# FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS AND ECONOMIC GROWTH IN NIGERIA

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***Abstract***
*This study investigated the effect of financial performance of Deposit Money Banks (DMBs) on economic growth in Nigeria, with a specific focus on how key banking performance indicators influence GDP growth. The primary objective was to evaluate the short-run and long-run effects of Return on Assets (ROA), Return on Equity (ROE), and Capital Adequacy Ratio (CAR), on economic growth between 2000 and 2023. To achieve this, the study employed the Autoregressive Distributed Lag (ARDL) model, which accommodates variables integrated at different orders, ensuring robustness in the presence of both I(0) and I(1) series as confirmed by Augmented Dickey-Fuller (ADF) unit root tests. The bounds testing approach confirmed the presence of a long-run relationship among the variables (F-statistic = 6.182 > critical upper bound values). The ARDL estimation revealed that Return on Equity (ROE) has a statistically significant positive effect on GDP growth both in the short-run and long-run (short-run coefficient = 0.5004, p = 0.0179; long-run coefficient = 0.7705, p = 0.0004). In contrast, ROA and CAR did not exhibit significant short-run effects, although the second lag of CAR showed a delayed positive effect (p = 0.0419). Furthermore, the error correction term was significant and negative (-1.0665, p = 0.0001), indicating a strong speed of adjustment toward equilibrium. The study concluded that bank equity profitability is a crucial driver of Nigeria's economic performance, while other indicators exhibit weaker direct effects. Based on the findings, it was therefore recommended that Nigerian banks prioritize reinvestment of equity earnings into growth-enhancing sectors and that regulators balance capital adequacy requirements with lending incentives. Besides, regulators should ensure that requirements do not stifle credit creation and that a balanced framework that encourages productive risk-taking be put in place.*

***Key words:*** *Banks, Financial Performance, Economic Growth, Autoregressive Distributed Lag, Nigeria*

## Introduction

Globally, financial institutions, particularly banks, serve as the backbone of modern economies. They mobilize savings, provide credit, facilitate investment, and ensure liquidity within the financial system. According to Levine (2005), robust banking systems significantly contribute to economic growth by efficiently allocating capital to productive sectors. Empirical evidence from developed economies such as the United States, Germany, and Japan shows a consistent correlation between strong banking performance and sustainable economic development (Beck et al., 2014). The financial sector's depth and efficiency are thus recognized as essential components of long-term macroeconomic stability and growth (Demirgüç-Kunt & Levine, 2008).

In emerging markets, the banking sector has also played a crucial role in facilitating investment and reducing poverty through financial inclusion. Asian economies like India and China have demonstrated that financial intermediation through banks can stimulate industrialization, urbanization, and innovation (Allen et al., 2012). Meanwhile, Sub-Saharan Africa has witnessed modest progress, with South Africa, Kenya, and Ghana making strides in financial sector reforms. However, many African nations, including Nigeria, continue to grapple with structural challenges in their banking sectors such as limited capital adequacy, governance issues, and regulatory inefficiencies (IMF, 2021).

In Nigeria, deposit money banks (DMBs) are critical to the country's financial architecture. They constitute the primary mechanism for deposit mobilization, credit allocation, and monetary policy transmission. As of 2022, DMBs account for over 80% of financial sector assets in Nigeria (CBN, 2022). They are pivotal to the implementation of key economic strategies, including the National Financial Inclusion Strategy (NFIS) and the Economic Recovery and Growth Plan (ERGP). Despite these functions, the country continues to face economic headwinds including weak GDP growth, inflation, currency instability, and high unemployment—all of which raise questions about the efficacy of its financial institutions in driving real economic transformation (World Bank, 2023).

Notwithstanding the acknowledged importance of banks to economic development, Nigeria's banking sector performance has often failed to translate into tangible economic growth. A recurring issue is the disconnect between profitability indicators of DMBs, such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM), and macroeconomic growth outcomes. Studies like those by Ibe (2013) and Afolabi and Oladipo (2019) presented mixed findings on whether Nigerian banks' financial performance directly contributes to economic development. Ibe (2013) finds a weak correlation, suggesting that while banks may be profitable, these gains are not effectively channeled into productive sectors. Conversely, Afolabi and Oladipo (2019)

argued that sound financial performance enhances bank lending capacity and, by extension, GDP growth.

