# Economics of Wealth Creation: A Study of Some Selected Quoted Deposit Banks in Nigeria.

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***Abstract***
*This study is focused on the contribution of the banking sector to economic growth in Nigeria. Five banks were selected based on the availability of their annual reports. These banks were Zenith, Access, Diamond, Guaranty Trust Bank (GTB) and WEMA. The banks were coded B1, B2, B3, B4 and B5 to avoid direct linkage of these names to the findings. Data on the banks' profit before taxation were collected from the annual reports and the gross domestic product (GDP), a proxy for economic growth, from the Central Bank of Nigeria (CBN) various issues of the Statistical Bulletin was collected from the profit before tax (PBT) of the banks from the annual reports between 2002 and 2015. Findings revealed that only two of the banks contributed significantly to economic development in Nigeria. Two of the banks contributed negatively to economic development while one of the banks was significantly contributing negatively to the economy. The findings of the study would have practical policy implementation especially in assisting policy makers and regulators of the financial institution in understanding the potential links between wealth creation and economic development in the banking sector in Nigeria.*

## Introduction

It is widely acknowledged that there is a close connection between financial sector development and economic growth in the literature of growth and development. This nexus extended to the banking sector which was a subset of the universal set which is the financial sector. The banking sector in any economy is one of the pivots upon which economic growth rotates. The sector can be likened to a circulatory system to the economy. A guideline for consolidation was issued by the Central Bank of Nigeria (CBN, 2005) Therefore all eyes would always be focused on this sector so as to avoid the occurrence of the Pandora's box experiences before consolidation in January 2006. We expect all stakeholders to learn from history. The twenty five billion capitalization target for each bank screened the 89 banks before 2006 resulting in the survival of less than 20 banks after consolidation. Ernest (2012) documented that these banks. Continued witnessing revolutionary metamorphosis in recent years as a result of the restructuring programmes channeled towards resolving the existing problems of the industry by the apex bank. Any attempt to monitor the activities of the banking sector, by way of a review, research and anatomic analysis is a welcomed development. In 2014, Taowo and Musa (2014) reported that consolidation had significant positive impact on the performance of banks in Nigeria. They therefore recommended that the management of banks should work hard to ensure that adequate measure is being put in place to determine increasing rate of return on asset, return on equity and net profit margin of their banks. The reform of this nature such as consolidation of banks is one of the ways to improve the banking sector financial stability. .

**Objectives of the Study**

Specifically this paper would focus on analyzing the contribution of the banking sector to economic growth in Nigeria especially in this time of recession.

**Research Hypotheses**

The following research hypothesis is formulated by the researcher to be tested at 5 percent significant level

**$H_0$**: The banking sector has not contributed significantly to the economic growth (GDP) in Nigeria

## 2. Review of Related Literature

### 2.1 Banks Annual Financial Reports.

It is obligatory that all public limited companies prepare an annual report and the changes in the cash balance during the period. The annual report is holistic, integrating the various subsystems such as the income statement (now referred to as the Statement of Comprehensive Income), the balance sheet (now referred to as the Statement of Financial Position), showing the state of affairs of the assets and liability as at date, the retained earnings statement showing a plough back to be added to equity at the end of the financial year. The cash flow statement showing the sources and application of funds and accounts at the end of each financial year. The value added statement show the wealth created within an accounting year, five year financial summary for the purpose of trended or historical comparative analysis. The accounting policies and notes to the financial statements are also important.

Annual report and accounts preparation and presentation responsibility rests in the directors and not that of the banks accountants who would be acting in a stewardship capacity to perform the professional duties of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the financial statement prepared (Wood and Sangster, 2008) The directors delegate a responsibility to the accountant and responsibility cannot be abdicated. The responsibility is derived from the provisions of the companies and allied matters act (**CAMA**), cap 20 LFN 2004, Banks and other financial institutions Act **(BFIA**) CAF B3 LFN 2004. In doing so, they ensure that:

- Proper accounting records are maintained.
- Adequate internal control procedures are instituted to safeguard the assets, prevent and detect frauds and other irregularities;
- Applicable accounting standards are adhered to;
- Judgments and estimates made are reasonable and prudent; and.
- The financial statements are prepared on the going concern basis unless it is inappropriate that the bank will continue in business.

The annual financial reports should be prepared under transparency and making the necessary disclosure to ensure a true and fair view of the state of affairs of the bank at the end of each financial year. This can be realized and transparency can be improved and the financial statements are reliable when an appointed qualified auditor gives an opinion after an audit. In most cases the Directors appoint Audit Committee to review the audit report and whistle-blower of weaknesses and threats or give statement of satisfaction on the audit reports. This would create reliability of the data collected from the bank’s annual reports.

