | 5,223.30   | 12.00  | 7,323.00   |
| 1987    | 203,037.10   | 23,086.70  | 17,531.90  | 8,712.60   | 19.20  | 10,661.10  |
| 1988    | 275,198.20   | 29,065.10  | 20,044.90  | 7,565.20   | 17.60  | 12,383.70  |
| 1989    | 403,762.90   | 27,164.90  | 22,221.20  | 4,606.40   | 24.60  | 18,414.10  |
| 1990    | 497,351.30   | 38,777.30  | 26,083.90  | 10,067.80  | 27.70  | 30,626.80  |
| 1991    | 574,282.10   | 53,208.70  | 31,762.40  | 7,453.50   | 20.80  | 35,423.90  |
| 1992    | 909,754.20   | 75,047.70  | 41,810.00  | 6,767.00   | 31.20  | 58,640.30  |
| 1993    | 1,132,181.20 | 110,453.60 | 48,056.00  | 31,192.00  | 36.09  | 80,948.10  |
| 1994    | 1,457,129.70 | 142,537.50 | 92,624.00  | 40,444.00  | 21.00  | 85,021.90  |
| 1995    | 2,991,941.70 | 178,962.10 | 141,146.00 | 22,695.00  | 20.79  | 114,476.30 |
| 1996    | 4,135,813.60 | 214,359.80 | 169,242.00 | 49,751.00  | 20.86  | 172,105.70 |
| 1997    | 4,300,209.00 | 280,028.60 | 230,600.00 | 42,861.50  | 23.32  | 205,553.20 |
| 1998    | 4,101,028.30 | 314,303.50 | 272,895.50 | 52,993.80  | 21.34  | 192,984.40 |
| 1999    | 4,799,966.00 | 476,350.90 | 353,081.10 | 193,412.90 | 27.19  | 175,735.80 |
| 2000    | 6,850,228.80 | 702,104.50 | 508,302.20 | 285,294.40 | 21.55  | 268,894.50 |
| 2001    | 7,055,331.00 | 47,198.40  | 796,164.80 | 192,731.80 | 21.34  | 371,897.90 |

|      |              |             |              |             |       |             |
|------|--------------|-------------|--------------|-------------|-------|-------------|
| 2002 | 7,984,385.30 | 1,209,747.3 | 954,628.80   | 435,601.00  | 29.70 | 438,114.90  |
|      | 10,136,364.0 | 1,417,060.0 |              |             |       |             |
| 2003 | 0            | 0           | 1,210,033.10 | 434,299.00  | 22.47 | 429,230.00  |
|      | 11,673,602.2 | 1,778,713.0 |              |             |       |             |
| 2004 | 0            | 0           | 1,519,242.70 | 677,957.40  | 20.62 | 456,970.00  |
|      | 14,735,324.0 | 4,640,986.1 |              | 3,197,591.3 |       |             |
| 2005 | 0            | 0           | 7,483,090.30 | 0           | 19.47 | 804,400.80  |
|      | 18,709,786.5 | 6,416,698.0 |              | 3,581,957.1 |       | 1,546,525.7 |
| 2006 | 0            | 0           | 9,542,573.40 | 0           | 18.70 | 0           |
|      | 20,657,317.7 |             |              |             |       | 1,623,851.9 |
| 2007 | 0            | 7,071,951.4 | 4,813,488.80 | 292,298.7   | 18.36 | 9           |
|      | 24,296,329.3 |             | 23,358,395.2 |             |       | 1,656,329.0 |
| 2008 | 0            | 7,960,166.9 | 0            | 7,749,804.5 | 20.26 | 2           |
|      | 24,712,669.9 | 8,358,175.2 | 35,167,203.7 | 8,137,294.7 |       | 1,672,892.3 |
| 2009 | 0            | 5           | 0            | 3           | 23.19 | 1           |