Okafor et al. (2020) observed that high non-performing loan (NPL) ratios and poor corporate governance have eroded the intermediation efficiency of Nigerian banks. Moreover, regulatory lapses, such as delayed responses to banking crises and inconsistent policy directives, further undermine the sector's ability to contribute to economic stability (Sanusi, 2010). Additionally, issues like credit concentration in non-productive sectors, inadequate rural penetration, and lack of technological integration impede the growth potential of DMBs (Uchenna & Chijindu, 2020).

The primary objective of this research is to empirically investigate the impact of the financial performance of deposit money banks on economic growth in Nigeria between 2000 and 2023. The study examines the effect of DMBs financial performance measures (return on assets (ROA), return on equity (ROE), and Z-Score) on the gross domestic product (GDP) of Nigeria. The study further examines the causality direction, i.e., whether financial performance drives economic growth or vice versa

This study is justified on several fronts. First, Nigeria's economic landscape is currently at a crossroads, grappling with slow growth, exchange rate volatility, and fiscal imbalances. In such contexts, a well-functioning banking sector can be a vital lever for growth, especially through credit support for SMEs, infrastructural financing, and public-private partnerships (World Bank, 2022). Second, the role of DMBs is central to the success of government policies such as the Anchor Borrowers' Programme, the Bank Verification Number (BVN) scheme, and the new cashless economy drive. Yet, there is limited empirical evaluation of whether improved bank performance, in terms of profitability and risk management, has enhanced their development role (CBN, 2021).

Furthermore, the increasing involvement of fintech platforms in deposit mobilization and digital payments raises questions about the evolving role of traditional banks in economic growth. As new players enter the financial ecosystem, DMBs must adapt or risk becoming less relevant.

## Objectives

As a result of the foregoing, the broad objective of this study is to investigate the effect of financial performance of Deposit Money Banks (DMB) on Economic Growth in Nigeria. However, the specific objectives are to:

1. examine the effect of DMBs financial stability on economic growth in Nigeria.
2. Investigate the effect of DMBs assets management on economic growth in Nigeria
3. Establish the effect of DMBs return on equity on economic growth in Nigeria.
4. Ascertain the effect of DMBs capital Adequacy on economic growth in Nigeria.

## Literature Review

### Empirical Literature

Financial institutions, particularly banks, play a pivotal role in channeling funds from savers to investors. Numerous studies have explored the empirical relationship between the financial performance of banks and macroeconomic development, with Nigeria being a focal point in the African region. This review examines both Nigerian and global perspectives to provide a comprehensive understanding.

Ele et al (2025) analyzed the impact of macroeconomic variables on the financial performance of Nigerian deposit money banks between 2005 and 2023. They discovered a strong correlation between GDP growth and return on equity (ROE), confirming the bidirectional causality between banking strength and economic expansion. Iheanokhan and Aliyu (2025) found that exchange rate volatility adversely affects bank profitability, which in turn weakens their contribution to GDP. A managed exchange rate system is thus pivotal for stable banking growth. Longinus and Ibim (2025) demonstrated that loans to the private sector from banks significantly contribute to GDP growth. Their findings reinforced the financial intermediation theory. Aruofor and Ogbeide (2024) conducted a long-term projection on the role of banks in Nigeria's economy toward 2030. They found that strong asset bases and financial inclusion metrics are significant predictors of GDP growth.

Afolabi and Oladipo (2019) conducted a study on Nigerian commercial banks from 2006 to 2016 using panel regression techniques. Their findings indicated a statistically significant relationship between Return on Assets (ROA), Return on Equity (ROE), and GDP growth. The authors concluded that financial soundness and profitability enable banks to increase credit provision, thereby stimulating investment and productive

activities in the economy. Similarly, Eze and Okoye (2016) analyzed the role of commercial banks in promoting economic growth using a time series regression covering 1986 to 2014. Their results showed a strong and positive relationship between commercial bank credit to the private sector and economic output. The study emphasized that effective financial intermediation facilitates capital formation and entrepreneurship.

