THE IMPACT OF COMMERCIAL BANKS ON ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

This paper investigates the impact of commercial banks on economic growth in Nigeria over the period of 1981-2014. This study made use of quantitative secondary data obtained from the Central Bank of Nigeria (CBN) statistical bulletin (2014). The empirical perspective of this study employed the phillip-perron Unit Root Test, cointegration test, error correction model (ECM) the parsimonious test and the pairwise granger causality test. The results of the study indicate that commercial bank loan, commercial bank assets and investment significantly and positively affect the growth of Nigeria's economy, while interest earnings is negative and insignificant based on the magnitude and the level of significance of the coefficient and p-value and, there is a long-run relationship between commercial bank loans, assets and economic growth in Nigeria. The implication of this finding is that if loans extended by the commercial banks coupled with their asset base and their activities towards investment if constructively managed with faire interest rates, will generate a robust increase in the growth of Nigerian economy. This study therefore recommends that Banks have to be careful with their pricing decision as regard to lending as banks cannot charge low rates that are too low because the revenue from interest income will not be enough to cover the cost of deposits, general expenditures and loss of revenue from some borrowers that do not pay.

Keywords: Commercial banks, Investment, commercial banks assets, Economic growth

I. INTRODUCTION:

One of the fundamental aims of an economy is to ensure that it meets the needs of her citizenry by providing services, leadership and protecting her interest. For this to be possible there has to be an adequate financial planning to be able to meet the basic needs of her people. Consequently, the economy depends largely on banks and other financial institutions to ensure that its activities

are being carried out effectively through the acceptance of deposits and make loans and profit from the difference in interest rates paid and charged to depositors and borrowers respectively. Schumpeter in 1934 observed that the commercial banking system was one of the key agents in the whole process of development. Generally, commercial banks not only facilitate, but speed up the process of economic development through making more funds available from resources mobilized. Generally, the main aim of every bank is to minimize the cost to running the affairs of the bank and at the same time maximizes owner's profit. There are various kinds of banks which include the central bank, development banks, mortgage banks, micro finance banks, agricultural banks and commercial banks.

Therefore, this research is based on a critical analysis of the impact of commercial banks to the economic growth of Nigeria. Commercial banks are banks that provide special services such as accepting deposits, making business loans and offering basic investment products. They clearly articulate their main objective as profitability. They maintain making money and they do so in a variety of ways. One way is to keep money moving from person to person, business to business. They maintain higher profitability by maintaining circular and efficient flow of amount of money deposited by customers and lenders. Commercial banks play an important role in economic development of developing countries. Economic development involves investment in various sectors of the economy. The banks collect savings from the people and mobilize savings for investment in industrial project and investor's in turn borrow from banks to finance the projects.

Commercial banks contribute directly to economic growth and development by investing directly in the productive sectors of the economy. They could own shares in commercial, industrial and agricultural ventures. They encourage investment by advising to their customers to buy government treasury bills and shares of companies. Also Bank intermediation function entails that they are associated with several sectors of the economy, hence banking sector difficulties have effect outside the banking sector also when there is a fall or shock in other sectors of the economy; it could bring about failure or difficulties in the banking system (Eniekezimene 2012). Given the economic trend of the commercial banking industry, one wondered what has hindered economic growth, though an important avenue for banks to boost the growth of the economy through efficient and effective saving investment process(financial intermediation) to stimulate investment and productive activities.

According to Central Bank of Nigeria Annual Report (2012), Sectoral Distribution of Commercial Banks' Loans and Advances (N' Million) in fourth quarter 2012 stood at 316,364.0 for Agriculture, Forestry and Fishery, 1,068,341.7 for Manufacturing, 1,771,496.3 for Mining and Quarrying and 539,759.8 for Real Estate and Construction. Export and Import are 65,612.8 and 690,962.4, respectively. Public utilities, transport and communication and credit to financial

institution were 29,270.5, 966,251.3 and 249,083.4, respectively. Adekanye (1986) observed that in making credit available, banks are rendering a great social service, because through their action production is increased, capital investment are expanded and a higher standard of living is realized. Considering the aforementioned and given the intermediary role of commercial banks in economic growth, this study intends to examine the impact of commercial bank on economic growth in Nigeria. Over the past three decades, the Nigerian economy has shown no sign of favourable growth. For example, the real GNP growth rate figure was 2.8% in 1995 with negative figures in years like 1982, 0.3% etc as depicted in the CBN periodic bulletin in 1986. This shows that the Nigerian economy is not one that can inspire confidence, if no drastic improvement is shown by financial institutions with its economy especially in the new millennium.

