International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 10 Issue 5, Sep-Oct 2026 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

# The Relationship between Deposit Structure and Credit Allocation in Nigerian Banks

**Timinipre Joseph Okpobo[1], Ovie Laime Odogu[2], Dr. Odogu Laime Isaac[3]**

[1]Department of Accountancy, School of Management Science,
Bayelsa State Polytechnic, Aleibiri Ekeremor Local Government Area, Bayelsa State, Nigeria
[2,3]Bayelsa State Institute of Entrepreneurship and Vocational Training,
Department of Micro Finance and Enterprise Development, Elebele

## ABSTRACT

This study empirically examined deposit structure and credit allocation in Nigerian banks. The researcher adopted quasi-experimental research design for the study. The data used were obtained from the Central bank of Nigeria statistical bulletin from 1997-2022. Total loans and advances which is the dependent variable was used to proxy credit allocation while the independent variables fixed deposit account, demand deposit, and savings deposit account was used to proxy deposit structure. The analysis carried on the variable include descriptive statistics, unit root test, Johansen co-integration, error correction model and granger causality test. The findings of the study revealed a significant and positive relationship between fixed deposit account and total loans and advance, demand account exhibited an insignificant but positive relationship with total loans and advances, while savings deposit account displayed a positive and significant relationship with total loans and advances. The study concluded that the various account holdings that constitutes deposit structure influences credit allocation in Nigerian banks. The study recommended that management should develop plans to ensure deposits are mobilized in other to enhance credit supply also the Central Bank of Nigeria should ensure that these banks are checked and regulated to avoid disruption in banks' deposit structure and credit allocation.

***KEYWORDS:*** *credit allocation, fixed deposit account, demand deposit, and savings deposit.*

***How to cite this paper:*** Timinipre Joseph Okpobo | Ovie Laime Odogu | Dr. Odogu Laime Isaac "The Relationship between Deposit Structure and Credit Allocation in Nigerian Banks" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-10 | Issue-5, October 2026, pp.554-562, URL: www.ijtsrd.com/papers/ijtsrd142136.pdf

IJTSRD142136

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## INTRODUCTION

The financial sector performs an elementary role in economic growth. It allows the flow of funds between the surplus and deficit in an economy. The deposits gathered and investment in the economy is organized around the financial system that supports economic growth. A well- structured financial system boosts economic growth through deposit structure and allocation to various sectors for investment purposes. Deposit money banks are involved in the financial system to ensure its functionality. Commercial banks are financial institutions that make up the banking system, offering services such as collections of deposits, loan provision and other banking services. They are profit minded. In Nigeria, commercial banks also known as the deposit money banks accept deposits through fixed deposit account, demand deposit account and savings deposit account to form deposit structure. Fixed deposit is an account for investment that provides investors a guaranteed high interest rate at the maturity date. Demand deposit also known as current account is used to keep customer's funds safe and make them available on demand. In addition, customers are granted overdraft. Saving deposit is an account for individuals who save little regularly and withdrawals are made on demand (Thomas, 2022). In recent times, the high competition in the banking industry and technology development worldwide among commercial banks, prompted new innovations such as mobile deposits and other banking technologies to improve and ensure deposits are mobilized (Banson, Sakee, Sey, & Sakoe, 2022).

Different economies of the world view deposit money bank's credit as a major source of finance (Constant & Ngomsi, 2022). Credit allocation is a process whereby commercial banks give out loan as a form of financial assistance to entrepreneurs, companies, and government. This accelerates economic growth and development (Onodugo, Kalu & Anowor, 2023). Credit supply is a predominant asset in the bank's structure and also a criterion to the survival of the bank as interest is charged on loan which in turn makes the bank solvent to carry out its operations (Uwuigbe, Uwuigbe, & Oyewo, 2025). Bank loans given are either short, medium, or long-term as the case may be (Olokoyo, 2021). According to Akuma, Do ku and Awer (2020) commercial banks make enough profit from credit disbursement but on the other hand is faced with credit risk where by the loan granted is not repaid as stated. As opined by (Ezirim, 2023) that lending activities of banks is associated with significant risk thus great skill and care is to be exercised in administration of loans and advances to avoid irrecoverable debt and ensure corporate survival. Deposit money banks are major players in the carrying out of financial intermediation that is, linking surplus and deficit (Wilko, Haan, Hoeberichts, Oordt, & Swank, 2022). Financial intermediation is seen as an incentive for economic growth and development (Ogiriki & Andabai, 2024). As financial intermediaries, they collect funds and lend out to companies and governments for investment and productive uses thereby aiding economic growth and development (Alagarsamy & Ganapathy, 2021). These funds lent out are dependent on the funds organized by the banks as deposits (Ukinamemen, 2020).

**Objectives of the Study**

The aim of the study is to examine the relationship between deposit structure and credit allocation in Nigerian banks. Specifically, the study is designed to:

Examine the influence of fixed deposit account on credit allocation in Nigerian deposit money banks

Evaluate the effect of demand deposit account on credit allocation in Nigerian deposit money banks.

