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Evaluation of the Effect of Commercial Bank Consolidation on Economic Growth (Evidence from Nigeria, 2006- 2015)

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ABSTRACT:
This study evaluated the effect of bank consolidation on economic growth of Nigeria between the periods of 2006-2015. Secondary data were sourced from the Central Bank of Nigeria statistical bulletin and the NDIC Annual Reports between the period of 2006 and 2015. Data was analyzed using the Ordinary Least Square (OLS) multiple regression technique with the aid of the SPSS statistical software to test the hypotheses formulated. The study revealed that, Commercial Bank Deposit has a significant positive relationship with Real Gross Domestic product (GDP); while Commercial Bank Asset has no significant relationship with Real GDP. The study recommends that, government should put adequate effort to sustain commercial banks consolidation policy to make fund available for the overall well-being of the economy. The authors recommend the Central Bank of Nigeria and Bank Management to develop clear and applicable credit policies to address issues concerning risk acceptance criteria, loan approval limits, collateral securities, loan reviews and machinery of debt recovery.

Keywords: *Consolidation, Real gross domestic product, Mergers, Acquisitions, Recapitalization*

INTRODUCTION

Consolidation exercise has been a reoccurring practice in the Nigerian banking industry. Historically, the failure of forerunner banks in the 1930's and 1940's brought about the enactment act of 1952, banking ordinance. Banking Ordinance act of 1952 approves an operating license and emphasizes on minimum equity capital for all commercial banks in Nigeria (Onoh, 2002:321). In 1952, colonial government raised the capital requirements for foreign commercial banks from £200,000 to £400,000 British pounds sterling. Therefore, the issue of bank consolidation have been in existence in Nigeria, and other parts of the world have continuously witnessed increasing globalization of national economies. Bank consolidation in Nigeria comes with an amendment to the existing banking laws. In 1969, capital base for banks was given as N1.5m for foreign banks and N600,000 for indigenous commercial banks. In 2001, when Universal Banking was adopted in principle, the capital base was jerked up to N1 billion for the existing banks and N2 billion for new banks. But in July, 2004, the new governor of CBN announced the need for banks to increase their capital base from minimum of N2 billion naira to N25 billion by December, 2005 and every Nigerian bank were

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Before the recent consolidation in 2005, the Nigerian banks had not fully embraced mergers and acquisitions as expected because of their cultural diversity in terms of asset ownership and lack of proficiency required for mergers and acquisitions. Mergers and acquisitions in banking industry started in October, 2003 under the leadership of former CBN governor, Prof. Charles Soludo. The CBN rolled out incentives to encourage weaker banks to merge or be acquired by other banks. The incentives included concessionary cash reserve ratio for a period of two years to the newly restructured banks, conversion of overdrawn positions of weak banks to long-term loans with concessionary interest and the acquired banks is given up to 24 months to comply with the minimum liquidity ratio requirement to enable it settle down as a newly recapitalized/restructured bank. Although, most of the feeble banks were unwilling to comply until the new order, the situation changed from July 6, 2004 as many banks had either merged with or acquired other banks (Adekoya et al., 2007; Balogun, 2007). Thus, mergers and acquisitions have become a consolidation tool to stabilize the country financial system after July 6, 2004 (Adeyemi, 2005). A weak banking system cannot provide the required capital for sustainable development; hence, the essence of appraising the banks consolidation policy in Nigeria is to ascertain its preparedness for global demands in terms of sustainable development.

Commercial Banks are viewed as key dominant players in country's financial sector. They act as intermediaries that facilitate capital formation which enhances the productive capabilities required to promote economic growth in the country. A recent study by Imala (2005) opines that, the objectives of the banking system are to ensure sound stability and facilitate sustained rapid economic growth and development. According to the authors thinking, banks helps to contribute to economic growth and development in any country's economy. Again, for an economy to build a strong, reliable and viable banking system, the banking sector must be adequately regulated.

Similary, Ajayi (2005) also noted that, the banking sector reforms in Nigeria are predicated upon the need to strengthen the financial sector, build an efficient banking sector, and enable the economy to compete favorably with international best practices. Again, it also aimed at addressing issues such as; weak governance, risk management and operational inefficiencies.

Banking consolidation have been an on-going phenomenon over the decade since 1980s, but it is more intensified in recent times because of the effect of globalization caused by continuous integration of the world markets and economies (Adegbaju and Olokoye, 2008). It was triggered due to both internal and external drivers such as; globalization, technological innovations, and increased competition that have induced the formulation of new strategies to adapt to changes in the banking environment. Again, commercial bank consolidation played significant impact in ensuring that banks with a strong capital base has the ability to absolve losses arising from non-performing loans, improve its revenue, attain cost-efficiency, and contribute to investment and economic growth.

According to BIS (2001) study, banks attained consolidation base basically through mergers and acquisitions. Bank Consolidation often results to a decrease in the number of banks with a simultaneous increase in size and concentration of the consolidated entities in the sector.