Nwankwo and Nwankwo (2014) focused on bank performance metrics such as Net Interest Margin (NIM) and Non-Performing Loans (NPL) in a Vector Autoregression (VAR) framework. They found that improved NIM and reduced NPL ratios were associated with higher real GDP growth, indicating that credit quality and profit efficiency are critical components in the finance-growth link. In contrast, other scholars report mixed or statistically insignificant effects. Ibe (2013), in a seminal study covering the period 1980–2010, found that while financial deepening indicators (e.g., credit to the private sector as a percentage of GDP) had a positive relationship with economic growth, profitability indicators such as ROA and ROE were not statistically significant. This suggests that bank profitability alone does not guarantee developmental impact, especially if profits are not reinvested in the real sector.

In a similar vein, Atoyebi et al. (2013) observed that the Nigerian banking sector's performance, while improving in profitability, had little correlation with GDP growth. They attributed this to the tendency of banks to lend predominantly to the oil and gas sector, government contractors, and short-term consumer lending—all of which limit the long-run multiplier effect on productive economic sectors such as agriculture and manufacturing. Uchenna and Chijindu (2020) extended this analysis by examining post-consolidation data from 2006–2018 and found that while capital adequacy and liquidity ratios improved, real sector lending remained stagnant. Their conclusion was that structural inefficiencies and risk aversion in lending practices undermined the potential developmental role of banks.

Several studies highlight the impact of credit allocation and loan quality on the finance-growth nexus. For example, Okafor et al. (2020) observed that Nigerian banks' preference for short-term, low-risk lending products limits their impact on capital-intensive sectors. Their empirical model found a weak relationship between private sector credit growth and GDP, particularly during periods of high NPL ratios. Bamidele and Joseph (2015) analyzed the post-2008 global financial crisis period and concluded that non-performing loans had a strong negative effect on banks' ability to intermediate credit effectively. Their findings suggest that risk management and credit appraisal mechanisms must be improved to enhance the developmental role of DMBs.

Adegoke et al. (2022) evaluated the resilience of Tier-1 banks during the pandemic and found that banks with strong digital infrastructure and diversified portfolios continued

to support the economy through credit expansion. Their findings underscore the importance of technology, capital buffers, and policy support in maintaining the link between bank performance and growth during crises. Moreover, Oladimeji and Abubakar (2023) explored the role of fintech collaboration with traditional banks and found that financial inclusion increased significantly between 2020 and 2022. While this had not yet translated into GDP growth at the time of study, they projected that improved access to financial services would catalyze economic development in the medium term.

From the OECD countries, Samour et al. (2025) analyzed 142 banks across 24 OECD countries, using panel regression. They found that strong corporate governance and financial inclusion are significantly linked to bank performance, which in turn boosts GDP. Anh and Le (2025) conducted an empirical study in several Asian nations and found that digital banking distribution significantly enhances GDP, especially when combined with financial literacy programmes.

In Sub-Sahara Africa, Onyekwere and Chikhungu (2025) revealed that bank-related foreign aid and credit lines contributed to HDI and GDP growth across ECOWAS nations post-GFC, affirming banking's indirect growth link. Hanafi and Sari (2025) found that funding liquidity risk negatively impacted bank performance and thus macroeconomic stability in several MENA countries.

In Europe, Frolov (2025) emphasized how green financing through banks significantly spurred GDP and sustainable investment in post-war Ukraine.

## Methodology

This study adopts an ex-post facto research design, which is suitable for analyzing historical data to determine the effect of one variable on another without manipulating the independent variables. Given that the financial performance of banks and economic growth metrics already exist in documented records, this non-experimental design is appropriate (Onwumere, 2009). The study is quantitative in nature and applies econometric analysis to evaluate the impact of Deposit Money Banks' financial performance on Nigeria's economic growth over the period 2000–2023. The timeframe is chosen to reflect major banking reforms, post-consolidation developments, oil shocks, and COVID-19 impacts.

