

## **EFFECT OF FEDERAL GOVERNMENT DEPOSIT ON THE CORE BANKING ACTIVITY IN NIGERIA**

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### **ABSTRACT**

*This study empirically examined the effect of Federal Government of Nigeria Deposit on the core banking activity in Nigeria. Specifically, it examined the effect of government deposit on credit to the private sector. It assessed the effect of government deposit on total deposit mobilized and analyzed the effect of government deposit on loans and advances granted by these banks. The study used time series secondary data obtained from the CBN statistical bulletin, 2015 edition. Inferential statistics (correlation and regression analyses) were used for data analysis. Specifically, correlation analysis established the relationship among the variables, while the regression analysis model was used for the estimation of the data. The results from the research confirmed that Federal Government deposit had a positive and significant effect on credit to the private sector as indicated by the regression analysis coefficients and p-values of 0.593(p=0.016) for total credit to private sector, 0.528(p=0.036) for deposit mobilized and 0.497(p=0.050) for loans and advances. Based on the findings of this study, banks are strongly advised to focus on the other sectors of the economy for deposit mobilization instead of relying heavily on Federal Government fund alone.*

**Keywords:** Deposit, Mobilization, Credit, Private Sector, Loans and advances, Money Banks

### **INTRODUCTION**

Deposit money banks (DMBs) are commercial banks licensed by the monetary authorities of a country to act as a repository for money deposited by persons, companies, and institutions, and they are obligated to repay such deposits either immediately on demand (current accounts) or subject to due notice being given (deposit accounts). They are the major financial intermediaries and providers of credits to the corporate sector and individuals in Nigeria. The capacity of these institutions to create money is of great importance in business operations and to the economy in general.

Prior to the introduction to Treasury Single Account (TSA), DMBs kept various accounts for Federal government ministries, parastatals and agencies which necessitated having fragmented banking arrangement for revenue and payment transactions as there were more than 10,000 bank accounts in multiple banks which made it impossible to establish government consolidated cash position at any point in time (Obinna, 2015). With the full implementation of the TSA, all Government Ministries, Departments, and Agencies are required to remit their revenue collections



through the individual deposit money banks to the Consolidated Revenue Accounts with the CBN at the end of each banking day. Kanu (2016) opined that DMBs stand to lose immensely from the implementation of TSA. This is because Banks will be denied access to the floats and various monies they maintained for the ministries, parastatals and agencies which in some cases may run into billions of naira and sometimes these deposits remain there for months and the banks trade with such funds. The removal of these funds from DMBs may have an adverse effect on their deposit mobilization and thus their capability to grant credit facilities since the ability of the banks to lend depends largely on the deposit mobilized.

As observed by Bologna (2011), deposits play a pivotal role in the bank's funding, as a predominant portion of commercial bank's assets is usually financed through customer deposits. Obviously, the profitability of the banks may be reduced drastically, at least in the short and medium-term. Therefore, the essence of this study is to empirically examine the effect of Federal Government Deposit on the core banking activity of DMBs in Nigeria before the full implementation of TSA. The study will specifically examine whether Federal Government Deposit (FG Dp) in DMBs in Nigeria had any significant impact: on credit to the private sector, on deposit mobilization and on loans and advances by these banks. If the effect of Federal government deposit on their core activity is established, management will be able to evaluate the significance of Federal government deposit to the success of their business.

## **LITERATURE REVIEW**

Conceptual literature and Empirical literature provide insight into the understanding of the concepts of the study.

### **Conceptual Literature**

The essence of the banking business is profit maximization. In order to achieve this objective, banks need to mobilize enough deposits from which they make loans and advances available to their individual and business customers. Generally, customer deposits include demand deposits, savings deposits, and time deposits. These deposits constitute the cheapest source of funds available to Deposit money banks (DMBs). Banks also attract deposits from Governments through federal, state and local government ministries, parastatals and agencies. These deposits could be a demand deposit, savings deposit, and term deposit. Credit creation is situation in which banks make more loans and advances to customers and businesses in order to earn interest. This is a core activity of the banking business and the main source of income for the banks.

There is a need for a proper understanding of the meaning of Treasury Single Account (TSA). Yusuf (2016) described TSA as a unified structure of government bank accounts that enabling consolidation and optimal utilization of government cash resources. It is a bank account or a set of linked bank accounts through which the government transacts all its receipts and payments and gets a consolidated view of its cash position at any given time.