II. LITERATURE REVIEW

2.1 Theoretical Framework

This is concerned with the effects of credit criterion and credit extension on production. From the beginning, Hahn believed that bank credit has the importance of a stimulus of the conjuncture. In an advanced economy with highly developed credit institutions, which can grant loans in excess of the amount of savings deposited, the money supply is completely elastic being "more and more inclined to accommodate itself to the level of demand. In such an organized credit economy stability of the price level requires equality between the natural (equilibrium) rate and the money rate of interest, i.e. the rate of interest charged on loans. Discrepancies between the two rates lead to cumulative process. The financing of production is essentially performed by the creation and destruction of credit. Schumpeter shares Wicksell's view that the disturbance of economic equilibrium primarily emerges from an enlargement of profitable investment options due to technical progress rather than by an artificial lowering of the money rate of interest by the banks which thereby causes a period of expansion which is unsustainable. Hahn (1920) concluded that every expansion of credit results in an expansion of goods because of a change in its distribution. Credit takes the goods out of nothing where they would have remained without credit expansion. He suggested that expansion of credit means nothing else than an increase of demand for goods leading to an expansion of production since, as Hahn implicitly assumes to be the case, unemployed resources are available. Hahn (1920) emphasizes, as later Keynes, the deflationary consequences of voluntary savings and the positive effects of an expansionary credit policy for innovations and employment. Afterwards, Hahn (1920) began his research of the influence of credit on capital, the core and most revolutionary part of Economic Theory of Bank Credit with the dictum "Capital formation is not the result of saving but of the granting of

credit." He suggested that credit constitutes the condition sine qua non of the production of commodities and all capital formation in a modern economy.

His insights are subsequently summarized in the following ideas. The first is the limits to inflationary credit expansion in the long run. The second is that a consequence of the autonomous credit creation power of banks which makes possible the conjunctures, an "economic theory of bank credit" must be formulated as a business-cycle theory. The third is that Credit expansions may help to overcome depressions, but they should never be used in boom periods to perpetuate them or to make bearable structural maladjustments, particularly excessive wages. "A timely stabilization of the conjuncture, not their stimulation on and on by inflation is desirable." And the last is a failure in the limit of credit expansion results in progressive inflation and a possible ruin of state finances.

According to Hahn the activity of banks consists in functioning as guarantors, i.e. to procure trust for debtors. Money and credit markets therefore are nothing else than markets on which credit in the literal sense of trust is traded. Credit expansion does not only affect distribution but also production. Inflationary credit expansion leads to an increase in overall demand which on its part stimulates the production of goods. Hahn considers the economic "organism" as "elastic" so that hitherto underutilized resources could be activated. Nevertheless, Schumpeter (1931), in a remarkable contrast to Hahn the credit system does not play the role of an active producer of business cycles but rather a passive role.

2.2 Empirical Review

Interestingly, other findings have been observed in Nigerian case by Oluitan (2010). He used bivariate model as proposed by Ghirmay (2004) on his research in 16 Sub-Saharan Africa countries and multivariate model proposed by Tang (2003) on his research about bank lending and economic growth in Malaysia. He examined the relationship by applying cointegration test and direction of causality using Error Correction Method (ECM) and OLS estimation technique. The following variables are real GDP, real private sector credit, real total export, GDP Per Capita, Ratio of Bank Deposit to GDP, and Private Sector Deposit to GDP. He found that the autoregressive coefficient for the real private sector credit growth was negative, large, and significant in all the results, but the first model that tested the bivariate relationship between credit and real output showed a positive coefficient. It implies that the relationship among all these variables is weak.

Caroll and Weil (1994) examine the relationship between income growth and saving using both cross-country and household data. They examined the panel of non-overlapping five year averages of saving and growth. They used model of consumption with habit formation as

standard permanent income models cannot explain these findings. They, firstly, found that growth causes savings while savings do not lead growth. Secondly, those household who expect faster income growth appear to save more than households who should expect slower income growth. Saltz (1999) investigates the long-run relationship between saving and economic growth in 17 developing countries. He identified the existing bidirectional relationship between variables among the countries. He found 4 countries have causal relationship from saving to the real GDP while 10 countries have the reverse causal relationship from economic growth to saving.

