Innovations

Financial Deepening and Financial Performance of Deposit Money Banks in Nigeria

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Abstract
The study examined the relationship between financial deepening (FD) and financial performance (FP) of deposit money banks (DMBs) in Nigeria for the period of 1997-2020 (24years). This was done in respect to the measures of financial deepening, namely; Ratio of Broad Money Supply to Gross Domestic Product (M_2/GDP), Ratio of Private Sector Credit to Gross Domestic Product (PSC/GDP), Ratio of Market Capitalization to Gross Domestic Product (MCAP/GDP) and Ratio of Banks Deposit to Gross Domestic Product (BD/GDP) in relation to financial performance proxied with Return on Equity (ROE) of deposit money banks in Nigeria. The data for the study was sourced from CBN statistical bulletin, CBN bank supervisory annual report and NDIC annual report. Then, the stationary and normality tests were carried out, followed by the descriptive statistics, correlation and multiple regression tool of analysis. The result showed that; M_2/GDP, PSC/GD, MCAP/GDP and BD/GDP have positive significant effect on FP proxied with ROE of DMBs in Nigeria. Thus, the study concluded that FD significant effects on FP of DMBs in Nigeria. Hence, government policy should be geared toward strategically increasing money supply in order to improve overall economic efficiency, create and expand liquidity, mobilize savings, boost capital accumulation, transfer resources from traditional sectors to growth-inducing sectors (such as manufacturing and industry, agriculture, and services), and promote competent entrepreneurial response in various sectors of the economy. However, to guarantee that it (money supply) does not lead to financial excess.

Key Words: *1.Financial Deepening; 2.Financial Performance; 3.Financial Excess; 4.Growth-InducingSectors; 5.Deposit Money Banks*

Introduction

In an economy, banks' role is to ensure a smooth payment system and to act as a conduit for monetary policy implementation (Olawumi, Lateef & Olade, (2017); Meteke , Ehiedu, Ndah and Onuorah, (2022). The primary function of a bank is financial intermediation, which includes receiving deposits, providing loans of various maturities at fixed or variable rates, and earning money through interest rate spreads by charging for services supplied (Ron, 2018). Nigerian banks are facing increased competition and rising expenses as a result of regulatory requirements, financial and technological improvements, bank crisis, and other difficulties, all of which have a substantial impact on their performance (Olawumi, Lateef & Olade, 2017, Ehiedu, and Odita, (2014).

The consolidation endeavour is one of the most significant developments in Nigeria's banking sector in recent years. Increasing the maximum paid-up capital, in particular, is expected to improve the country's banking services (Ehiedu, Odita & Kifordu, 2020). This is supposed to enable Nigerian banks to provide services to sectors of the population who have previously been excluded from the financial system (Olawumi, Lateef & Olade, 2017). According to Adewunmi (2020), suggested that banks that could not meet the recapitalization criterion alone should engage in merger and acquisition, and therefore recapitalization is considered as a key component of consolidation.

Financial deepening (FD) refers to the ability of financial institution's to successfully deploy savings for investment objectives. FD also includes financial institutions' operations in financial markets, which leads to increased access to financial instruments and services, as well as an increase in savings and investment levels, all of which conform to a system free of financial repression. The development of the banking industry has a good impact not only on the banking sector's performance, but also on the country's economy's growth (Ehiedu and Olannye, (2014); Obafemi, Oburota & Amoke, 2019).

According to Otieno (2019), Ehiedu, Onuorah, and Owonye, (2022), a developed banking sector broadens the accessibility of its services to customers, whereas an underdeveloped banking system limits the accessibility of its services to the public, resulting in borrowing of money to fund its operations, resulting in few economic activities and slow economic growth. Financial deepening, according to Okafor, Onwumere, and Chijindu (2018), leads to the availability of banking services by banking institutions, which leads to strong performance of banking institutions due to expanded client base and growth of banking services.