Eme, Chukwurah, & Iheanacho (2015), explained A Treasury Single Account (TSA) as a network of subsidiary accounts all linked to a main account such that, transactions are effected in

the subsidiary accounts but closing balances on these subsidiary accounts are transferred to the main account, at the end of each business day. The implication is that TSA will provide for proper monitoring of government receipts and expenditure. The implementation of TSA will help to block most, if not all, the leakages that have been the bane of the economy. It was noted by Okwe, Nelson, Adeoye, and Ogah (2015) that out of N3.06 trillion generated by the MDAs in 2009, only N46.8 billion was remitted to the federation account. In 2010, out of N3.07 trillion collected only N54.10 billion was remitted to government coffers. These agencies pay into government account what they deem fit without proper check and balances. The practice of multiple banks accounts by the MDAs gave room to leakages of funds, embezzlement of public funds, and the inability of the government to know the exact amount in its accounts (Kanu, 2016)

### **Empirical Literature**

There have been mixed feelings with regards to the removal of the federal government of Nigeria deposits from DMBs, which resulted in full implementation of TSA in Nigeria. While many argue that TSA is a better financial management system that will guarantee accountability, transparency of public finance, others fear that the policy was hasty because no palliative measures were put in place by the government as it relates to how it will affect the banking industry (Ighosewe&Ofor 2017). Onyekpere (2015) noted that the implementation as a blessing in disguise stating that, the implementation of the TSA cannot hurt strong banks and that it will be an opportunity for banks to refocus on the original purposes for which they were set up to collect depositors funds not necessarily relying on government funds. In the same direction, Garbade (2015) in Kanu (2016) posited that though the implementation of the TSA presents an opportunity for banks to creatively think of other means of raising money,

To the banks, removal of federal government accounts from Deposit money banks is not a good decision because, before the introduction of treasury single account, DMBs fed fat on the “float” created by the duplicated and unaccounted Ministries, Departments and Agencies (MDAs) accounts (Adeolu, 2015). The reason for this is not far-fetched, because, with the introduction of TSA, deposit money banks are now the collecting agents of CBN which means that they are now required to remit all the revenues collected from MDAs at the end of each banking day. This may have negative effect on the deposit mobilization of banks and the impact may so severe and significant on those banks with huge federal government deposits. Another major implication of Treasury Single Account to banking system is the fact banks may drastically reduce loans and advances at least in short and medium terms while desperately looking for deposit from private sector with a very attractive deposit interest rate.

Kanu (2016) investigated the effect of the implementation of TSA on the economy, the public accounting system and on the liquidity base and performance of banking sector in Nigeria. The study adopted a survey design, a research technique in which information is gathered from sampled respondents using a questionnaire. The results obtained confirmed that the implementation of Treasury Single Account in the public accounting system impacted negatively on the liquidity base and the performance of banking sector in Nigeria. The study concluded that

TSA will influence the liquidity base and performance of the banking sector and recommended that CBN should address the challenge and that Banks source funds from other sectors of the economy.

Onuorah and Chigbu (2016) assessed the effect of the implementation of the Federal Government Treasury Single Account (TSA) on Commercial banks performance in Nigeria. Time-series data were collected from CBN for the period 2012-2016. TSA was proxied using Federal Government demand deposit, Federal Government Time deposit and Federal Government saving deposit while the dependent variable was proxied using the summation of two performance indicators: Return on equity (ROE) and Return on investment (ROI). The study employed trend analysis (bar charts). The results obtained revealed that Federal Government deposits had positive impact on the banks' performance in Nigeria. The implication is that Implementation of TSA did not impact well on the performance of the commercial banks. The study recommended that there is need for adequate working capital system of the TSA to be put in place and that Government should review the TSA policy to safeguard the financial conditions of Nigerian banks.

In another study, Andornimye (2017) examined the impact of Treasury single implementation on bank liquidity. The paper specifically examined the impact of TSA implementation on banks' current ratio, deposit mobilization and credit creation in Nigeria. The statistical technique employed in testing the hypotheses was the student t-test statistics. Findings from the study revealed that TSA implementation has a negative impact on the current ratio of banks, positive significant on deposit mobilization by banks but no significant impact on credit creation.