Secondary data will be used for this study, sourced from publicly available and reliable platforms including the Central Bank of Nigeria (CBN): Annual Statistical Bulletins, and financial stability reports, the World Bank World Development Indicators and the

World Bank Financial Indicators for datasets spanning annual observations from 2000 to 2023.

To estimate the effect of financial performance of DMBs on economic growth, the functional expression of the relationship between them is expressed as:

ECOGR f(DMBPF) ……. (i)

ECOGR = Economic Growth, represented by Gross Domestic Product Growth (GDPG, DMBPF = Deposit Money Banks Performance decomposed into ROA (Return on Assets), ROE (Return on Equity), ZSC = Z-Score, which is a proxy for DMBs financial stability. Capital Adequacy Ratio (CAR), and Inflation rate serves as control variables.

Therefore, the research model is expressed in econometric terms as:

$GDPG = \beta_0 + \beta_1 ROA + \beta_2 ROE + \beta_3 ZSC + \beta_4 CAR + \beta_5 INF + \epsilon$ …….. (ii).

Where:

$\beta_0$ = Constant term

$\beta_1$ …… $\beta_5$ = Coefficients of explanatory variables

$\epsilon$ = Error term

The study employs both preliminary tests and diagnostics (descriptive statistics, correlations analysis, Augmented Dickey Fuller (ADF) stationarity test and the Autoregressive Distributed Lag (ARDL) Bound test of co-integration) and the ARDL long and short run forms technique to examine the effect of banks' financial performance on Nigeria's economic growth. The ARDL model for this study is expressed as:

$$GDPG_t = \alpha + \sum_{i=0}^{P} \alpha_i GDPG_{t-i} + \sum_{j=0}^{q_1} \beta_j ROA_{t-j} + \sum_{k=0}^{q_2} \gamma_k ROE_{t-k} + \sum_{l=0}^{q_3} \delta_l ZSC_{t-l} + \sum_{m=0}^{q_4} \varphi_m CAR_{t-m} + \sum_{n=0}^{q_5} \theta_n INF_{t-n} + \varepsilon_t \quad \text{(iii)}$$

Where:

$\alpha_0$ is the intercept term,

$\alpha_i$, $\beta_j$, $\gamma$□, $\delta$□, $\varphi$□, $\theta$□ are the coefficients of the ARDL model

$\varepsilon$□ is the white noise error term.

The ARDL model allows for a mix of I(0) and I(1) series (stationary at level or first difference), and is generally appropriate for small sample sizes as often used in macroeconomic and financial time series analysis. The maximum lag length selected using Akaike Information Criteria is 1(one). The study also tests the estimates of the ARDL for reliability and robustness with the Jarque-Bera (J-B) residual normality test, serial correlation and homoscedasticity tests.

## Results and Discussion

### *Descriptive Statistics*

The essential statistical properties of the research variables are as displayed in Table 1.

The descriptive statistics provided present a foundational understanding of the central tendencies and distribution characteristics of the six variables examined over a period of 23 observations. Economic growth (GDPG) has a mean value of approximately 4.94%, which reflects a moderate pace of economic expansion in Nigeria over the sample period. Its distribution is slightly right-skewed, as indicated by a positive skewness value of 0.51, and a kurtosis of 3.91, suggesting mild leptokurtic behavior—there are slightly more extreme values than would be expected under a normal distribution. However, the Jarque-Bera (JB) probability value of 0.403 shows that GDPG does not significantly deviate from normality.

Table 1: Statistical Properties of Variables

| | GDPG_ | ROA | ROE | ZSC | INF | CAR |
|---|---|---|---|---|---|---|
| Mean | 4.943785 | 0.578873 | 14.88053 | 14.67317 | 12.59286 | 15.69410 |
| Skewness | 0.515297 | -1.183146 | 0.334290 | 0.980993 | -0.069560 | -1.546254 |
| Kurtosis | 3.912505 | 1.39872 | 4.423374 | 3.155083 | 2.176114 | 3.654627 |
| | | | | | | |
| Jarque-Bera | 1.815839 | 324.7915 | 2.369949 | 3.712048 | 0.669053 | 15.91854 |
| Probability | 0.403363 | 0.1422010 | 0.305754 | 0.156293 | 0.715677 | 0.2044349 |
| Observations | 23 | 23 | 23 | 23 | 23 | 23 |

Source: Authors' compilation from SPSS 30.00 version output (2025).