Deposit money banks (DMBs) are financial institutions that offer a wide range of services to both individuals and businesses (Idowu, Essien & Adegboyega, 2018). The aim of intermediation is effective as a mechanism for every nation's economic progress (Ehiedu, Onuorah & Okoh, 2021). Since the emergence of formal money and capital markets, portfolio management, deposit money institutions in Nigeria have undergone significant regulatory and technological changes (Ngerebo, Apoel & Lucky, (2018), Ehiedu, (2022).

In bids to provide financial intermediation services, banks must produce enough revenue to cover the associated operational costs (Yusuff and Olaniran-Akinyele, (2019), Ehiedu, Onuorah, and Osakwe, (2022). To put it another way, a strong financial position is essential to ensure a long-term intermediation role. Good FP is not only a prerequisite for better intermediation, but it also compensates shareholders for their investments and stimulates new investments (Ongore & Kusa, 2018). Bank FP has a considerable effect on investment, company growth and industrial expansion (Ehiedu, and Imoagwu, (2022). Sheefeni, 2018; Yusuff, et al, 2019).

The ability to make profit is the most important factor in a bank's FP. A bank is profitable if it can earn income by moving idle funds from depositors to investors through its operating activities (Ehiedu and Imoagwu (2022). In other words, FD, intermediation function, and bank profitability are all interconnected (Yusuff, et al, (2019), Ehiedu, and Obi, (2022). Hence, this research looked into the effects of FD and DMBs of FP in Nigeria.

Statement of the problem

According to Evesi, Ehiedu, Obaro, and Onuorah, 2022), access to financial services, expansions of financial services, efficiency of financial operations, increased marginal productivity of capital through the intermediation function, improved the transaction process, and supply to customers with more financial products are all benefits of FD. However, the level to which FD has boosted DMBs performance in Nigeria has been a source of ongoing controversy. Another important element that has recently attracted a lot of attention is the impact of FD on bank FP, particularly in the wake of bank failures and the global economic and financial distress. Much of the FD policies appear to focus on improving bank FP, with debatable level of success of these policies.

What happens if FD spirals out of hand (too quickly)? ” This means that excessive FD or too much FD is a hazard to growth and development. The issue currently is determining the level of FP that is optimal for bank FP (Okafor, et al, 2018, Agbogun, Ehiedu, Bayem, and Onuorah, 2022).

Bayem, Ehiedu, Agbogun, and Onuorah, (2022) and Adewunmi (2020), Yusuff and Olaniran-Akinyele (2019), and Olawumi, Lateef, and Olade (2017) in Nigeria conducted some of the few known empirical studies on the association between FD and bank FP in Nigeria. Other studies, such as Odita, Ehiedu and Kifordu A.A, (2020). Karimo and Ogbonna (2017), Nwanna and Chinwudu (2016), Okafor, Onwumere, and Chijindu (2018), and

Alrabadi and Kharabsheh (2018), focus on FD and economic growth, while Ho, Huang, Shi, and Wu (2017) study FD innovation efficiency, thus ignoring bank FP.

This study considers the apparent gap in the literature, since many knowledge on the influence of FD on economic growth do not take into account, the FP of DMBs, as economic growth lubricant of any country. Hence, this research explores the effect of FD on FP of DMBs in Nigeria. By providing answer to the questions that ascertain to what effects have M2, CPS, MCAP and RBD all divided by GDP has affected FP of DMBs in Nigeria?

Concept of Financial Deepening (FP)

According to Onuorah, Ehiedu and Okoh, (2021), Hamilton and Godwin (2018), the Nigerian economy currently has access to a diverse range of financial assets, as a result of an increase in the supply of financial assets. The ability of DMBs to mobilize adequate deposits for manufacturing-related initiatives is referred to as "financial sector deepening."

The M2 to GDP ratio depicts the expansion of domestic savings and provides a genuine structure for the development of various financial claims, which is enabled by Nigeria's banking sector's expansion. This has benefited DMBs (Christian, 2018, Odita, and Ehiedu, Victor 2015).