**SOURCE:** CBN Statistical bulletin, various issues

**NOTE:** All figures in columns 2, 3, 4, 5 and 7 are in millions of naira.

## PRESENTATION AND ANALYSIS OF RESULTS OF MODEL 1

### Regression result for model 1

**Table 2.**

EQ ( 1) Modeling GFCF by OLS

The present sample is: 1 to 28

| Variable | Coefficient | Std.Error | t-value | t-prob | PartR2 |
|----------|-------------|-----------|---------|--------|--------|
| Constant | -34607.     | 56215.    | -0.616  | 0.5442 | 0.0162 |
| BDL      | 0.13536     | 0.056837  | 2.382   | 0.0259 | 0.1978 |
| CBC      | 0.15194     | 0.090207  | 1.684   | 0.1056 | 0.1098 |
| BINV.    | -0.26344    | 0.13927   | -1.892  | 0.0712 | 0.1346 |
| MLR      | 5242.1      | 2680.4    | 1.956   | 0.0628 | 0.1426 |

R2 = 0.961574 F(4, 23) = 143.89 [0.0000] s = 89522.5 DW = 1.29

RSS = 1.843284794e+011 for 5 variables and 28 observations

### ANALYSIS OF RESULTS OF MODEL 1

From the regressions result, the R-squared ( $R^2$ ) value of 0.961574 shows that at 96.16% the explanatory variables explain changes in the dependent variable. This means that at 96.16% the independent variables explain changes in the Gross Fixed Capital Formation (GFCF). This simply means that the explanatory variables explain the behaviour of the dependent variable at 96.16%. The calculated F-statistics of 143.89 which is greater than the F-table value (2.7763) implies that the model is significant. The Durbin-Watson (DW) as shown in the regression analysis is 1.29. From this it shows that there is the presence of autocorrelation.

The above model tested the effect of four different variables namely – commercial Banks' Deposit Liabilities (BDL), Commercial Banks' Credits (CBC), Commercial Banks Investments (BINV) and Maximum Lending Rate (MLR) on Gross fixed Capital Formation (GFCF). In order to obtain the regression result, the OLS technique with the help of the PC Give software was used.

The result obtained from the regression shows that there is positive and significant impact of Commercial Banks Deposit Liabilities (BDL) on Gross Fixed Capital Formation (GFCF) with a coefficient of 0.13536. The standard error and t values show that the coefficient of Commercial Banks Deposit Liabilities is significant. Hence, Commercial Banks Deposit Liabilities is elastic to Gross Fixed Capital Formation in Nigeria. This positivity of the coefficient of Commercial Banks Deposit

Liabilities is in conformity to the economic a priori expectation of a positive impact of Commercial Banks Deposit Liabilities on Gross Fixed Capital Formation.

Also, the regression result shows that Commercial Banks Credits (CBC) has a positive impact on Gross Fixed Capital Formation (GFCF) with a coefficient of 0.15194. The coefficient of Commercial Banks Credits is not statistically significant as shown by both the corresponding standard error and t-values. Thus, Cumulative Commercial Banks Credits is elastic to Gross Fixed Capital Formation. This positivity of the coefficient of Government Expenditure conforms to the economic a priori expectation of a positive impact of Commercial Banks Credits on Gross Fixed Capital Formation.

Furthermore, the result obtained from the regression shows that Commercial Banks Investment has a negative impact on Gross Fixed Capital Formation. This is indicated in its negative coefficient of -0.26344. However, Commercial Banks Investment is elastic to Gross Fixed Capital Formation since the standard error and t-values revealed that the coefficient is statistically significant. The negativity coefficient of Commercial Banks Investment does not conform to the economic a priori expectation of a positive impact of Commercial Banks Investment on Gross Fixed Capital Formation.