Sand (2016) defines Bank consolidation as the process by which one banking company takes over or merges with another. Adegbaju and Olokoye (2008) asserts that bank consolidation is carried out to develop the banking system, increase healthy competition, exploit economies of scale, adopt advanced technologies, raise efficiency and improve stakeholders' return of asset or investment. Again, the overriding goal is to strengthen the intermediation role of banks and to ensure that they are better able to perform their developmental role of enhancing economic growth, which subsequently leads to improved overall economic performance and societal welfare.

Literature Review

Definition of the Concept of Bank Consolidation

Sand (2016) defines Bank Consolidation as the process by which one banking firm takes over or merges with another. This convergence leads to a potential expansion for the consolidating banking institution. Adegbaju and

Olokoyo (2008) defined Consolidation as an act of merging many banks together into one entity. Similarly, Afolabi (2004:3) defined consolidation as a fusion of the assets and liabilities, in whole or in part, of two or more business establishments to form an entirely new establishment. According to the authors' thinking, consolidation represents the idea of investment and the coming together of firms or enterprises as a single entity.

Nnanna (2004) opines that, bank consolidation is achieved by way of mergers or acquisition and recapitalization. For instance, merger is a process of reducing or decreasing the number of banks into existence. On the other hand, Recapitalization refers to a move by the monetary authorities compelling all commercial banks operating in Nigeria to raise their capital base to a statutory minimum requirement. Recapitalization "ensures a diversified, strong and reliable banking industry where there is safety of depositors' funds and re-assurance of the banks' continual playing of the active intermediation role in the economy" (Soludo, 2004).

Bank Consolidation is expected to enhance synergy, improve efficiency, induce investor focus and trigger productivity and welfare gains (Nnanna, 2004:3). Related to this, Berger et al. (1997:135-94) also emphasize that bank consolidation aims to improve economies of scale or scope, increase the efficiency of the consolidating banks, and stimulate market competition (Pilloff & Santomero, 1997:13). The motive behind consolidation is to maximize shareholders' value. Maximizing Shareholders' value requires the participating firm's to improve their market power in fixing market prices or by improving their efficiency. A recent study by Imala (2005:7) and Adeyemi (2010:9) have identified eight reasons why firms consolidate their venture in the following: cost saving, revenue enhancement, risk reduction, new development, advent of deregulation, globalization, financial stability and shareholders pressure.

- ✓ Cost savings: attributes to economies of scale as well as more efficient allocation of resources.
- ✓ Revenue enhancement: One of the important reasons for mergers and acquisitions is the ability of combined firms to earn more revenue than two separate firms. Improved revenue may come from marketing gains, strategic benefits and market power.
- ✓ Risk reduction: It is as a result of changes in organizational structure to improve its efficiency.
- ✓ New developments: implies putting high fixed costs and the need to spread these costs across a large customer base.
- ✓ The advent of deregulation: Supports removal of regulatory barriers that affect business operations.
- ✓ Globalisation: Entails a more globally integrated financial services industry and facilitates the provision of wholesale financial services and geographical expansion of banking operations.
- ✓ Financial stability: Demands smooth functioning of various components of the financial system, with each component resilient to shock.
- ✓ Shareholders' pressure: Focus on management ability to improve profit margins and returns on investment.

According to Berger et al. (2008) bank consolidation helps banking industry to become stronger, and be able to maximize shareholders' return of investment or asset. It is believed that increased size will increase bank returns, through revenue and cost efficiency gains. It helps to reduce industry risks through elimination of weak banks and create better diversification opportunities. The authors argue that, bank consolidation aims to increased profits/revenue base of the commercial banks. Adeyemi (2005) noted that, the most important synergies to be derived through consolidation of banks focus on their ability to enjoy economies of scale, ability to earn increased revenue and the potentials for tax gains.

The Concept of Bank Capital

Berger (1998) opined that bank capital is the amount contributed by the owners of a bank which gives them the right to enjoy all the future earnings of the bank. Bank Capital is also defined as "shareholders' funds" or "net worth" (Adekoya et al., 2007). Bank capital performs numerous functions. As a source of loan able funds, capital is an input that helps to substitute for deposits and other types of borrowed funds.

It helps forestall liquidity crises. By so doing, it provides public confidence in a bank and reassures its creditor/depositors of the bank financial strength. Again, bank capital aids in preventing episodes of financial distress by absorbing financial and operating losses until management address the bank's problems and restore the institution's profitability (Agbetuyi, 2004). Hence, it protects the bank from the threat of insolvency and other forms of financial distress that leads to regulatory intervention (Berger and Mester, 1997).

De Nicolo et al. (2003) put it that "the higher the level of capital, the lower the risk of insolvency and the greater the degree of protection from financial distress". A bank's capital is therefore seen as a measure of its financial strength and signals the bank's safety to less informed depositors and other outsiders. From its amount and structure are derived important qualitative parameters by which the prudence of the bank's conduct may be ascertained.