In all areas of the economy, FP is described as an improvement in the provision of financial services with a wide variety of possibilities, a greater M2 to GDP ratio is required (Ohwofasa & Aiyedogbon, 2018). It refers to liquid money; the more liquid money in an economy, the more prospects for continuing growth open up and the term "FD" refers to a considerable improvement in the banking industry that has impacted the economy at all levels (Sackey & Nkrumah, 2017).

Measures of Financial Deepening (FD)

These variables/indicators are discussed below:

Broad money supply (M2) and FP of DMB's

The CBN defines money supply in two ways: M1 and M2. Excess cash delivery occurs when the amount of cash in circulation exceeds the overall output of the economy. When the amount of money in circulation exceeds the capacity of the economy to absorb it, the rate device loses its stability, resulting in inflation or increased prices for products. When the CBN modifies the amount of money in circulation, it does so through regulation of the base cash rate (Omotor,

2018). Currency and cash outside of the banking machine, as well as bank deposits with the CBN, are used to create base cash. If the CBN believes there is too much money in circulation and fees are rising (or there is potential for prices to rise), it may reduce M2 by decreasing the lowest cash rate (Omotor, 2018, Ehiedu, Onuorah, and (2022). CBN financial coverage focuses on the rise of those deposit balances in bids to influence the expansion in cash supply, which could cause price distortions, in bids to stabilize the Nigerian DMBs institutions' FP (Omotor, 2018).

Credit to Private Sector (CPS) and FP of DMB's

Lending, being the primary activity of DMBs, can have significant implications for private sector development and may be hampered in times of calamity due to the riskiness of the business environment that typically accompany economic recession (Becks, Levin and Loayza, 2018). This is because credit facilitates the creation and maintenance of a cost-effective business size because it's used to start and/or expand a business to take advantage of economies of scale, improve casual activity, and increases its efficiency, and the returns or interest charged on those loans accelerate DMBs' FP (Tahir, Shehzadi, Ali and Ullah, (2019); Odita, Ehiedu and Kifordu (2020).

Market Capitalization (MCAP) and FP of DMB's

MCAP is a vital metric for determining the size of an inventory market and serving as a barometer for tracking its growth (Eneisik, Ogbonnaya, & Onuoha 2021). The cost of MCAP at any given time is also a function of traders' perceptions of the worth of securities on offer, their disposable discretionary income, and fund customers' willingness to see the market as a possible source of long-term capital, which has a long-term impact on DMBs' FP in Nigeria (Egungwu, 2018).

Bank Deposits (BD) and Financial Performance of DMB's

BD to GDP indicates the banking sector's liquidity (Waiyaki, 2017). Countries should design policies that encourage saving as a means of increasing earnings. On the other hand, financial savings and boom are unmistakably linked; there is a unidirectional causation that runs from financial savings to improved DMBs performance (Egungwu, 2018).

Concept of Financial Performance (FP)

FP, according to Erikie and Osagie (2017), is the monetary measurement of the outcomes of a company's policies and operations. The firm's ROI, ROA, value created, and other metrics reflect these outcomes. FP is a subjective indicator of a company's ability to earn revenue from its principal way of operation. This word is also used as a broad indicator of a company's overall financial health over time, and it can be used to compare similar companies within the same industry or to compare industries or sectors in aggregate. Company's success with that of his stakeholder group having its own area of interest, FP was measured using ROE, as suggested by Nwude and Anyalechi (2018) and Dev and Rao (2017).. However, for the purposes of this paper, ROE was employed, and it was calculated using Net Profit/Equity, as defined by (Nwude, et al, 2018).

Mckinnon/Shaw Theory

The hypotheses was originated from McKmnon; Shaw (1973), to explain any distortion and limitation on the banking sector, such as interest rate regulations, reserve and liquidity requirements, and government rationing of available credit to so-called priority sectors, according to the Mckinnon/Shaw theory, stifles financial development by decreasing interest rates. Olawumi, Lateef, and Oladeji, 2017) opined that the decline in total deposits in deposit money institutions will have a considerable effect on growth since it will stifle investment. Economists believe that suppression of FD will lead local agents to prefer non-yielding or non-monetary assets over depositing with DMBs. This could happen because the funds available to lend to the economy are insufficient, making growing investments in reporting sector difficult (Capannelli, 2019).