Ighosewe and Ofor (2017) investigated the effects of Treasury Single Account on Bank performance in Nigeria. The study adopted a survey research design. The study examined the effect of TSA on bank liquidity, job security, and profitability. The study revealed a negative significant relationship between TSA and bank liquidity, a positive significant between TSA and job loss and a negative significant between TSA and profitability in the banking industry. The results obtained from the study were based on the subjective opinions of the people that administered the questionnaires.

In their own study, Ndubuaku, Ohaegbu, and Nina (2017) examined the Impact of Treasury Single Account on the performance of the Banking Sector in Nigeria". The study investigated the impact of TSA on credit to the Private sector, Deposit mobilization and Loans and Advances respectively. The secondary data obtained from CBN statistical bulletin were analyzed using correlation and regression analysis. The study found that the implementation of TSA would significantly reduce credit to the private sector, reduced deposit mobilization by Deposit Money Banks and also reduced Loans and Advances. The study covers a period of 16 years, 2000-2015. The study recommended that banks should avoid over-reliance government funds and should mobilize funds from unbanked.

This research work is premised on the fact that deposit mobilization plays a significant role in determining the performance indicators in the banking business. The essence of this study, therefore, is to determine the effect of Federal Government of Nigeria deposit on the core banking

activity of Deposit Money Banks in Nigeria which will consequently affect the profitability. The result of this study will serve as a good guide to evaluate the effect of removal of such Federal government deposit from these banks and the consequences of such action on the economy.

**METHODOLOGY**

The study uses content analysis to investigate the effect of the Federal Government Deposits on core banking activity in Nigeria. It covered all the deposit money banks in Nigeria as of December 2015. These banks are: Access Bank Plc, Citibank Nigeria Limited, Diamond Bank Plc, Ecobank Nigeria Plc, Enterprise Bank, Fidelity Bank Plc, First Bank Nigeria Limited, First City Monument Bank Plc, Guaranty Trust Bank Plc, Heritage Banking Company Ltd, Keystone Bank, Skye Bank Plc, Stanbic IBTC Bank Ltd, Standard Chartered Bank Nigeria Ltd, Sterling Bank Plc, SunTrust Bank Nigeria Limited, Union Bank of Nigeria Plc, United Bank For Africa Plc, Unity Bank Plc, Wema Bank Plc, and Zenith Bank Plc. The study covered a period of sixteen (16) years, 2000-2015.

**Data Collection**

The secondary data for the study was obtained from the Central Bank of Nigeria Statistical Bulletin, 2015 edition for the listed Deposit Money Banks.

**Functional relationship**

TCPRS = f (FGDP) ..... (1)

DPM = f (FGDP) ..... (2)

TLA = f (FGDP) ..... (3)

**Analytical Model**

Model 1: TCPRS = α + β(FGDP) + μ ..... (4)

Model 2: DPM = α + β(FGDP) + μ ..... (5)

Model 3: TLAD = α + β (FGDP) + μ ..... (6)

Where:

TCPRS = Total credit to private sectors

DMP= Deposit mobilization from customers

TLAD =Loans and Advances

FG Dp= Federal Government Deposit

α = Intercept

β= Coefficient of the explanatory variable (slope)

μ =Represents the error term in the model

**A-Priori Expectations**

It is expected that based on a large amount of Federal government deposit with DMBs that this would have positive and significant effect on total loan to private sector, deposit mobilization, and total loans and advances. Thus the following are expected.



Model 1:  $\beta$  TCPRS >0

Model 2:  $\beta$ DMP >0

Model 3:  $\beta$ TLAD>0

**Dependent variables:**

**(1) Total credit to the private sector (TCPRS)**

This represents total credit made available to the private sector of the economy. The category includes both small private and large scale enterprises. Corporate organizations are also included provided they are not public corporations.

**(2) Deposit Mobilization**

This represents a total deposit mobilized from corporate and individual customers. It is the sum of demand deposit, savings deposit and term deposit from the particular groups.

**(3) Total Loans and Advances**

Total loans and advances are the total credit created by the Deposit Money Banks in the understudy. It includes loans and advances to Governments, Federal, state and local government. Facilities to individual and corporate customers also inclusive.