Bank capital is well regulated. Its regulations usually border on the minimum share capital, maintenance of adequate reserves and capital adequacy ratios. The capital base must be very strong to be able to strengthen the operations of the commercial banks to take their position as the bedrock of any economy and achieve financial stability that will support the macroeconomic policies of the government for growth and sustenance of the economy (De Nicolo et al. 2003).

Bank Consolidation through Recapitalization

The origin of consolidation has been traced to take its roots from bank failures (Soyinbo and Adekanye, 1992; Adams, 2003).Recapitalization is an important component of reforms in the banking industry owing to the fact that a bank with a strong capital base has the ability to absorb non-performing loans.

According to Omoruyi (1991), recapitalization appears to be the main driving force for banks' reforms with focus on reconstructing, rebranding and refurbishing the banking system to accommodate the challenges of bank liquidation. Again, adequate capital base is very crucial to the success of any bank. Apart from its multiplier effect on the economy as a whole, it acts as a buffer and security gains for banks. Commercial Banks must have enough capital to provide support for absorbing possible loan losses, funds for its internal needs and added security for depositors. Adequate capital increases the confidence and financial state of stockholders.

Similarly, Demirguc-Kunt and Levine (2000) argued that recapitalization drives bank to increase synergy and improve efficiency in the banking sector (Boyd and Prescott, 1986; Imala, 2005). Boyd and Prescott (1986) stressed that consolidated banking system enhances profit efficiency and lower bank fragility. More importantly, high profits arising from this provides a buffer against adverse shocks and increases the franchise value of the banks. Banks recapitalization exercise is aimed at helping the banking industry to improve stakeholders' return on investment, increase market share and to maximize cost efficiency gains (Adegbaju and Olokoyo, 2008). Recapitalization has increased banks' propensity towards risk taking, and helped leverage bank operations.

Bank Consolidation through Mergers and Acquisitions

Consolidation is achieved through mergers and acquisitions. A merger is the combination of two or more separate firms into a single firm (Gaughan, 2007). On the other hand, Acquisition takes place where a company takes over the controlling shareholding interest of another company. In acquisition, the target company becomes either a division or a subsidiary of the acquiring company. Again, Consolidation involves merger and acquisition of banks. Convergence involves the consolidation of banking and other types of financial services like securities and insurance. Before any bank consolidates either through merger and acquisition in the Nigerian industry, it must first seek and obtain the approval from Security and Exchange Commission (SEC). Before granting its approval, SEC considers the effect of the proposed transaction on the competitive environment, with a view to ensure that the transaction does not restrain competition or create a monopoly. The procedure or process for obtaining approval for mergers and acquisitions entail four basic steps: Filling a pre-merger/Acquisition notification, filling a formal application for approval of the proposed

Merger/Acquisition, holding court order meetings and complying with post-approval requirements.

Consolidation Strategy of the CBN and the Emergence of Mega Banks in 2006

The population of money deposit banks were eight-nine (89) in both rural and urban city centers in the country as at June 2004. These banks were characterized by structural and operational weakness of low capital base, dominance of few banks, insolvency, and illiquidity, trading, poor asset quality, weak corporate governance, a system with low depositor confidence, over dependence on public sector deposits and foreign exchange. According to Soludo (2004), the main objective of banking sector reform is to move the Nigerian economy forward and to proactive position the banking system to be sound reliable catalyst of development.

According to Beck et al. (2005) and Lewis and Stein (2002) recent study, the number of commercial banks in Nigeria has reduced from 69 to 40 in 1985 with 24.78% claims on the domestic real non-financial sector as a share of GDP. The Nigerian banks have little or no option than to embrace mergers and acquisition or strategic alliance to remain in business. The Central Bank of Nigeria (CBN) under the close watch of former governor, Prof. Charles Soludo mandated the bank to: create capital through initial public offers, private placement and right issues, convert reserve to capital, merge between banks of like minds and out rightly acquire other banks (Otangaran, 2004).

During the consolidation period, 25 banks emerged, while 14 banks that were unable to raise the 25 billion capital base were declared distressed by the Central bank. According to Otangaran (2004) the cost has become clearer due to the zero tolerance posture of the Central Bank of Nigeria. According to Soludo (2004), “many individuals and institutions have come to gain or lose from the consolidation exercise”. The list of the 25 banks that survived the reform is as shown in table 1.

Nigerian Banks that were affected by the consolidation and became distressed include; African Express Bank (APEX), All States Trust Bank Plc, Assurance Bank, City Express Bank Plc, Continental Trust Bank, Eagle Bank, Fortune International Bank Plc, Gulf Bank Plc, Hallmark Bank Plc, Lead Bank Plc, Metropolitan Bank Ltd, Societe Generale Bank Ltd, Trade Bank Plc, Truim Bank Plc (CBN 2005).

Bank Consolidation in Other Countries

According to Hall (1999), consolidation is a global practice, which started in most developed countries of the world. For example, the enactment of Riegle-Neal Act, allowed interstate banking practice in United States of America (USA) in 1997. This led to increase in bank mergers (Akhavin et al., 1997; Kwan, 2004). Consolidation of banks helps to increase profit, increase revenue, and reduce problem loans. Similarly, the Japanese banking industry also experienced consolidation in the 1990s which resulted to economies of scale (Fukuyama, 1993; Mckillop et al., 1996).