Financial Intermediation Theory (FIT)

Surplus units deposit funds with DMBs, which then lend to deficit units. Based on information asymmetry theory and agency theory, Gurley and Shaw formulated the theory in 1960. Financial intermediation, defined as the degree at which DMBs finance the deficit units of the economy with funds collected from the surplus units (Ndebbio, 2017). Why, rather than lending directly to borrowers, do investors first lend to banks, who then lend to borrowers, is a key topic that theories attempt to answer. Arguments highlight the obvious fact that DMBs can efficiently monitor borrowers and hence serve as delegated monitoring agents. Investors who buy secondary assets from intermediaries will instead buy primary securities directly to save the intermediary's charges if the intermediary fails to provide their service.

The research is based on the FIT. Each of the financial sectors mentioned plays an important role in transferring funds from surplus-generating economic units to deficit-generating economic units. Both sectors generate enormous pools of funds and provide ways for these funds to be evaluated by other economic units. The latter (creating systems that allow funding to be appraised) is how the separate sectors promote FD.

Literature Gaps

According to the literature analysis, three are only three studies, namely; Adewunmi (2020), Yusuff and Olaniran-Akinyele (2019); Ehiedu (2022); Olawumi, Lateef, and Olade (2017) that has examined the nexus between FD and DMBs FP in Nigeria. There is a paucity of knowledge on the subject matter, which currently serves as a gap in the knowledge that has to be filled. This research is conducted in a timely manner in order to close such lacuna in the knowledge on the influence of FP on economic growth where adequate attention is not paid to the "lubricant" that drives growth, namely bank FP. This paper aims to close the gap by investigating the effect of FD on DMBs

This study made use of Ex-post facto research design; this is because the data for the study has to do with events that have already taken place which cannot be manipulated by the researcher. The data was gathered from CBN

statistical bulletin, CBN bank supervisory annual report and NDIC annual report for the duration under review, because it reduces time wastages in data gathering and it also provides a broad background and readily improves one's learning curve.

Since the data are annual time series, they were subjected to unit root test, this was followed by the Johansen co-integration test. Also, the research work employed descriptive statistics, correlation matrix and multiple regressions, using E-VIEW 9.0. The Multiple Regression Model was chosen because it displays the degree of link between the independent factors and the dependent variable, allowing researchers to determine whether the relationship is significant.

The model for the paper was adopted from the study of Olawumi, Lateef & Olade (2017). The model was modified to suit the variables of this study. Hence, this study state the functional form of the model specification follows:

ROE = f((M_2/GDP), (PSC/GDP), (MCAP/GDP), (BD/GDP) ……eqn 3.1

ROE = $\beta_0 + \beta_1(M_2/GDP) + \beta_2(PSC/GDP) + \beta_3(MCAP/GDP) + \beta_4(BD/GDP + E$……eqn 3.2

E=Error Term, β_0–β_4=the parameters and Apriori Expectation = β1, β2, β3, β4 > 0

4.1 Results and Discussions

Table 4.1: Descriptive Statistics

	ROE	M2_GDP	PSC_GDP	MCAP_GDP	BD_GDP
Mean	22.54667	18.14529	14.14697	15.99745	8.793674
Median	20.80500	20.18949	16.43668	16.72974	10.55858
Maximum	60.07000	25.15527	22.33140	39.95010	13.40571
Minimum	0.270000	10.05147	7.669579	5.652526	3.445826
Std. Dev.	16.80416	5.187026	5.564719	7.871151	3.332852
Skewness	0.881942	0.208892	0.062153	0.952369	-0.222071
Kurtosis	3.215069	1.375712	1.218535	3.660727	1.412215
Jarque-Bera	3.157543	2.812855	3.189069	6.386041	2.718324
Probability	0.206228	0.245017	0.203003	0.041048	0.256876
Sum	541.1200	435.4869	339.5273	383.9388	211.0482
Sum Sq. Dev.	6494.739	618.8204	712.2203	1424.966	255.4818
Observations	24	24	24	24	24