**Independent Variable:**

**Federal Government Deposit**

This is made up of Federal government deposits represented by the deposits of Federal ministries, parastatals, and agencies. It is the sum of demand deposit, savings deposit and term deposit of these institutions with the Deposit money banks in Nigeria

**ANALYSIS AND RESULTS**

This section presents the analysis of data using correlation and regression analyses. The findings generated from the study were presented and discussed.

**Table 1: Correlation Analysis**

		FGDP	TCRP	DMP	TLA
FGDP	Pearson Correlation	1	.593*	.528*	.497
	Sig. (2-tailed)		.016	.036	.050
	N	16	16	16	16
TCRP	Pearson Correlation	.593*	1	.991**	.962**
	Sig. (2-tailed)	.016		.000	.000
	N	16	16	16	16
DMP	Pearson Correlation	.528*	.991**	1	.973**
	Sig. (2-tailed)	.036	.000		.000
	N	16	16	16	16
TLA	Pearson Correlation	.497	.962**	.973**	1
	Sig. (2-tailed)	.050	.000	.000	
	N	16	16	16	16

\*\* . Correlation is significant at the 0.01 level (2-tailed). \*Correlation is significant at the 0.05 level (2-tailed)





Table 1 revealed that there is a strong positive relationship between Federal government deposit and Credit to the private sector, and also, a strong positive correlation between Federal government deposit and deposit mobilization. There is a moderate correlation between Federal government deposit and total loans and advances. Correlation between FGdp and TCRP is 0.593, between FGdp and DMP is 0.528. The relationship of FGdp with TLA is 0.497. These correlations are statistically significant evidenced by the p-values of .016, .036 and .050 for TCRP, DMP and TLA respectively.

**Regression Results**

Regression analysis is a set of statistical processes for estimating the relationships among variables. The focus is on the relationship between a dependent variable and independent variables. Regression analysis helps to understand how the value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed or constant.

**MODEL 1**

This is a model for regression analysis with federal government deposit as (FGDP) as the dependent variable and total credit to private sector (TCRP) as independent variable.

**Table 2: Model Summary**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.593 <sup>a</sup>	.351	.305		5465.34040	.684

- a. Predictors: (Constant), FGDP
- b. Dependent Variable: TCRP

**Table3: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	226344131.271	1	226344131.271	7.578	.016 <sup>b</sup>
	Residual	418179239.696	14	29869945.693		
	Total	644523370.967	15			

- a. Dependent Variable: TCRP
- b. Predictors: (Constant), FGDP

**Table 4: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4580.145	1671.169		2.741	.016
	FGDP	5.317	1.931	.593	2.753	.016

- a. Dependent Variable: TCRP

Table 2 indicated that that Adjusted R<sup>2</sup> is equal to .305. The implication is that FGDP accounted for 30.5% of the variance in credit to private sector. Analysis of Variance (ANOVA) table 3 confirmed the significance of the model with F statistic of 7.578 with probability of 0.016 < 0.05. The Beta standardized co-efficient and p-value of .593(p=0.016) in table 4 indicate a positive and



significant relationship between Federal government deposit and credit to private sector. The t-test of 2.753 with probability value of 0.16 is statistically significant.

**MODEL 2**

This is a model for regression analysis with federal government deposit as (FGDP) as the dependent variable and deposit mobilization (DMP) as independent variable.

**Table5: Model Summary<sup>b</sup>**

	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.528 <sup>a</sup>	.279	.227		3506.35629	.707

a. Predictors: (Constant), FGDP

b. Dependent Variable: DMP

**Table6: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66475323.464	1	66475323.464	5.407	.036 <sup>b</sup>
	Residual	172123481.808	14	12294534.415		
	Total	238598805.272	15			

a. Dependent Variable: DMP

b. Predictors: (Constant), FGDP

**Table 7: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2995.221	1072.159		2.794	.014
	FGDP	2.881	1.239	.528	2.325	.036

a. Dependent Variable: DMP

Table 5 indicated that by the adjusted R<sup>2</sup> .227 that 23% of the variance in deposit mobilized was explained by Federal government deposit in these banks. F-statistic of 5.407 with probability value 0.036 signifies the significance of the model. The Beta standardized co-efficient of .528 and p-value of 0.036 indicates a strong positive and significant relationship between FGDP and DPM.

**MODEL 3**

This is a model for regression analysis with federal government deposit as (FGDP) as the dependent variable and total loans and advances (TLA) as independent variable.