### 2.2 Economic Profit

Economic profit is the difference between the total revenue received by a business and the total implicit and explicit costs of a firm. It is often the extra profit left over after considering the next best alternative investment and can be either positive or negative in value (Navid, 2013). This is different from the accounting profit which is the firm's revenue minus the explicit costs. Among economists, profit has a broader concept though (Mankiwe, 2008,). In short, it is possible to say that accounting profit is difference between income and explicit costs of doing issues but economic cost is difference between income and implicit and explicit costs.

- Explicit costs- Income = Accounting profit
- (Implicit costs + Explicit costs) – Income= Economic profit

These two equations can be rewritten as follows:

- Accounting depreciation – Explicit costs- Income = Net accounting profit
- Economic depreciation – Explicit and implicit costs - Income = Net economic profit

Difference between these two figures of the profits roots from various method of depreciation calculation. Notwithstanding, the accounting profit earned before charging taxation was used for the study.

### 2.3 Statement of Financial Position (Balance Sheet)

This statement sets the Assets against the Liabilities of the company. The assets side will always be equal to the liabilities side: hence the name "balance sheet". Furthermore the shareholders' equity is comparatively set with the debt capital..

### 2.4 Challenges Facing Nigerian Economy.

Apart from the general downturn in the global economy, there are various endogenous forces against Nigerian economy. These are in addition to normal economic challenges faced by developing countries like Nigeria. Empirical studies have tested various variables that can potentially attract or repel both domestic and foreign direct investment with the cumulative effects on economic growth. Such variables include market-driven variables such as rate of return, labor cost; and structural variables, such as cost of doing business e.g. corruption (Suriya etal, 2014), the status of national security especially religious conflict and terrorism (Omole, 2016), militancy (Ewokor, 2016) and political stability ; policy variables such as macroeconomic policies targeted at economic growth, price stability and taxation (Goodspeed, 2006). The crude oil sales which accounted for at least 70% of government revenue are now a mirage.

## 3. Research Methodology

### 3.1 Data Collection:

The data for this study are collected from the Central Bank of Nigeria (CBN) Statistical bulletin various issues for gross domestic product at current prices (GDPcp) from 2002 to 2015. The index for wealth creation of the banks proxies by the profit before tax (PBT) were collected from the annual reports of the respective banks. Five banks were selected based on the availability of their annual reports from 2002 to 2015. The banks were ACCESS, DIAMOND, WEMA, GTB and ZENITH. The codes B1 to B5 shall be used but not in the order of the banks. The identification of a particular bank to the performances in the econometric analysis is avoided.

**Table 1: The GDP and quoted banks PBT as wealth creation index**

| YEAR | GDPcp | B1 PBT | B2 PBT | B3 PBT | B4 PBT | B5 PBT |
|---|---|---|---|---|---|---|
| 2002 | 7795.26 | 3999 | -17945 | 1946 | 3176 | 1294 |
| 2003 | 9913.52 | 5440 | 811 | 47 | 4210 | 2286 |
| 2004 | 11411.07 | 6405 | 952 | 1285 | 4976 | 1420 |
| 2005 | 14610.8 | 9155 | 751 | 3514 | 6781 | 1002 |
| 2006 | 18564.59 | 15151 | 737 | 5445 | 10489 | -7200 |
| 2007 | 20657.32 | 23289 | 6083 | 9008 | 27368 | 1879 |
| 2008 | 24296.33 | 48959 | 17937 | 5902 | 37633 | -19437 |
| 2009 | | 31753 | -3955 | -12374 | 35013 | -3309 |
| 2010 | 24794.24 | 42957 | 12564 | 4773 | 46275 | 12964 |
| 2011 | 54612.26 | 67440 | 27107 | -17965 | 62080 | -3770 |
| 2012 | | 102100 | 46535 | 27482 | 103028 | 4942 |
| 2013 | 62980.4 | 110579 | 44996 | 12080 | 107091 | 1947 |
| 2014 | 71713.94 | 119796 | 52022 | 28101 | 116386 | 3094 |
| 2015 | 80092.56 | 125616 | 75038 | 7093 | 120695 | 3045 |
| | 89043.92 | | | | | |
| | 94144.96 | | | | | |

Source: CBN Statistical Bulletin Various Issues and the selected Banks Annual Reports

### 3.2 Model Specifications

The econometric model for this study is generally of the form:

$Y_1 = \beta_0 + \beta iXi + \varepsilon_i$

where

Yi = the dependent variable

Xi = the explanatory variables X1 to Xn

β0 = the constant or intercept

βi = the array of the vector of coefficients of the explanatory variables

εi = error term

transformed into

**GDPi = β0 +β1PBTZ1 + β2PBTA2 + β3PBTD3 + β4PBTG4 + B5PBTW5 +εi**

where

GDPi = gross domestic product as the dependent and a proxy for economic growth.