Source: Computed from E-Views 9.0, (2022)

Table 4.1 above is the presentation of the summary statistics. ROE recorded a mean value of 22.5467 with a standard deviation (SD) of 16.8042 over the twenty-four year period. Also, M_2/GDP recorded a mean of 18.1453 and SD of 5.1870, PSC/GDP recorded a mean of 14.1470 with a SD of 5.5647, MCAP/GDP recorded a mean of 15.9975 with a SD of 7.8712, while BD/GDP recorded an average value of 8.7937 with a SD of 3.3329. Since the SDs is smaller than respective means, it indicates that the data is not widely dispersed. The normal distribution has a kurtosis of 3, which indicates neither fat nor thin tails. Consequently, if an observed distribution has a kurtosis greater than 3, the distribution has heavy tails when compared to the normal distribution. The kurtosis coefficients in Table 4.1 are less than 3, the data have thin tails when compared to the normal distribution.

Table 4.2: Correlation Matrix

	ROE	M2_GDP	PSC_GDP	MCAP_GDP	BD_GDP
ROE	1.000000				
M2_GDP	0.140704	1.000000			
PSC_GDP	0.190053	0.952204	1.000000		
MCAP_GDP	0.006677	0.551519	0.529777	1.000000	
BD_GDP	0.182872	0.965001	0.966629	0.593371	1.000000

Source: Computed from E-Views 9.0 (2022)

Table 4.3 above shows the absence of multi-co linearity among the variables since the correlation values are less than 0.7. Furthermore, the result shows the explanatory variables have positive correlation with the dependent variable.

4.3 Data Validity Test

The validity test was conducted using the LM test, Heteroskedasticity Test and Ramsey RESET Test in the bids to ascertain the validity of the data. This is presented in Table 4.3.1 below;

Table 4.3.1: Data Validity Test

Table 4.3.1a: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.430992	Prob. F(2,17)	0.2665
Obs*R-squared	3.458246	Prob. Chi-Square(2)	0.1774

Source: E-VIEW, 9.0 Outputs, 2022.

Residuals of the variables were ascertained to check for the presence of serial correlation. This was done using the LM test. The serial correlation LM test in Table 4.3.1a details that there is no element of serial correlation in the models owing to the fact that the p-values of the f-statistics are insignificant at 5% level of significance.

Table 4.3.1b:Heteroskedasticity Test

F-statistic	0.798265	Prob. F(4,19)	0.5411
Obs*R-squared	3.453037	Prob. Chi-Square(4)	0.4851
Scaled explained SS	1.896342	Prob. Chi-Square(4)	0.7548

Source: E-VIEW, 9.0 Outputs, 2022.

To ensure that there is homoscedasticity, the heteroskedasticity test via the Breusch-Pagan-Godfrey was performed. With the result there is no problem of heteroskedasticity in the models as the p-values of the f-statistics are insignificant at 5% significance level.

Table 4.4.1c: Ramsey RESET Test

Equation: UNTITLED

Specification: ROE C M2_GDP PSC_GDP MCAP_GDP BD_GDP

Omitted Variables: Squares of fitted values

	Value	Df	Probability
t-statistic	0.535874	18	0.0607
F-statistic	0.430658	(1, 18)	0.0707
Likelihood ratio	0.331209	1	0.7068

Source: E-VIEW, 9.0 Outputs, (2022)

From the Table 4.4.1c above, it confirms that the DW stat that our data has no traits of autocorrelation. Indicates that the model is homoskendastic since the probability values of three parameters are more than 0.05 level. Ramsey test result reveals that our model is correctly specified and is stable.