On its part, Return on Assets (ROA) reveals a different picture. With a very low average of 0.58%, this metric suggests that banks in Nigeria have relatively poor asset utilization efficiency. This variable is left-skewed, with a skewness of -1.18, and platykurtic, given its kurtosis of 1.4 and the JB test with a p-value of 0.1422010 indicates failure to reject

the null hypothesis of normality at 5% significant level. Return on Equity (ROE), however, averages 14.88%, showing that banks provide relatively strong returns to their shareholders. The distribution of ROE is only mildly skewed (0.33) and moderately peaked (kurtosis of 4.42). Importantly, the JB test gives a p-value of 0.305, suggesting no significant deviation from a normal distribution.

The Z-score (ZSC), which is an indicator of financial stability and distance to insolvency, has a mean value of 14.67, suggesting a healthy level of stability among banks. It is right-skewed and has a near-normal distribution with a kurtosis of 3.15. The JB test does not reject normality (p = 0.156), suggesting the reliability of this variable for econometric modeling. Inflation (INF) records an average of 12.59%, reflecting the persistent high-inflation environment in Nigeria. Its distribution is nearly symmetrical (skewness = -0.07) and slightly platykurtic (kurtosis = 2.18), suggesting a relatively flat distribution. The normality test yields a p-value of 0.715, indicating failure to reject the null hypothesis of normality at 5% significant level. . Capital Adequacy Ratio (CAR) averages 15.69%, indicating that Nigerian banks are well-capitalized relative to regulatory benchmarks. However, its strong left-skewness (-1.55) and kurtosis (3.65) imply an uneven distribution, with more frequent extreme values below the mean. The JB p-value of 0.2044349, indicates normality.

Table 3: Stationarity Test Results

| Variable | ADF Stat @ Level (5%) | | ADF @ 1st Diff (5%) | | Order |
|---|---|---|---|---|---|
| | Statistics | *p-value* | Statistics | *p-value* | |
| GDPG_ | -2.366801 | 0.1614 | -4.227280 | 0.0041 | I(I) |
| ROA | -5.255855 | 0.0003 | - | - | I(0) |
| ROE | -2.645514 | 0.0988 | -6.632332 | 0.0000 | I(I) |
| ZSC | -1.924832 | 0.3155 | -8.766139 | 0.0000 | I(I) |
| CAR | -7.979122 | 0.0000 | - | - | I(0) |
| INF | -2.836114 | 0.0695 | -4.700364 | 0.0015 | I(I) |

Source: Author s' compilation from SPSS 30.00 version output (2025).

The test results reveal that Return on Assets (ROA) and Capital Adequacy Ratio (CAR) are stationary at level, indicating their statistical properties do not change over time. These variables are classified as I(0). Conversely, GDP growth (GDPG), ROE, Z-score (ZSC), and Inflation (INF) are non-stationary at level but become stationary after first differencing. These variables are therefore integrated of order one, or I(1). This means they exhibit trends or unit roots in their raw form but become stable after transformation. The mix of I(0) and I(1) variables in the dataset justifies the use of Autoregressive Distributed Lag (ARDL) modeling, which allows for combining stationary and non-stationary variables without risking spurious regression.

### *ARDL Bound Co-integration (Long-run) Test*

The ARDL Bound test for the presence of long-run relationship between banks' performance and economic growth and the result is presented in Table 4.

Table 4: Bound Co-integration Test Result

| F-Bounds Test | | Null Hypothesis: No levels relationship | | |
|---|---|---|---|---|
| Test Statistic | Value | Signif. | I(0) | I(1) |
| | | | Asymptotic: n=1000 | |
| F-statistic | 6.182047 | 10% | 2.26 | 3.35 |
| K | 5 | 5% | 2.62 | 3.79 |
| | | 2.5% | 2.96 | 4.18 |
| | | 1% | 3.41 | 4.68 |

Source: Author s' compilation from SPSS 30.00 version output (2025).