Claus, Haugh, Scobie, and Tornquist (2002) investigated the link between savings, investment, and growth in New Zealand. In an open economy, total saving comprises saving by domestic agents (government, firms, and households) plus foreign saving. Diversified portfolios, large inflows of foreign investment into New Zealand and investment rates comparable to those in OECD countries suggest that New Zealand has been able to access foreign saving to meet investment demands. For this case, they employed net national savings, total gross capital formation (investment), the current account, and real GDP growth for 12 selected OECD countries from 1972-2001. For the New Zealand experience, they applied the variables used to compare with OECD countries except investment employing OLS estimation technique. They found that savings a positive and significant long-run relationship to GDP growth while applying Granger causality test, they found that savings and growth have a bidirectional relationship. Nevertheless, higher income led to the decrease of savings as household preferred to increase their consumption (thus lowering savings (in anticipation of higher output growth in the future.

Hevia and Loayza (2011) investigated long-run relationship between savings and loan in Egypt. They focused on illustrating the mechanism linking national saving and economic growth, with the purpose of understanding the possibilities and limits of saving-based growth agenda in the context of the Egyptian economy. They conducted complementary simulations, firstly, the one designed to measure the savings rates required to finance a given rate of economic growth set to 4% of GDP growth per worker. In that case, investment need to increase by 37% of GDP as the marginal return to capital decreases, thus national savings need to increase by, first 35% of GDP, then 50% in 10 years, and almost 80% by the end of 25-year period to promote economic growth. Secondly, what economic growth rates can be financed if the saving rate is fixed at a given rate, set to 20% of national saving to GDP? They found that the growth rate of GDP per worker will start at 0.8%, and then decrease gradually to 0.7% in 25 years as explained by diminishing returns to capital which is constant rate in this simulation. The simulation has proven that higher national savings would lead remarkable growth performance, as occurred in China.

In the case of the long-run relationship between savings and growth in China, Lean and Song (2008) conducted the investigation in four representative provinces, i.e. Beijing, Shanghai, Guizhou, and Xinjiang covering the period from 1955 to 2004. By applying Johansen-Juselius (1990) co-integration test, they found that China's economy seems to be co-integrated with household savings and enterprise savings. By applying granger causality test based on Vector Error Correction Model (VECM), household savings and economic growth performed bidirectional relationship in the short-run while in the long run, unidirectional causality exist from economic growth to the enterprise saving growth all samples.

Khatib et al. (1999) investigate the relationship between commercial banking performance and economic growth in Qatar. By using the variables of bank profit, GDP, foreign interest rates, government revenues, government expenditures and banks equity by using the regression analysis model and (OLS) techniques have been used. By using Data for the period from 1996 to 1997. Further more stability tests for structural stability and granger causality experiments in which granger causality tests also use to analysis on all variables and other variables are suppose insignificant at acceptable. Hence the results find out that predictions through variables and model are highly effective and responsible for economic growth. The study suggests that the commercial banks are playing a large role in economic growth because of the profit making organizations. In addition among all the variables on GDP and banks equities were significant and with the positive signs, in the model equation found to be stable. Thus the financial advisors should be analysis through associations according to monetary policies and the financial factors and economic variables, the author further suggest that the model also support to check the relation through financial factors and other countries economic growth of that country.

Kayode et. al (2010) investigates the effect of bank lending and economic growth on the manufacturing output in Nigeria. By using the times series data which covering a period of 36 years (1973 to 2009) The technique has been used for analysis the model is the co integration and vector error correction model (VECM) techniques. The empirical outcomes of the study show that production volume utilize in manufacturing and bank rate of lending loans significantly affect manufacturing output in Nigeria.

Murinde, (1996) examines the effect of financial institution on seven African countries. He finds only weak support of the motion that financial sector has played a significant role in the growth process.Harrison (1998), Present evidence that industries which rely heavily on external funding, grow relatively faster in countries with well developed financial intermediaries and stock markets. He also stated that there is a feedback effect between real and financial sectors.

In his study, Abid (1997:30) found out that the reason behind "poor performance" of organized bank in some developing countries is the issue of financial regression hypothesis. The

intervention of government for less developed countries has placed restrictions on the activities of the banks by regulating the interest rates, imposition of mandatory credit guidelines, which has to be followed by the financial intermediaries. Other forms of restrictions includes ceiling on loans and advances and deposit rates by the so-called lending policies placed on the less developed countries. These restrictions tend to limit the extent to which financial institutions could have contributed to the growth of the economy of these nations. It limits their power to create more, as this is their joy and area where their interest lie most notwithstanding if these restrictions are removed, it will make the market to be under "invisible" hand or market forces which will ensure maximum financial deepening and most efficient credit allocation.