4.4 Augmented Dickey-Fuller (ADF)

The study performed the ADF (1979) test is the commonly used and accepted strategy for testing time series stationary property. The rationale behind this test is to avoid the problem of spurious regression which is commonly associated with data set. The presence of a unit root implies that the time-series data under investigation is non-stationary; while the absence of a unit root shows that the stochastic process is stationary.

Table 4.4.1 Summary of Augmented Dickey-Fuller (ADF) Test

ADF TEST @ LEVEL					
Test Variables	**ADF Test Statistic Value**	**Mackinnon Critical Value @ 5%**	**Order of Integration**	**P-Value**	**Decision**
ROE	-2.298778	-3.998064	1(0)	0.0669	**Non Stationary**
M2/GDP	-1.326852	-2.998064	1(0)	0.5991	**Non Stationary**
PSC/GDP	-1.134408	-3.012363	1(0)	0.6819	**Non Stationary**
MCAP/GDP	-2.149643	-2.998064	1(0)	0.2286	**Non Stationary**
BD/GDP	-1.350126	-2.998064	1(0)	0.5882	**Non Stationary**
ADF TEST @ 1ST DIFFERENCE					
Test Variables	**ADF Test Statistic Value**	**Mackinnon Critical Value @ 5%**	**Order of Integration**	**P-Value**	**Decision**
ROE	-4.475372	-3.012363	1(1)	0.0022	**Stationary**
M2/GDP	-4.380575	-3.004861	1(1)	0.0026	**Stationary**
PSC/GDP	-4.035413	-3.012363	1(1)	0.0058	**Stationary**
MCAP/GDP	-5.093837	-3.004861	1(1)	0.0005	**Stationary**
BD/GDP	-4.230442	-3.004861	1(1)	0.0036	**Stationary**

Source: E-VIEW 9.0 Arranged Result, (2022).

According to the summary of the ADF output in Table 4.4.1, all of the variables under examination contained unit root tests at their first difference 1(1), implying that the series are non-stationary at level but stationary at first difference. The value of their respective ADF statistics, which is more than the threshold value of 5%, is evidence of this. Furthermore, the p-value for all variables, which is less than 5% level of significance greater than 95 percent confidence level, provides additional proof of stationary series. At the first difference, i.e. at 1(1).

Table 4.5.1 Johansen Cointegration Test

Date: 11/27/21 Time: 14:56
Sample (adjusted): 1999 2020
Included observations: 22 after adjustments
Trend assumption: Linear deterministic trend
Series: ROE M2_GDP PSC_GDP MCAP_GDP BD_GDP

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.865576	93.81045	69.81889	0.0002	44.14860	33.87687	0.0021
At most 1 *	0.625252	49.66185	47.85613	0.0335	31.59306	27.58434	0.0220
At most 2 *	0.524492	30.06879	29.79707	0.0481	26.35417	21.13162	0.0048
At most 3	0.382429	17.71462	15.49471	0.0311	20.60313	14.26460	0.0013

Source: E-VIEW 9.0 Arranged Result, (2022).

The results of the multivariate cointegration test by Johansen and Juselius cointegration technique show that both the trace statistic and the Maximum Eigenvalue statistic show evidence of two cointegration relationships (at None and at most 1). This finding supports a long-term association between FD and FP of DMBs in Nigeria.

T**able 4.6: Multiple Regression Result**

Dependent Variable: ROE
Method: Least Squares
Date: 11/27/21 Time: 14:33
Sample: 1997 2020
Included observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	26.33902	11.69356	2.252438	0.0530
M2_GDP	2.115501	0.839873	2.518834	0.0454
PSC_GDP	2.830714	0.759218	3.728460	0.0066
MCAP_GDP	3.385220	0.597360	5.666968	0.0002
2BD_GDP	3.298333	1.588041	2.076982	0.0544
R-squared	0.781236	Mean dependent var		22.54667
Adjusted R-squared	0.712188	S.D. dependent var		16.80416
S.E. of regression	17.72172	Akaike info criterion		8.770511
Sum squared resid	5967.130	Schwarz criterion		9.015939
Log likelihood	-100.2461	Hannan-Quinn criter.		8.835623
F-statistic	14.19991	Durbin-Watson stat		1.971408
Prob(F-statistic)	0.000205			