In USA, most of the consolidation that took place occurred within the banking sector, for instance, the number of banking organizations was reduced from about 12,000 in the early 1980s to about 7,000 in 1999, a decrease of more than 40%. In European countries, there is evidence of consolidation of commercial banks and merchant banks, where the universal banking model is more prevalent, which combines banking and insurance businesses. While most of the bank consolidation in the developed economies occurred within the domestic front, there are signs of increased cross border activities (Adeyemi, 2005). Consolidation of banking operations has been smoothed in Europe with the aid of Euro currency.

Theoretical Framework

This study is anchored on Say’s theory of recapitalization postulated by Kates in 1998. This theory states that consolidation/ recapitalization of banks, leads to increased capital base which increases availability of loanable funds to the economy (Kates, 1998). Say’s theory is therefore linked to bank consolidation and economic growth. This theory assumes that, consolidation help to improve financial stability of financial institutions accelerate economic growth and sustenance of the economy. This theory further argues that, the proposition of the financial sector consolidation appears to be consistent with the classical view of monetary policy which states that, the main function of money is to act as a medium of exchange and determine aggregate price level.

Table 1: List of Banks after consolidation

S/N	New Names	Former Banks in the Groups	Capitalization
1.	First Bank	First Bank PLC, MBC Int. Bank FBN (Merchant) Bankers	48.7
2.	United Bank for Africa	United Bank for Africa, Standard Trust Bank, Continental Trust Bank.	50.0
3.	Union Bank	Union Bank, Union Merchant Broad Bank, Universal Trust Bank	43.2
4.	Diamond Bank	Diamond Bank, Lion Bank, & AIB International Bank	28.6
5.	Oceanic Bank	Oceanic Bank, Int. Trust Bank	58.9
6.	Intercontinental Bank	Intercontinental Bank, Global Bank, Gateway Bank and Equity Bank	30.2
7.	Fidelity Bank	Fidelity Bank, FSB International Bank, Manny Bank	29.0
8.	First City Monument Bank	FCMB, Cooperative Development Bank, Nigeria-American Bank	29.0
9.	Spring Bank	Citizens Bank International, Guardian Express Bank, Trans International PLC, Omega Bank PLC, ACB International Bank and Fountain Trust Bank	26.4
10.	Access Bank	Access, Marina Int. Bank and Capital Bank International	29.4
11.	Unity Bank	Intercity Bank PLC, First Interstate Bank, Tropical Commercial Bank, Bank of the North, Central Point Bank PLC, Societe Bancaire, Pacific bank, NNB Int. Bank PLC, New African Bank	27.8
12.	Equatorial Bank	Equatorial Trust Bank and Devcom Bank	29.3
13.	First Inland Bank	First Atlantic Bank PLC, Inland Bank PLC	27.5
14.	Afri Bank	Afribank Int. (Merchant) Bank, Afribank PLC	26.64
15.	IBTC Chartered	Investment Bank and Trust Company (IBTC), Chartered Bank PLC, and Regent Bank LTD	31.3
16.	Skye Bank	Prudent Bank PLC, EIB Int. Bank, Bond Bank, Reliance Bank LTD and Co-operative Bank	35.0
17.	Wema Bank	Wema Bank PLC, National Bank PLC, Lead Bank PLC	37.7
18.	Stering Bank	Magnum Trust Bank, NBM Bank Nigeria LTD, Trust Bank of Africa, NAL Bank PLC, Indo Nigeria Bank	26.9
19.	Platinum-Habib Bank	Habib Bank International, Platinum Bank Nigeria Ltd	26.9
20.	Stanbic Bank	Alone	36.1
21.	Zenith Bank	Alone	26.7
22.	Nigeria Int. Bank/Citi Bank	Alone	37.79
23.	Eco Bank PLC	Alone	25.7
24.	Standard Chartered Bank	Alone	32.3
25.	Guaranty Trust Bank	Alone	27.5

Source: (NSE Fact Book, 2006).

Empirical Review

There are several empirical studies on the effects of Banks Consolidation on the Economic Growth of Nigeria. This has generated both positive and negative arguments in literature. Some of these literatures were reviewed below.

Makinde (2016) investigated the effects of banks consolidation on economic growth in Nigeria. Secondary data were obtained from Central Bank of Nigeria (CBN) statistical bulletin and National Bureau of Statistics between the periods of 2004- 2015. Gross Domestic Product (GDP) served as the dependent variable and proxy for economic growth; while commercial bank deposits and assets are identified as independent variables and proxy for bank consolidation. Multiple regression techniques was adopted to analyse data to generate empirical results. Study revealed that, both commercial bank deposits and assets have a positive significant relationship with the Gross Domestic Product (GDP).