The F-statistic = 6.182 exceeds the upper bound critical values at 1%, 2.5%, 5%, and 10% significance levels, confirming the existence of a long-run relationship between the dependent and explanatory variables.

### Effect of Banks' Performance on Economic Growth

The estimates of the ARDL long and short run forms are displayed in Table 5

From Table 5, GDPG_(-1) (lag of GDP growth) has a coefficient of -0.0665, which is statistically insignificant (p = 0.7504), suggesting that past GDP growth does not significantly predict current GDP growth within the model. ROA (Return on Assets) has a negative and statistically insignificant coefficient (-0.0367; p = 0.7873), indicating that the profitability of banks in terms of asset usage has no significant impact on economic growth. For ROE (Return on Equity), it has a strong positive effect on GDPG, with a coefficient of 0.5004 (p = 0.0179), while its first lag (ROE(-1)) also remains significant (coefficient = 0.3214; p = 0.0403). This confirms that improved shareholder returns have both current and lagged positive effects on Nigeria's GDP growth. ZSC (a structural or stability-related variable) has an insignificant and negative impact (coefficient = -0.2524; p = 0.6285), suggesting a weak or non-systematic influence.

The current and first lag of CAR are not significant, but the second lag of CAR is positive and significant (coefficient = 0.3745; p = 0.0419), implying that the long-term adequacy of capital may support economic expansion, but with delayed effects. For INF, both current and lagged variables are statistically insignificant (p > 0.24), with mixed signs, showing no robust effect on GDP growth in this model. The R-squared = 0.88 and Adjusted R-squared = 0.73, signifying that the model explains 73% of the variation in GDP growth. The F-statistic = 5.88, p = 0.0096 imply that the overall model

is statistically significant. The Durbin-Watson stat = 2.39 shows no evidence of autocorrelation.

Table 5: ARDL Long and Short Run Estimates

| Dependent Variable: GDPG_ | | | | | |
|---|---|---|---|---|---|
| Method: ARDL | | | | | |
| Long Run Form | | | Short Run Form | | |
| Variable | Coefficient | Prob.* | Variable | Coefficient | Prob.* |
| GDPG_(-1) | -0.066519 | 0.7504 | D(ROE) | 0.500405 | 0.0002 |
| ROA | -0.036661 | 0.7873 | D(CAR) | -0.114201 | 0.1482 |
| ROE | 0.500405 | 0.0179 | D(CAR(-1)) | -0.374485 | 0.0017 |
| ROE(-1) | 0.321351 | 0.0403 | D(INF) | 0.198708 | 0.2647 |
| ZSC | -0.252393 | 0.6285 | C | -3.726234 | 0.0004 |
| CAR | -0.114201 | 0.7015 | CointEq(-1)* | -1.066519 | 0,0001 |
| CAR(-1) | -0.056353 | 0.7574 | R-squared | 0.863201 | |
| CAR(-2) | 0.374485 | 0.0419 | Adjusted $R^2$ | 0.810585 | |
| INF | 0.198708 | 0.4977 | F-statistic | 16.40592 | |
| INF(-1) | -0.376847 | 0.2458 | Prob(F-statistic) | 0.000033 | |
| C | -3.726234 | 0.7584 | Durbin-Watson | 2.394451 | |
| R-squared | 0.880301 | | | | |
| Adjusted $R^2$ | 0.730676 | | | | |
| F-statistic | 5.883405 | | | | |
| Prob(F-statistic) | 0.009635 | | | | |
| Durbin-Watson stat | 2.394451 | | | | |

Source: Author s' compilation from SPSS 30.00 version output (2025).