Again, the regression result shows that Maximum Lending Rate (MLR) has a positive impact on Gross Fixed Capital Formation (GFCF) with a coefficient of 5242.1. The coefficient of Maximum Lending Rate is also statistically significant as shown by both the corresponding standard error and t-values. Thus, Maximum Lending Rate is elastic to Gross Fixed Capital Formation. This positivity of the coefficient of Maximum Lending Rate does not conform to the economic a priori expectation of a negative impact of Maximum Lending Rate on Gross Fixed Capital Formation.

## PRESENTATION AND ANALYSIS OF RESULTS OF MODEL 2

### Regression result for model 2

Table 3.

EQ( 2) Modeling GDP by OLS  
The present sample is: 1 to 28

| Variable | Coefficient | Std.Error   | t-value | t-prob | PartR2 |
|----------|-------------|-------------|---------|--------|--------|
| Constant | 4.4630e+005 | 7.7068e+005 | 0.579   | 0.5684 | 0.0150 |
| BDL      | 2.2623      | 0.86291     | 2.622   | 0.0156 | 0.2380 |
| CBC      | -6.5301     | 1.3001      | -5.023  | 0.0000 | 0.5342 |
| BINV     | 10.677      | 2.0357      | 5.245   | 0.0000 | 0.5556 |
| MLR      | -10477.     | 39362.      | -0.266  | 0.7926 | 0.0032 |
| GFCF     | 19.884      | 2.8353      | 7.013   | 0.0000 | 0.6909 |

R2 = 0.964973 F(5, 22) = 121.22 [0.0000] s = 1.21731e+006 DW = 2.57  
RSS = 3.260079175e+013 for 6 variables and 28 observations

## ANALYSIS OF RESULTS OF MODEL 2

From the regressions result, the R-squared ( $R^2$ ) value of 0.964973 shows that at 96.50% the explanatory variables explain changes in the dependent variable. This means that at 96.50% the independent variables explain changes in the Gross Domestic Product (GDP). This simply means that the explanatory variables explain the behaviour of the dependent variable at 96.50%. The calculated F-statistics of 121.22 which is greater than the F-table value (2.6613) implies that the model is significant. The Durbin-Watson (DW) as shown in the regression analysis is 2.57. From this it shows that there is the presence of autocorrelation.

The above model tested the effect of five different variables namely – commercial Banks' Deposit Liabilities (BDL), Commercial Banks' Credits (CBC), Commercial Banks Investments (BINV), Maximum Lending Rate (MLR) and Gross Fixed Capital Formation (GFCF) and Gross Domestic Product (GDP). In order to obtain the regression result, the OLS technique with the help of the PC Give software was used.

The result obtained from the regression shows that there is positive and significant impact of Commercial Banks Deposit Liabilities (BDL) on Gross Domestic Product (GDP) with a coefficient of 2.2623. The standard error and t values show that the coefficient of Commercial Banks Deposit Liabilities is statistically significant. Hence, Commercial Banks Deposit Liabilities is elastic to Gross

Domestic Product in Nigeria. This positivity of the coefficient of Commercial Banks Deposit Liabilities is in conformity to the economic a priori expectation of a positive impact of Commercial Banks Deposit Liabilities on Gross Domestic Product.

Also, the regression result shows that there is negative impact of Commercial Banks Credits (CBC) on Gross Domestic Product (GDP) with a coefficient of -6.5301. However, the standard error and t values show that the coefficient of Commercial Banks Credits is statistically significant. Hence, Commercial Banks Credits is elastic to Gross Domestic Product in Nigeria. This negativity of the coefficient of Commercial Banks Credits is not in conformity to the economic a priori expectation of a positive impact of Commercial Banks Credits on Gross Domestic Product.

Furthermore, the result obtained from the regression shows that Commercial Banks Investment has a positive impact on Gross Domestic Product. This is indicated in its coefficient of 10.677. However, Commercial Banks Investment is elastic to Gross Domestic Product since the standard error and t-values revealed that the coefficient is statistically significant. The positivity of the coefficient of Commercial Banks Investment conforms to the economic a priori expectation of a positive impact of Commercial Banks Investment on Gross Domestic Product.