**Table 8 : Model Summary**

Model	R	R Square	Adjusted Square	R	Std. error of the Estimate	Durbin-Watson
1	.497 <sup>a</sup>	.247	.193		3935.70571	.572

a. Predictors: (Constant), FGDP

b. Dependent Variable: TLA





**Table 9: ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	71104636.694	1	71104636.694	4.590	.050 <sup>b</sup>
Residual	216856911.924	14	15489779.423		
Total	287961548.618	15			

a. Dependent Variable: TLA

b. Predictors: (Constant), FGDP

**Table 10: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4150.646	1203.444		3.449	.004
FGDP	2.980	1.391	.497	2.143	.050

a. Dependent Variable: T LA

Table 8 indicates the contribution of FDGP to the variance in total loans and advances. Adjusted R square of .193 means 19.3% of the variance in total loans and advances was explained by FGDP. Analysis of Variance tables shows that F-statistic is 4.590 with significant value of 0.050. It means the model is significant and appropriate. The beta standardized co-efficient of .497 (p=0.050) is a confirmation of positive and significant relationship between FGDP and loans and advances. The parameter T-test of 2.143 with the probability value of 0.004 confirms the positive and statistical significance FGDP on TLA.

## RESULTS OF FINDINGS

The findings of this research are based on the results of the tested hypotheses. The coefficient of Federal government deposit in relation to Credit to the private sector is 0.593. This indicates a positive relationship between FGDP and CRP and the implication is that for every N1 increase in FGDP, it brings 59k increase in CRP. The p-value of 0.016 is less than 0.05 significant level which indicates that the relationship is statistically significant. The implication of this result is that we reject the Null hypothesis that Federal government deposit had no significant effect on Credit to private sector and accept the alternative hypothesis that Federal government deposit had a significant positive effect on credit to private sector.

The coefficient of 0.528 of Federal government deposit in relation to deposit mobilization indicates a positive relationship between the two variables. It means for every N1 increase in FGDP, it brings an increase of 53k in the deposit mobilization by deposit money banks. The p-value of 0.036 confirmed that the relationship is statistically significant which necessitate the rejection of the null hypothesis and acceptance of the alternative hypothesis that Federal government deposit had significant effect on deposit mobilization. The probability value of 0.036 evidencing the fact that we must reject the null hypothesis that there is no significant effect of

FGDP on deposit mobilization and thereby accept the alternative hypothesis that FGDP had a significant effect on deposit mobilization by banks.

The coefficient of 0.497 indicates a positive relationship between Federal government deposit and Loans and advances. It means for every N1 increase in FGDP, there is an increase of 49k in loans and advances of the deposit money banks. A probability value of 0.050 is exactly equal to 0.05 significance level. It means there is 95% confidence level. Therefore, the null hypothesis that Federal government deposit had no significant effect of loans and advances is rejected and the alternative hypothesis is accepted.

The outcome of this study is similar to the study carried out by Ndubuaku, Ohaegbu, and Nina (2017).

## **CONCLUSION**

The study established that there is a positive and significant relationship between the federal government deposit and core activity of Nigerian Banks as indicated by the regression analysis coefficients and p-values of 0.593(p=0.016) for total credit to private sector, 0.528(p=0.036) for deposit mobilized and 0.497(p=0.050) for loans and advances. The implication of this results, is that withdrawal of federal government deposits from DMBs will have negative effect on the core activity of the banks and may negatively affect the performance of DMBs in Nigeria, which fails to an address may result to the collapse of DMBs that does not have strong deposit base, coupled with inefficient credit management.

## **RECOMMENDATIONS**

In view of the above, the study, therefore, recommends that:

1. DMBs in Nigeria should refocus on their core mandates which include collecting depositors' funds from private individuals and corporate bodies and keep attention away government funds.
2. The government should ensure that DMBs are not suffering from liquidity problem by making available to them loans at a moderate interest rate which will invariably enhance their ability to extend credit to the private sectors and other borrowers. This will have positive impact on the economy as a whole.
3. The study further suggested that more investigations should be carried on the implementation of TSA in Nigeria by examining the effect of Federal government deposit during the pre-implementation period and post-implementation period. This will clearly reveal the effect of TSA on DMBs in Nigeria.

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