Lean and Song (2008) found that household savings and enterprise saving growth have played a strategic role in promoting the growth. The high growth was led by the explosion of household saving ratio that has reached a high level in the recent years (Modigliani and Cao, 2004). In the other cases, Cappiello, Kadareja, Sorensen, and Protopapa (2010) found that the changes of credit supply in euro area, both in terms of values and credit standards, have a positive and statistically significant effect on GDP. Surprisingly, neither Driscoll (2004) nor Ashcraft (2006) found compelling facts for causal relationship between credit supply and real output for the US case. Other findings by Takats and Upper (2013) expressed that bank lending, to the private sector, is essentially uncorrelated to economic performance after crises that were preceded by credit booms.

III. METHODOLOGY AND DATA

The ordinary least square (OLS) technique was adopted in this study. However, in the attempt to establish the commercial banks-growth nexus in the Nigerian economy, a linear equation were estimated to examine the second evaluated the effects of commercial bank on growth of the Nigeria economy. Since the evaluation considered both the short- and long-run simultaneously, the econometric methodology of the Vector Error Correction Mechanism (VECM) was also employed. In order to undertake the empirical analysis using the VECM technique, the variables involved in the model must be non-stationary and integrated of the same order, or they should be stationary (see Nelson & Polser 1982; Stock & Watson 1988; and Campbell & Perron 1991). Thus the Phillips-Perron (PP) (1988) unit root tests were utilized to test for the order of integration of the variables, the Johansen (1988) and Johansen and Juselius (1990) full information maximum likelihood of a VECM Model was utilized and the granger paire causality test was also carried out to ascertain the causality relationship among the variables used.
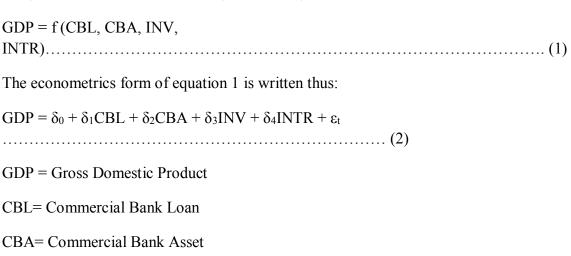
3.1 Data and Sources

This study employed time series secondary data spanning from 1981 to 2014. This period is chosen due to the availability of data and its observations are large enough for the use of OLS. The relevant data were collected from the Central Bank of Nigeria Statistical Bulletin, 2014 edition. Data collected include gross domestic product (GDP), Commercial Bank Loan (CBL), Investment (INV) Commercial Banks Total Asset (CBA) and Interest Rate (INTR).

3.2 Model Specification

This study specifically employ multiple regression analysis with OLS econometric technique for data analysis to empirically verify whether a significant positive relationship exists between the dependent variable (gross domestic product) and the independent variables (commercial bank loans, commercial bank asset, investment and interest rate) in the Nigerian economy. Model which specifies that economic growth (GDP) is significantly influenced by commercial banks loan; commercial banks total asset, investment, and interest rate are formulated as follows;

GDP = f (CBL, CBA, INV, INTR)…………………………………………………………………………… (1)

The econometrics form of equation 1 is written thus:

$$GDP = \delta_0 + \delta_1 CBL + \delta_2 CBA + \delta_3 INV + \delta_4 INTR + \varepsilon_t$$
……………………………………………………………… (2)

GDP = Gross Domestic Product

CBL= Commercial Bank Loan

CBA= Commercial Bank Asset

INV = Investment

INTR = Interest Rate

δ_0 = intercept; $\delta_1 - \delta_4$ = Coefficient of the independent variables.

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IV. RESULT AND DISCUSSION

Empirical results of this research is presented in the tables and discussed below:

Table 4.1: Phillip-Perron Unit Root Test

Variable	Level	First difference	Lag(s)	Model	Order of integration
GDP	1.199439	-5.384648***	1	Trend & Intercept	I(1)
CBL	-1.738919	-7.316076***	1	Trend & Intercept	I(1)
CBA	-0.349307	-4.160370**	1	Trend & Intercept	I(1)
INV	-4.810452***		1	Trend and Intercept	I(0)
INTR	-2.474294	-7.316861***	1	Trend and Intercept	I(1)
ECM(-1)	-4.170262***		0	None	I(0)

Source: Author's computation.