The short-run dynamics and speed of adjustment toward long-run equilibrium reveal that for the variables in their first differences D(ROE) is highly significant (= 0.5004; p = 0.0002), suggesting that short-run changes in bank equity returns immediately boost GDP growth. D(CAR(-1)) is significantly negative (coefficient = -0.3745; p = 0.0017), indicating that past capital adequacy, paradoxically, hinders short-run GDP performance, possibly due to over-capitalization or under-lending. D(CAR) and D(INF) are not significant. The CointEq(-1) has a coefficient of -1.0665 (p = 0.0001), which is negative and highly significant. This suggests a strong and stable error correction mechanism, meaning the system corrects 106.6% of its disequilibrium each year, an extremely fast rate of convergence to long-run equilibrium. The R-squared = 0.86 and Adjusted R-squared = 0.81: The ECM explains 81% of short-term fluctuations. Also, the Durbin-Watson = 2.39 shows, no signs of autocorrelation.

## Post-estimation Tests

The residuals of the ARDL models are subjected to normality, serial correlation and heteroscedasticity tests and the results are a presented in Table 6.

Table 6: Post-estimation Tests

| Test | Statistics | Prob. | Decision |
|---|---|---|---|
| Jarque-Bera Normality Test | 0.679333 | 0.712008 | Normally Distributed |
| Serial Correlation Diagnostic (Breusch-Godfrey LM Test) | 0.4054 | 0.6837 | Not serially correlated |
| Heteroskedasticity Test (Breusch-Pagan-Godfrey) | 0.2388 | 0.9809 | Homoscedastic |

Source: Author s' compilation from SPSS 30.00 version output (2025).

The Jarque-Bera normality test shows that the residuals are normally distributed (0.679333, p = 0.712008). This serial correlation test which checks whether residuals are autocorrelated shows that F-statistic = 0.4054 (p = 0.6837) there is no evidence of serial correlation in the residuals. This confirms the model's robustness in terms of autocorrelation. The heteroskedasticity test (Breusch-Pagan-Godfrey) assesses whether the variance of the residuals is constant (homoskedasticity). The results (F-statistic = 0.2388, p = 0.9809) reveals no presence of heteroskedasticity, that is, the residuals have constant variance, affirming the model's reliability.

## Discussion of Findings

This study set out to examine the effect of the financial performance of Deposit Money Banks (DMBs) on economic growth in Nigeria, using GDP growth rate as a proxy for economic performance. The empirical strategy adopted involved the Autoregressive Distributed Lag (ARDL) methodology, which allowed the estimation of both short-run and long-run dynamics. Several key findings emerged from the analysis, with noteworthy implications for theory, policy, and practice in Nigeria's financial sector.

A prominent and consistent observation is the positive and statistically significant effect of Return on Equity (ROE) on Nigeria's economic growth. ROE was the only performance indicator that demonstrated consistent impact across both the short-run and long-run models. This implies that when DMBs deliver higher returns to their shareholders, indicative of efficient capital utilization and solid profitability, this translates into enhanced support for productive economic activities. The significance of ROE aligns with expectations in financial economics, where strong shareholder returns reflect sound bank management, investor confidence, and enhanced capital capacity, all of which enable banks to expand credit to the real sector. This finding supports the supply-leading hypothesis, suggesting that an efficiently functioning banking sector can

catalyze economic expansion by providing adequate financial intermediation.

In contrast, Return on Assets (ROA) was not found to have any significant effect on GDP growth. While ROA is a standard measure of bank profitability and operational efficiency, its lack of impact suggests that the mere ability of banks to generate profit from assets does not necessarily translate into broader economic benefits. This finding may point to structural inefficiencies or the possibility that profits are being derived from non-lending operations such as investments in government securities or foreign exchange gains rather than credit to productive sectors. It also implies that bank asset use in Nigeria may not be optimally aligned with economic development objectives, such as financing SMEs, infrastructure, or manufacturing ventures.

The findings relating to Capital Adequacy Ratio (CAR) are nuanced. While CAR was not statistically significant in the short-run model, one of its lagged terms was significant, suggesting a delayed influence. In the short term, however, CAR's impact was negative, possibly indicating that overcapitalized banks may become risk-averse and less inclined to lend, particularly in volatile economic environments like Nigeria's. In the long run, however, the stability provided by adequate capitalization likely supports economic resilience, credit creation, and investor confidence. This duality highlights the need for a balanced regulatory approach—while maintaining sufficient buffers for solvency, banks must also be incentivized to channel capital toward productive lending rather than risk-averse investment behaviors.