Again, the regression result shows that Maximum Lending Rate (MLR) has a negative impact on Gross Domestic Product (GDP) with a coefficient of -10477. The coefficient of Maximum Lending Rate is not statistically significant as shown by both the corresponding standard error and t-values. Thus, Maximum Lending Rate is inelastic to Gross Domestic Product. This negativity of the coefficient of Maximum Lending Rate conforms to the economic a priori expectation of a negative impact of Maximum Lending Rate on Gross Domestic Product.

Finally, the result obtained from the regression shows that Gross Fixed Capital Formation has a positive impact on Gross Domestic Product. This is indicated in its coefficient of 19.884. The coefficient of Gross Fixed Capital Formation is elastic to Gross Domestic Product since the standard error and t-values revealed that the coefficient is statistically significant. The positivity of the coefficient of Gross Fixed Capital Formation conforms to the economic a priori expectation of a positive impact of Commercial Banks Investment on Gross Domestic Product.

## **Summary, Conclusion and Recommendations**

### **Summary of Findings**

The OLS regression analysis is carried out to determine the impact of selected banks activities indicators on Gross Fixed Capital Formation (GFCF) and Gross Domestic Product. Hence, Gross Fixed Capital Formation (GFCF) was regressed on Commercial Banks Deposit Liabilities, Commercial Banks Credits, Commercial Banks Investments and Maximum Lending Rate. Gross Domestic Product was also regressed on the above banks activities indicator and Gross Fixed Capital Formation.

The results of the findings show that all the coefficients of the explanatory variables in model 1 are all statistically significant to capital formation, except commercial banks' credits. This means that commercial banks' credits do not contribute significantly to capital formation during the period under analysis.

In model 2, all the explanatory variables show to be significant to Gross Domestic Product (GDP) with the exception of Maximum Lending Rate. The implication of this is that the manipulation of maximum lending rates by the monetary authorities did not bring about significant increase in GDP during the period under analysis. So, maximum lending rate did show to be a major determinant of economic growth.

The results also show that commercial banks deposit liabilities only have immediate impact on capital formation and not on economic growth. However, the research findings support the notion that commercial banks are agents of both capital formation and economic growth of the country.

### **Conclusion**

The results of the models equations and the analyses of the results of the study permit the researcher to conclude thus:

- i. That commercial banks have significant role to play in capital formation in the Nigerian economy. This implies that commercial banks have the potential to increase the nation's capital formation through their activities.
- ii. That commercial banks also have vital roles to play in the nation's economic growth. The implication of this is that country with a sound and effective banking sector stands the chance of experiencing rapid economic growth through the banks' business activities.

### **Recommendations**

Based on the findings of this research which have been above stated and implications emanating there from, the researcher therefore proffers the following matching recommendations put down hereunder for urgent policy action:

1. That efforts should be made by the monetary authorities to effectively manage the banks' maximum lending. This policy thrust will most likely result into increased investment activities which will enhance capital formation in Nigeria needed for its real sector investments and industrial growth.
2. Another policy recommendation with respect to the findings is that to optimally increase the level of capital formation in Nigeria, the monetary authorities have to maintain a sound banking sector. We cannot raise capital formation and national productivity level without maintaining a sound banking system.
3. The researcher also recommends that adequate efforts be made by banks to increase their level deposits as that will help in increasing the nation's capital formation.
4. Banks should also be made to increase their investment portfolio within the country as that will equally help in increasing the nation's capital formation and economic growth.
5. Again, the banking sector regulatory authorities have a duty to perform in ensuring good corporate governance and the best of banking practices are obtainable in the nation's banking industry.
6. Finally, the further research should be carried out to investigate the non-conformity of the coefficient investment by commercial banks to the a-priori expectation of having a positive relationship with capital formation.

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