Note: *(**)*** denotes statistically significant at 1%, 5% and 10% level respectively. This test is carried out to avoid the estimated regression being spurious. Whenever a non-stationary time series is regressed on another or other non-stationary time series, the result is always a spurious regression result.

The Phillip-Perron stationarity test in table 4.1 shows that, GDP, CBL, CBA, INV, and INTR are all non-stationary at level except investment showing that all the variables with the exception of INV have unit root problem at their ordinary level form. But all other variables are stationary at their first difference. And this agrees with the fact that most macroeconomic variables are stationary at their first difference (stationary at 1%, 5%,10% level respectively). Since all the variables except investment are integrated at order one, i.e., 1(1), and the generated residual is stationary at level, then employing the popular Johansen Co-integration Rank test will help us to determine the number of Co-integrating equations in the Error Correction Model (ECM) and thus confirm if there is long-run relationship among the variables in their linear combination; using the variables integrated at the same or

Table 4.2: Johansen cointegration Test Result

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.987779	196.7369	63.87610	0.0000
At most 1 *	0.708854	55.79007	42.91525	0.0016
At most 2	0.278174	16.30433	25.87211	0.4684
At most 3	0.167681	5.873265	12.51798	0.4766
Trace test indicates 2 cointegrating eqn(s) at the 0.05 level * denotes rejection of the hypothesis at the 0.05 level **MacKinnon-Haug-Michelis (1999) p-values				

Source: Author's computation

The results of the trace statistic in table 4.2 indicate two (2) Co-integrating equations at 5% level. This shows that the variables are co-integrated. That is, there exists a long-run or equilibrium relationship among the variables employed in the model. Having confirmed the fact that all the 1(1) variables are co-integrated, we proceed to estimate the error correction model (ECM) for which results are presented in

Table 4.3: Regression Results

Dependent Variable: D(GDP)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	906.7586	704.0444	1.287928	0.2106
D(CBL)	7.459033	1.350997	5.521131	0.0000
D(CBA)	3.172150	0.869557	3.648007	0.0013
D(INV)	0.016766	0.002170	7.727952	0.0000
D(INTR)	-36.41130	108.8587	-0.334482	0.7410
ECM(-1)	-0.547822	0.170716	-3.208959	0.0039
R-squared	0.793702	Mean dependent var		3065.828
Adjusted R-squared	0.748854	S.D. dependent var		5894.951
S.E. of regression	2954.223	Akaike info criterion		19.00185
Sum squared resid	2.01E+08	Schwarz criterion		19.28474
Log likelihood	-269.5268	Hannan-Quinn criter.		19.09045
F-statistic	17.69779	Durbin-Watson stat		2.693856
Prob(F-statistic)	0.000000			

Source: Author's computation.

Table 4.3 displays a regression result of impact of commercial banks on the economic growth in Nigeria. As specified above, the results were obtained using the ECM and the Ordinary Least Square (OLS) method of estimation. From the empirical evidence, we can infer that the coefficient of the regression which is the coefficient that depicts the estimated coefficient appears to be good as well as standard error, the values of t-statistic and the p-values as shown. The error correction results above show that about 55% of the disequilibrium errors accumulated in the previous period has been corrected in the current period. The error correction term which tells us the speed with which our model returns to equilibrium indicates that there is a significant adjustment of gross domestic product one period later to equilibrium, and the speed of adjustment or level of convergence is-0.547822. The ECM (-1) coefficient conforms to a priori expectation as its sign is negative, and less than unity in absolute terms and it is statistically significant, hence justifying the use of the error correction model in this study. Given our dependent variable to be gross domestic product, the ECM (-1) coefficient specifically shows that about -0.547822 disequilibrium in the short run of GDP in the previous period is corrected in the next period. What this implies is that the coefficient of the error term (ECM (-1)), which is the measure of the degree of adjustment, shows that about -0.547822 of the differences between the actual and the long-run or equilibrium value of GDP is eliminated or adjusted each period.

The result indicates that commercial bank loans (CBL) have significant positive impact on (GDP) in Nigeria; a close examination of this impact appears to be either fluctuating in some periods and sometimes impacts negatively on gross domestic product when given cognizance to its lag values. Similarly, commercial banks total asset (CBA), and investment (INV) appears to have significant and positive impact on gross domestic product (GDP) in Nigeria while the impact of interest rate is negative to GDP though not significant. A close examination at the result of the equation reveals that some signs were in line with the opinion expectation in literature review.