Similarly, Racheal (2013) studied the effect of bank consolidation on managerial role and commitment of commercial banks in the Niger Delta Region, Nigeria. Study adopted descriptive research design. Total population of the study comprised of 384 staffs of the banks. The sample size was calculated using Freud and Williams formula and was given as 190. Questionnaire was administered to the study population using five (5) point likert-scales of; strongly agreed, agreed, undecided, disagree and strongly disagree. Data were analysed using the Chi-square(R^2) statistic to generate empirical result. Findings showed that bank consolidation had significant positive effect on managerial roles and commitment of commercial banks in Niger Delta region, Nigeria.

On the other hand, Olayinka and Farouk (2014) examined the impact of consolidation on the performance of banks in Nigeria. The study population comprised of 24 banks. Secondary data were sourced from Central Bank of Nigeria (CBN) Statistical Bulletin and Annual Report to generate data between the periods of 2000- 2011 respectively. T- Test Statistics was adopted to test the research hypothesis at 5 % level of significant to generate result. Findings showed that consolidation has significant positive impact on the performance of the banks in the Niger Delta region, Nigeria.

Again, Okelue (2011) also examined the effect of consolidation on performance of Nigerian Banks. Descriptive research design was adopted to compare the post and pre-consolidation performance of the selected banks. T-Test statistics was employed to test research hypothesis at 5% level of significant. Findings showed that consolidation has positive and negative impact on performance of Nigerian banks.

Emori, Nkamane and Nneji (2014) also investigated the impact of banking consolidation on the economic development of Nigeria. Secondary data were sourced from Central Bank of Nigeria (CBN) Statistical Bulletin and Annual report to generate data. Ordinary Least Square (OLS) method was employed to analyzed data get empirical result. Findings revealed that, bank capital, investment contributed positively to the growth of Nigeria Economy.

Nwankwo (2013) examined the impact of pre and post bank consolidation on the growth of Nigeria Economy. Study employed secondary data sourced from annual report and Central Bank of Nigeria (CBN) Statistical Bulletin between the periods of 2000- 2011. Augmented Dickey-Fuller (ADF) was used to test for the stationarity of unit roots in the data at 5 % level of significant. Findings showed that there exist a positive significant impact between bank consolidation and economic growth in Nigeria.

Given methodological limitations of studies conducted by Olayinka and Farouk (2014); Nwankwo (2013), a gap in the use of analytical tool, research objective, and timing of research has been identified. Olayinka and Farouk (2014) examined the impact of consolidation on the performance of banks in Nigeria between the periods of 2000-2011; while, Nwankwo (2013) examined the impact of pre and post bank consolidation on the growth of Nigeria Economy between the periods of 2000-2011. Olayinka and Farouk (2014) tested the hypothesis with the aid of T –Statistics to get empirical result; while, Nwankwo (2013), employed Augmented Dickey-Fuller (ADF) to test for the stationarity of unit roots in the data. Therefore, this study used T –test statistics to determine the nature of the relationship between the variables and test the hypothesis with the aid of Multiple Regression. Therefore, this study having reviewed previous studies in the above has identified a gap in research and contributes to existing knowledge.

Statement of the Problem

Banking sector reforms constitute deliberate policy response to correct perceived or impending banking sector crises and subsequent failures triggered by weakness in the banking system. In Nigeria, the 2005 reforms in the banking sector was preceded against the backdrop of banking crisis characterized by high undercapitalization of deposit taking banks, a large number of small banks with relatively few branches, the dominance of a few banks, poor rating of a number of banks, and general bank failures. The above problems brought about loss of public confidence as banks became weaker (Uchendu, 2005).

The problem of low capitalization base in the Nigerian banking system gave rise to insolvency evidenced by negative capital adequacy ratios and also caused unfair competition from foreign banks, and as a result, Nigerian banks could not compete favorably with their counterparts in other countries. The Nigerian banking industry in 2004 was generally described as fragmented into relatively small, weakly capitalized banks with most banks having paid up capital of US$10 million or less. The best capitalized bank in Nigeria had an operating capital of US$240 million as compared to a small developing economy like Malaysia where the least capitalized bank had capital of US$526 million within the same period.

Again, the existence of a large number of banks with relatively few branches became problematic in the banking Nigerian industry. Adeyemi (2012) opines that the 2005 consolidation exercise of the banking sector was necessitated by the high concentration of the sector by small banks with capitalization of less than $10 million, each with expensive headquarters, separate investment in software and hardware, heavy fixed costs and operating expenses, and with relatively few branches in major locations in urban and rural areas in the country leading to very high average cost for the industry.

The existence of a poor rating of a number of banks was also a problem identified in this study. A recent study by Lemo (2005) showed that marginal and unsound banks accounted for 19.2% of the total assets, 17.2% of total deposit liabilities, while industry non-performing assets were 19.5% of the total loans and advances. Also, the number of distressed banks increased from 9 in 2001 to 10 in 2004. The rating of the licensed banks in operation, using the CAMEL parameters, revealed that ten (10) banks were "sound", fifty-one (51) were "satisfactory", sixteen (16) were rated "marginal" and ten (10) banks were rated "unsound" in 2004 (CBN, 2004). With the disappointing trend of a decline in "satisfactory" banks from 63 in 2001 to 51 in 2004, an increase in the number of "marginal" banks from 8 in 2001 to 16 in 2004, and an increase in "Unsound" banks from 9 in 2001 to 10 in 2004, the stability of banking system in Nigeria was called to question.