Researcher's computation Based E-views 9.0 Output (2022)

From Table 4.6 above, the p-value of M2 to GDP is 0.0454, which is lower than the significance value of 0.05 and the t-ratio value of -2.5188 greater than 2, which shows the level of significance to which M2 to GDP affects ROE of DMBs in Nigeria. M2 to GDP with β=2.1155 implies that M2 to GDP have a favourable effect on ROE of DMBs in Nigeria. Hence, one percent (1%) increase in M2 to GDP would lead to 211.55% increase in ROE of DMBs in Nigeria. Is supported by Olawumi, Lateef and Oladeji (2017) but contradicts the results of Yusuff and Olaniran-Akinyele (2019).

The p-value of the PSC/GDP is 0.0066, which is lower than the significance value of 0.05 and the t-ratio value of 3.7285 greater than 2, which indicates the extent of significance to which PSC/GDP affects ROE of DMBs in Nigeria. PSC/GDP with β=2.8307, it showed that PSC/GDP have a considerable effect on ROE of DMBs in Nigeria. The implication is that a one percent (1%) increase in the PSC/GDP would lead to 283.07% increase in ROE of

DMBs in Nigeria. This finding agrees with the results of Olawumi, Lateef and Oladeji (2017) but contradicts the finding of Adewunmi (2020), Agbogun, and Ehiedu, (2022).

The p-value of MCAP/GDP is 0.0002 which is lower than the significance value of 0.05 and the t-ratio value of 5.6670 greater than 2, which indicates the extent of significance to which MCAP/GDP affects ROE of DMBs in Nigeria. The β of MCAP/GDP of 3.3852, this implies that MCAP/GDP have a considerable effect on ROE of DMBs in Nigeria in Nigeria. The implication is that a one percent (1%) increase in MCAP/GDP would lead to 338.52% increase in ROE of DMBs in Nigeria. This finding contradicts the result of Ehiedu, (2022); Yusuff and Olaniran-Akinyele (2019).

Finally, the p-value of BD/GDP is 0.0544 which is lower than the significance value of 0.05 and the t-ratio value of 2.0770 greater than 2, which indicates the extent of significance to which BD/GDP affects ROE of DMBs in Nigeria. The β of BD/GDP is 3.2983, this implies that BD/GDP have a considerable effect on ROE of DMBs in Nigeria. The implication is that a one percent (1%) increase in BD/GDP would lead to 329.83% increase in ROE of DMBs in Nigeria. This finding agrees with the result of Obaro, Onuorah, Evesi and Ehiedu, (2022); Obi and Ehiedu, (2020); Yusuff and Olaniran-Akinyele (2019) and Olawumi, Lateef and Oladeji (2017).

Conclusion

The study examined the relationship between FD and FP of DMBs in Nigeria for the period of 1997-2020 (24years). The result showed that; M_2/GDP, PSC/GDP, MCAP/GDP and BD/GDP have considerable effect on FP proxied with ROE of DMBs in Nigeria. Thus, the paper concluded that FD considerable effects on FP of DMBs in Nigeria.

Recommendations

The following suggestions were made, this is enumerated below;

i) M2/GDP affects bank FP, hence, government policy should be centered on deliberately increasing the M2 to improve overall economic efficiency and move resources from traditional to growth-inducing industries,

ii) Second, the credit-to-private-sector ratio has a considerable effect on bank FP; hence, therefore due consideration should be given to this sector rather than the government,

iii) Third, the MCAP/GDP has a considerable effect on bank FP. hence, the government should promote an efficient capital market that improves overall economic efficiency, creates and expands liquidity, mobilizes savings, increases capital accumulation, and promotes proficient business response in different segments, and

iv) Finally, increased deposits liability equates to improved bank performance. The management teams of these banks should take steps to encourage deposits (savings, fixed account, and current account), because cumulative deposits are used to fund investment opportunities that pay off in terms of profitability.

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