From the result, the difference in beta coefficient of the variables representing the contributions of commercial banks shows the different contributions of the variables to the Nigerian economy which is been represented by the gross domestic product (GDP). In this result, using the beta coefficient, GDP is a positive of constant 2561.560. This means that when all variables are held constant, there will be a positive variation up to the tune of 2561.560 units in GDP. Similarly, a unit change in CBA when all variables are held constant will lead to an increase in GDP by 3.023131percent. However, a unit change in CBL (7.354566) will produce a positive impact on the growth rate of the Nigerian economy. This means that when CBL is held constant, it will increase GDP by 7.354566 percent; by 0.278522. In this result, using the beta coefficient, GDP is a positive of constant 0.016766. This implies that a unit change in INV when all variables are

held constant will lead to an increase in GDP by 0.016766 percent while interest earning (INTR) has a negative but no significant impact on Gross Domestic Product (GDP).

The adjusted R^2 obtained is 0.75. This shows that the explanatory variables included in our model accounts for 75.1 percents variations in gross domestic product in Nigeria while the remaining 24.9 percent unexplained variations is due to other extraneous factors that also necessarily accounts for the movement in economic growth in Nigeria which is explained by the stochastic term. The implication is that the models do not suffer from any misspecification error. Complementing this is the F-ratio statistics with 17.961 with probability values of 0.000. This is highly significant at the 5 percent levels; thus, giving credence to the conclusion that the entire model has goodness of fit. More so, the Durbin Watson (DW) statistics of 2.69 imply that the model is free from autocorrelation or serial correlation problem.

It's important in this study to establish the direction of causality between GDP and the selected variables used in our study. This is because the existence of long–run relationship does not indicate causality and the existence of causality between GDP and the independent variables will help to verify the Model Granger causality test

Table 4.4: Result for Causality

Null Hypothesis:	Obs	F-Statistic	Prob.
CBL does not Granger Cause GDP	32	57.2507	2.E-10
GDP does not Granger Cause CBL		29.3566	2.E-07
CBA does not Granger Cause GDP	32	68.5165	3.E-11
GDP does not Granger Cause CBA		10.9021	0.0003
INV does not Granger Cause GDP	31	5.08144	0.0137
GDP does not Granger Cause INV		442.492	8.E-21
INTR does not Granger Cause GDP	32	0.02328	0.9770
GDP does not Granger Cause INTR		1.33937	0.2789

Source: Author's computation.

The Granger Causality approach to the problem of whether 'x' causes 'y' is to see how much of the current 'y' can be explained by past values of 'y' and then to see whether adding lagged values of 'x' can improve the explanation. 'Y' is said to Granger-Caused by 'x' if 'x' helps in the prediction of 'y' or equivalently, if the coefficients on the lagged x's are statistically significant. After applying the causality test we found the bidirectional causal relationship of commercial loans, commercial banks asset and investment with economic growth in Nigeria. On the other side we found no causal relationship of interest earnings with economic growth in Nigeria.

V. CONCLUSION AND RECOMMENDATIONS

After a critical analysis of the contributions of commercial banks to the economic growth of Nigeria, from a close examination of the regression results of Commercial Bank Loan (CBL), Commercial Bank Asset (CBA), and Investment (INV) of commercial banks, it showed that they have positive though minima impact on the gross domestic product (GDP) while interest earning (INTR) has a negative but no significant impact on Gross Domestic Product (GDP). Thus; we conclude that commercial banks contribute significantly to the economic growth of Nigeria.

Experience from the developed economies has shown that the development of a sound banking sector requires the collaborative efforts of the government, the operators in the sector and the general public. In an attempt to maintain the positive performance enjoyed by commercial banks, recommendations have been made that Banks have to be careful with their pricing decision as regard to lending as banks cannot charge low rates that are too low because the revenue from interest income will not be enough to cover the cost of deposits, general expenditures and loss of revenue from some borrowers that do not pay. Moreover charging too high loan rates may also create an adverse selection situation and moral hazard problem for the borrowers. Also monetary policies which would affect the decision and inform the public to patronize the bank and the lending behavior of commercial banks should be set up. Lastly, The Central Bank of Nigeria (CBN) should put in place a stronger banking supervision department to sustain the performance of commercial banks. The Independent corrupt practice (ICPC), the Financial Intelligence Unit (FIU) and the Economic and Financial Crimes Commission (EFCC), should ensure that the mega banks imbibe a code of ethics, which is essential to check unethical practices that led to the failures of banks in the past. Thus, greater transparency and accountability will be the hallmark of the system.

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