Similarly, over dominance of a few banks over others in the Nigerian banking sector is another problem identified in this study. Central Bank of Nigeria (2004) report revealed that only ten banks (10) out of the eight-nine (89) banks in operation accounted for 51.9% of total assets, 55.4% of total deposit liabilities, and 42.8% of total credit. This trend raised alarm over the unstable position of the banking system in Nigeria. From the foregoing, it was apparent that a reform of the banking system in Nigeria was inevitable; it was only a question of time.

Therefore, the above problems necessitated this study and objective of study is formulated below.

Objectives of the Study

The general objective of this study is to determine the extent of the relationship between commercial bank consolidation and the growth of the Nigerian economy.

Drawn from the general objective, the study specifically seeks to:

1. To determine the effect of commercial bank deposits on the real GDP of Nigeria.
2. To evaluate the nature of the relationship between commercial banks assets and the real GDP of Nigeria.

Research Questions

Based on the stated objectives above, the research was guided by the following questions:

- ✓ What effect does commercial bank deposits have on the real GDP of Nigeria?

- ✓ Is there any significant relationship between commercial banks assets and the real GDP of Nigeria?

Research Hypotheses

Based on the stated research questions, the following research hypotheses are formulated to guide this study:

- ✓ Ho_1: There is no significant relationship between commercial bank deposits and the real GDP of Nigeria.
- ✓ Ha_1: There is significant relationship between commercial bank deposits and the real GDP of Nigeria.
- ✓ Ho_2:There is no significant relationship between commercial banks assets and the real GDP of Nigeria.
- ✓ Ha_2: There is significant relationship between commercial banks assets and the real GDP of Nigeria.

Scope and Delimitation of the Study

This study evaluates the effect of bank consolidation on economic growth of Nigeria between the periods of 2006-2015. The dependent variable is the Real Gross Domestic Product (GDP), which serves as a proxy for economic growth. The independent variables are commercial banks deposits and commercial banks assets which serve as proxies for banks consolidation. An increase in capital base, shareholder's funds, and increase in the use of investors, all encapsulated in bank consolidation, result in an increase in commercial banks deposits and commercial banks assets. The scope of the study covers all deposit money banks in Nigeria as contained in the CBN statistical bulletins and the reports of the National Deposit Insurance Commission (NDIC) of various years.

Significance of Study

This study will be of great importance to all Nigerian deposit money banks involved in consolidation exercise to understand the implications of weak capital base and serves as a guide for a way forward for future direction. It will also guide policy makers to know the right policy to put in place at the right time to strengthen the existence of Nigerian banks Finally, study will serve as a stepping stone for further research by practitioners and academics in this field of study.

RESEARCH METHOD

Method of Data Collection

This study adopted descriptive research design. Secondary data was employed and soured from Central Bank of Nigeria Statistical bulletin and NDIC Annual reports of various years between the periods of 2006 -2015 respectively.

Population of the Study

The study population comprised of the deposit-money banks that emerged after the bank consolidation exercise of 2005. They were eighty-nine (89) deposit-money banks operating in Nigeria prior to the 2005 bank consolidation exercise during which the unprecedented process of mergers and acquisitions reduced them to the twenty-four (24) banks currently in existence.

Model Specification

In this study, Real Gross Domestic Product (RGDP) serves as the dependent variable, while commercial bank deposits, and Commercial bank assets also serves as the independent variables. Therefore, RGDP is used to proxy for economic growth, while commercial bank deposit and commercial bank asset is used to proxy for bank consolidation.

Based on the above information, multiple regression model for this study is specified as;

RGDP=f (CBD, CBA) .... (1)

Re-stating equation 1 above, the variables in the equation is represented as follows:

$RGDP = B_o + B_1CBD + B_2CBA + U_i$

Where RGDP = Real Gross Domestic Product (RGDP)

CBD = Commercial Bank Deposits

CBA = Commercial Bank Assets

U = stochastic error term

Where, B_o, B_1 and B_2 are parameters.