$PBTZ_1$ = the Profit Before Taxation of Zenith bank

$PBTA_2$ = the Profit Before Taxation of Fidelity ban

$PBTD_3$ = the Profit Before Taxation of Diamond bank

$PBTG_4$ = Profit Before Taxation of GTB bank

$PBTW_5$ = the Profit Before Taxation of Wema bank

$\beta_0$ = constant or intercept

β1 - β5 = Coefficients of the explanatory variables

εi = error term

## 4. Results and Discussion

### 4.1 The “a-priori”

The Inference on “a-priory” expectation inTtable 2 based on the relationship of the coefficients of the explanatory variables to the dependent variable show that banks B2, B3, B4 negative. The importance of the banking sector to the economy demands that there should be a positive relationship. Therefore a-priory is violated. The coefficients of banks B1 and B5 are positive

### 4.2 The Statistical Interpretation

**4.2.1** The F-Statistics value of 101.72 with the probability (p=0.00001) indicates that the model is well fitted, an unbiased representation of the econometric output. or the estimated equation.

**4.2.2** The $R^2$ is the coefficient of determination of 98.43% meaning that 98.43 of the characteristics of the dependent variable can be deduced from the explanatory variables.is referred to as the explanatory power.

**4.2 3** The Adjusted $R^2$ is more important. With the value of 97.48 %, it is interpreted as the predictive pqwer of the explanatory variable over the dependent variable. The explanatory variables can predict 97.48 of the changes in GDP.

**4.2.4** The t-Statistics shows the significant of the explanatory variables to the dependent variable. Bank B1was marginally significant at 5.13%, B3 and B5 are significant at 5% each. Banks B2 and B4 are not significant.

**4.2.5** If an explanatory variable is not significant, it implies that such variable has not contributed to the dependent variable only bank B1 and B5 contributed positively to the GDP. .Bank B3 significantly and negatively contributed to the GDP

### 4.3 Econometric Interpretation

Serial Correlation. Testing the presence of serial correlation in the residuals of the estimated equation in table 2 is important. The Durbin-Watson statistics of 1.5068 was subjected to L M test in table 3. The analysis shows the absence of serial correlation.

### 4.4 The Study Hypothesis.

**$H_0$**: The banking sector has not contributed significantly to the economic growth (GDP) in Nigeria

The null hypothesis for Banks B1 and B5 is rejected and the alternative accepted that these banks have contributed to the Nigerian economic growth.

The null hypothesis for banks B2, B3, accepted and therefore concluded that they have not contributed positively to Nigerian economic growth.

## 5. Conclusion and Recommendation

This study has approached the contribution of the banking sector to economic growth in Nigeria through wealth creation The profit before taxation of the selected banks were used to regress against the GDP. Only two of the five banks had actually contributed positively to economic growth in Nigeria.

It is recommended that deposit banks regulator should intensify control and audit their guidelines so that most banks would not use the weaknesses of the laws to side-track financial policies aimed to weather the storms of economic recession.

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## APPENDIX

**Table 2 Econometric Output**

Dependent Variable: GDPcp
Method: Least Squares
Date: 02/10/80 Time: 14:53
Sample: 2002 2015
Included observations: 14

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 6822.865 | 3003.167 | 2.271890 | 0.0527 |
| B1 | 1.552873 | 0.689134 | 2.253370 | 0.0543 |
| B2 | -0.067667 | 0.218651 | -0.309476 | 0.7649 |
| B3 | -0.320627 | 0.135866 | -2.359884 | 0.0460 |
| B4 | -0.839756 | 0.644902 | -1.302145 | 0.2291 |
| B5 | 1.208078 | 0.352770 | 3.424551 | 0.0090 |

| | | | |
|---|---|---|---|
| R-squared | 0.984515 | Mean dependent var | 41759.37 |
| Adjusted R-squared | 0.974837 | S.D. dependent var | 32062.64 |
| S.E. of regression | 5086.083 | Akaike info criterion | 20.20393 |
| Sum squared resid | 2.07E+08 | Schwarz criterion | 20.47781 |
| Log likelihood | -135.4275 | Hannan-Quinn criter. | 20.17858 |
| F-statistic | 101.7249 | Durbin-Watson stat | 1.506810 |
| Prob(F-statistic) | 0.000001 | | |

**Table 3 Test for Serial Correlation**

Breusch-Godfrey Serial Correlation LM Test:

| | | | |
|---|---|---|---|
| F-statistic | 0.385774 | Prob. F(1,7) | 0.5542 |
| Obs*R-squared | 0.731248 | Prob. Chi-Square(1) | 0.3925 |