Another key finding is the lack of statistically significant effect of inflation (INF) on economic growth within the model. This suggests that inflation variability, although a concern for macroeconomic stability may not directly interact with the transmission mechanism between bank performance and economic output within the Nigerian context. One possible interpretation is that inflationary effects are largely absorbed or offset by monetary policy interventions or that businesses have adapted to operating within inflation-prone environments, thereby muting its measurable impact on growth through the banking channel.

Equally noteworthy is the role of the error correction term, which was highly significant and negative, suggesting a strong tendency for the system to return to equilibrium following short-run shocks. This validates the robustness of the cointegration relationship established by the bounds testing procedure and confirms that despite year-to-year fluctuations, a stable long-run relationship exists between bank performance indicators and GDP growth. Such a finding reinforces the argument for sustained financial sector reforms aimed at deepening the resilience and developmental role of DMBs.

The insignificance of other structural control variables, such as ZSC (bank stability),

further suggests that institutional dynamics, unless robustly developed and measured, may not yet be powerful drivers of growth in the Nigerian banking-growth nexus. This finding calls for greater attention to the qualitative transformation of banking institutions beyond balance-sheet metrics, including governance, digitalization, and strategic sectorial lending.

In theoretical terms, the results provide partial support for both the supply-leading hypothesis, as financial performance (specifically ROE) leads growth, and the endogenous growth theory, which emphasizes internal institutional capacities and reinvestment strategies. The demand-following hypothesis is less evident, suggesting that, at least during the studied period, growth was more responsive to financial sector performance than vice versa.

This study underscores the critical role that specific dimensions of bank performance, especially shareholder returns, play in influencing Nigeria's economic trajectory. The results suggest that enhancing the financial strength and equity efficiency of DMBs can generate multiplier effects that reverberate across the economy. However, this must be complemented with institutional reforms, targeted lending, and a commitment to development banking principles. Nigerian policymakers and bank regulators should therefore consider strategies that encourage reinvestment of profits into growth-enhancing sectors and promote inclusive credit access to amplify the growth benefits of a thriving banking sector.

## Conclusion and Recommendations

This study set out to investigate the effect of the financial performance of Deposit Money Banks (DMBs) on economic growth in Nigeria, using annual data from 2010 to 2023. The findings revealed that Return on Equity (ROE) is the most consistent and significant predictor of GDP growth, both in the short-run and long-run. This underscores the importance of equity profitability in facilitating credit expansion and productive investment. Conversely, ROA, CAR, and inflation (INF) did not exhibit statistically significant short-run impacts, though lagged CAR had a delayed positive effect in the long run.

From the empirical analysis, it is clear that the financial performance of Nigerian Deposit Money Banks plays a pivotal but selective role in driving economic growth. The positive and significant impact of ROE suggests that well-managed banks, which deliver substantial returns to equity holders, are more likely to engage in profitable lending and strategic investments that foster economic productivity. However, the lack of significance for ROA and inflation points to deeper structural issues such as the

nature of bank earnings and limited alignment between profitability and real sector development. Furthermore, the mixed results for CAR suggest that while capitalization is essential for stability, it may inhibit short-term lending flexibility, particularly during periods of conservative regulatory stance or economic uncertainty.

The study therefore recommends that policymakers and regulatory authorities should encourage banks to improve ROE through prudent management, investment diversification, and expansion into underbanked sectors that offer high social returns. Also, it is essential that profits, especially from Tier-1 banks, are reinvested in sectors such as agriculture, manufacturing, and SMEs, which have greater potential to stimulate employment and output growth. Furthermore, while CAR is crucial for financial stability, regulators should ensure that requirements do not stifle credit creation. A balanced framework that encourages productive risk-taking is necessary. Moreover, banks should be incentivized to shift from short-term speculative lending to long-term project financing through guarantees, credit enhancement schemes, and interest rate concessions.

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