A priori expectation explains the theoretical linkage on the signs and magnitudes of parameter of the specified functions. A priori expectations are determined by the principles of economic theory guiding the economic relationship among the variables being studied. A priori expectation for commercial bank deposits and commercial bank assets are expected to be positively related to real GDP in Nigeria. Hence, $\partial RGDP / \partial CBD$, $\partial RGDP / \partial CBA > 0$

Data Analysis Techniques

This study employed Ordinary Least Square (OLS) technique to estimate the values of the parameters B_o, B_1 and B_2 using the SPSS statistical software. This is in line with the works of Oluitan et al. (2015) and Sani (2009). The signs and significance of the regression coefficients was relied upon in explaining the nature and influence of the independent and dependent variables as to determine both magnitude and direction of effect. The researchers use the t-test to determine the statistical significance of the parameter estimates and the test of goodness of fit for the model using the R^2 technique. The choice of the *t-statistic* is justified on the findings of Caves (1989) that it is the key test by which an accounting study of Consolidation performance proves its findings, because it is able to evade the problem of holding constant other factors that plague Ex-post studies of Consolidation effects. This will enable us to test the individual significance between the dependent variable and the explanatory variables. Then, the F-statistic test will be used to determine the overall significance and reliability of the multiple regression model, and the Durbin–Watson test for the presence or absence of auto-correlation. The justification for the use of these tools of analysis is to help us draw a conclusion on the effect of consolidation on the economy of Nigeria.

Data Presentation and Interpretation of Result

Data Presentation

This section presents the data collected and interprets the results obtained from quantitative research. Independent variables such as; Commercial Bank Deposits and Commercial Bank Assets and dependent variable (Real Gross Domestic Product, RGDP) was presented against time periods of 2006 to 2015 (table 2).

Table 2: Presentation of variables

YEAR	REAL GDP (N'billion)	CBD (N'billion)	CBA (N'billion)
2006	39995.5	3245.2	8140.2
2007	42922.41	5001.5	13011.6
2008	46012.52	7960.1	19261.02
2009	49856.1	9150	17522.86
2010	54612.26	9784.6	18661.27
2011	57511.04	11452.8	21891.56
2012	59929.89	13132.1	24584.65
2013	63218.72	13767.4	23169
2014	67152.79	17158.2	26233
2015	69023.93	17237	26589.77

Source: (CBN 2015 Statistical Bulletin and NDIC Annual Reports).

Table 3: A priori regression test coefficients

Model	Unstandardized Coefficients		Standard- ized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
(Constant)	34558.865	2764.087		12.503	0.000					
CBD	2.559	0.440	1.190	5.820	0.05	0.988	0.910	0.321	0.073	13.738
CBA	-0.359	0.350	-0.210	-1.027	0.339	0.936	-0.362	-0.057	0.073	13.738

Source: SPSS Version 20

Table 4: Regression result (Model Summary)

Model	R	R^2 Square	Adjusted R^2 Square	Std. Error of the Estimate	Durbin-Watson
1	0.989[a]	.979	0.973	1673.64746	1.853

Source: (SPSS Version 20).
a. Predictors: (Constant), CBA, CBD
b. Predictors: (Constant), CBA, CBD

Table 5: ANOVA summary

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	901292259.187	2	450646129.594	160.882	0.000[b]
Residual	19607670.678	7	2801095.811		
Total	920899929.865	9			

Source : (SPSS Version 20)
a. Dependent Variable: RGDP
b. Predictors: (Constant), CBA, CBD

Dependent Variable: RGDP

Table 3 indicates that Commercial Bank Deposits and Commercial Bank Assets are expected to be positively related to Real GDP:

Hence $\partial RGDP / \partial CBD, \partial RGDP / \partial CBA > 0$

From our regression coefficient in table 3, regression equation is formulated as follows;

RGDP = 34558.865 + 2.559 CBD- 0.359 CBA

From the above regression result, study noted that a unit increase in Commercial Bank Deposits (CBD) also increases with Real Gross Domestic Product (RGDP) by a factor of 2.559.

This clearly shows that, there is a positive relationship between Commercial Banks Deposits (CBD) and Real GDP. This result confirms our a priori expectation of a positive significance between CBD and RGDP. On the other hand, a unit increase in Commercial Banks Assets (CBA) will cause a decrease in Real GDP by a factor of -0.359. This clearly shows that there is a negative relationship between Commercial Banks Assets (CBD) and Real GDP. This is not consistent with our a priori expectation of a positive significance between CBA and RGDP.

Again, the value of R^2 square is given as 0.979 (97.9%) and an adjusted R^2 is given as 0.973 (97.3%) in table 4. This shows that, the regression model has a high explanatory power. The values (i.e. R^2 and adjusted R^2) indicate that over 97 percent of the variations in the dependent variable (Real GDP) is explained by the independent variables (CBD, and CBA). In order words, 97.3% of the change that occurred in the dependent variable was explained by its association with the explanatory variables, while the remaining 2.7% is attributed to unexplained factors. The S.E regression and Durbin-Watson statistics equally lend credence to the fact that there is minimal auto correlation.

From the ANOVA statistics in table 5, the signs and sizes of the model parameters are in consonance with theoretical expectation. This conforms to the a priori expectation that there exists a relationship between Bank Consolidation and Economic Growth in Nigeria.

The F-value determines the model significance in terms of its adequacy for forecasting and policy analysis. From the above table, the value of F-statistic is given as 160.882, when P = 0.000. Since the P-value (0.000) is less than 0.01 ($P < 0.05$) at 5 % level of significance, study rejects the null hypothesis that, there is no significant relationship between Bank Consolidation and Economic Growth of Nigeria; and accept the alternate hypothesis that, there is a significant relationship between Bank Consolidation and Economic Growth in Nigeria. This shows that independent variables (explanatory variables) jointly explain variations in the dependent variable. This shows that the model is well specified and does not suffer misspecification bias. In other words, the result from the model can be relied upon in making useful deductions with respect to the Real GDP of the economy.

Test of Hypotheses

This section presents research hypotheses below.

Hypothesis 1

H_{o1}: There is no significant relationship between Commercial Banks Deposits and the Real GDP of Nigeria

In testing the hypothesis, study focused on Commercial Bank Deposits (CBD) from table 4.1.2 above. The T-calculated value for CBD (5.820), is greater than p-value (0.05). This implies that the variable is insignificant and the null hypothesis that, there is no significant relationship between Commercial Banks Deposits and the Real GDP of Nigeria is accepted; while the alternate hypothesis of, there is a significant relationship between Commercial Banks Deposits and the Real GDP of Nigeria is rejected.

Hypothesis Two

H_{o2}: There is no significant relationship between Commercial Banks Assets and the Real GDP of Nigeria.

In testing the hypothesis, study focus on Commercial Bank Assets (CBA) from the above table. The value of T-calculated for CBA (–1.027) is less than the p-value (0.05). This implies that the variable is significant and the null hypothesis that, there is no significant relationship between Commercial Banks Assets and the Real GDP of Nigeria is rejected, while the alternate hypothesis that, there is a significant relationship between Commercial Banks Assets and the Real GDP of Nigeria is therefore accepted.

Interpretation and Discussion of Results

Multiple Regression Test result reveals that Commercial Bank Deposits (CBD) increases with Real Gross Domestic Product (RGDP) by a factor of 2.559. This shows that, there is a positive relationship between Commercial Banks Deposits (CBD) and Real GDP. This result confirms our a priori expectation of a positive significance between CBD and RGDP. On the other hand, a unit increase in Commercial Banks Assets (CBA) will cause a decrease in Real GDP by a factor of -0.359. This clearly shows that there is a negative relationship between Commercial Banks Assets (CBD) and Real GDP. This is not consistent with our a priori expectation of a positive significance between CBA and RGDP. Again, the explanatory variables (CBD and CBA) jointly account for approximately 97% variation in the changes in the Real Gross Domestic Product (RGDP). The Durbin Watson Statistic (1.853) illustrates the absence of auto correction. With the prob. (F-statistics) of 0.0000 at 5 % level of significance, it means that the model is significant and can be used for meaningful decision. The result show that Commercial Bank Asset is statistically significant at 5% significant level in explaining changes in the economy; while Commercial Bank Deposit is statistically insignificant at 5 % significant level in explaining changes in the economy.

CONCLUSION AND RECOMMENDATION

CONCLUSION

This study having evaluated the effect of Commercial Bank Consolidation on Economic Growth of Nigeria between the periods of 2006 to 2015, established that there is a significant relationship between Commercial Bank Asset (CBA) and the Real Gross Domestic Product (RGDP). This implies that, CBA have contributed positively to Nigerian economic growth. Again, study also found that, there is insignificant relationship between Commercial Bank Deposit (CBD) and the Real Gross Domestic Product. This also implies that, CBD plays no significant impact on the economic growth of Nigeria. Looking at the result of previous study by Makinde (2016) on the effects of banks consolidation on economic growth in Nigeria, findings showed that Commercial Bank Deposits and Assets have both positive significant impact on Nigerian Economic Growth. Finally, this study having established gap in knowledge thereby concludes that, Bank Consolidation have both positive and negative impact on the Economic Growth of Nigeria.

RECOMMENDATIONS

Based on the outcome of this study, the following recommendations are made;

1. That federal government of Nigeria should put adequate effort to sustain the banks consolidation policy as it makes sufficient funds available for the overall well-being of the economy.

2. Also, policies that would sustain the viability of banks especially those which will guarantee availability of funds for investment purposes like the consolidation exercise should be greatly encouraged. In addition, bank consolidation exercise should be employed at different intervals to reflect prevailing economic realities of bank operations in Nigeria.

3. The risk of bad loan constitutes the greatest threat to the existence of a banking institution. To avoid bad loan situation, the authors recommend the Central Bank of Nigeria and Banks Management to develop clear and applicable credit policies to address issues concerning risk acceptance criteria, loan approval limits, collateral securities, loan reviews and machinery of debt recovery. This policy should be reviewed from time to time in order to match the ruling realities.

4. The authors also recommend that Money Deposit Banks should concentrate on their core business activities. An ex-Central Bank of Nigeria governor, Prof. Charles Soludo observed that most banks have deviated from their core businesses and move into areas of operation they do not have competency. For instance, some commercial banks in Nigeria have engaged in direct trading activities such as, import and export, majority of these banks have lost depositors' money during the process. Therefore, Bank executives should concentrate efforts and resources on the core banking activities. Finally, emphasizes should be paid on developing new innovative products and services into the banking industry to create customers value, maintain competitiveness and improve on customers' return of asset or investment.

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