The following research hypotheses stated in their null and forms will guide this study

H01: There is no significant relationship between fixed deposit account and credit allocation in Nigerian deposit money banks.

H02: No significant relationship exists between demand deposit account and credit allocation in Nigerian deposit money banks.

## LITERATURE REVIEW

### Conceptual Framework

### Deposit Structure

Deposit structure refers to the total bank deposits or deposit base of the commercial bank. Deposit money banks need deposits as a source of finance or working capital to be able to do business (lending and investments). Deposits is an indicator in any commercial bank to reveal whether the management is effective in mobilizing enough deposits at the lowest possible cost from individuals of the public and also consistency in attracting deposits for continuous survival. For deposit structure to be rigid, accounts such as fixed deposit, demand deposit, savings deposit and other specialized schemes are created. These forms of deposit are all provided by commercial banks in Nigeria, and in terms of usage they are different. Below are their explanations: Fixed Deposit Account: Fixed deposit is an account for investment that provides investors a guaranteed high interest rate at the maturity date. It is also called time or term deposits. The customer in this situation invests a certain sum (deposit) and agrees not to access it and then the bank agrees to pay a higher rate of interest. This category of account is to be repaid on expiration of the period specified, chosen by the depositor. It's returns is guaranteed. Demand Deposit Account: Demand deposit also known as current account is used to keep customer's funds safe and make them available on demand. In addition, customers are granted overdraft. These account is favorable to businesses, companies, institutions and corporations. Savings Deposit Account: Saving deposit is an account for individuals who save little regularly and withdrawals are made on demands. Here, individuals of the middle and lower class save their income for future purposes. Bank deposit is a liability to the bank and an asset to the customer because of the fact that the bank will keep the funds safe, use for business and pay on demand to the customer depending on the product offered. The accounts and products are used to attract funds from individuals, companies and government for safe keeping and pay on demand. Due to the competition in the banking industry commercial banks developed new innovations to increase its deposit base. Technology is now a fundamental part of banking with the introduction of automated teller machine, internet banking, mobile banking and others. With this medium commercial banks are able to reach out to a good number ratio of the population as people are able to deposit money anytime thereby increasing its deposit base. (Banson, Sakee, Sey, and Sakoe, 2022).

**Deposit Interest Rate:** If bank raise their interest rate it will entice depositors but if the interest rate is low, it will chase depositors. Most commercial banks use this determinant to raise deposit in order to be liquid. This determinant in most studies was proven weak (Olanrewaju, 2016). Philip (1968) noted that when an appealing interest is offered, it will have a beneficial effect on deposit. Mustafa and Sayera (2009) also stated that low rate of deposit leads to a decline in saving mobilization, thus, a high interest rate leads to more deposits. Rose (2001) was also in support of the opinion that bank increase their deposit base by ensuring they set high deposit interest rate. **Inflation:** This factor influences savings deposit account. This is so because individuals who want to buy or acquire properly or wealth in form of land have to save due to the high price of such wealth (Mohammed & Mahdi, 2010). In a situation where individuals who save decide to convert their money or deposit with banks into assets such as land and other non-current asset, the bank's deposits will reduce and as such affect the bank's liquidity.

The Role of Central Bank of Nigeria in Regulating Credit Allocation. Deposit money banks plays an essential role in the Nigerian economy because through its financial intermediation role, there is growth and development in the economy. For the deposit money banks to be effective in credit allocation so as to contribute to the investments, prompt investment and continue in investments, monetary policy comes in. Monetary policy are strategies used by the central bank to regulate the value, supply and cost of money in the economy. In Nigeria, the Central Bank is the apex authority with the responsibility of regulating and ensure these credit activities by commercial banks are kept under surveillance. The main aim of deposit money banks is to make profit, which is done through credit. Its ability to make profit is dependent on how it manages its investment portfolio. Therefore, commercial banks need to be prudent in managing its assets and liabilities in order to make profit, be liquid and safe. Bank loan is an important asset to the bank of which the Central Bank of Nigeria regulates by giving clear cut directives on the extent to which commercial banks involve in credit delivery. The activities of deposit money banks are regulated through open market operation (OMO), discount rate policy (drp), reserve requirement rate (rrr), minimum rediscount rate (mrr), minimum liquidity ratio and loan to deposit ratio.

## Theoretical Framework

**Financial Intermediation Theory:** Financial intermediation is a process whereby funds are supplied by the surplus unit to the deficit unit of the economy. The theory of financial intermediation is centered on the activities of financial intermediation. As argued by Schumpeter (1934), financial institutions are involved in the creation of credit for entrepreneurs to invest in productive projects. The intermediation role between the bank and individual customers is to accept deposits and loan advance. **Economic Theory of Bank Credit** This theory was developed by Albert Hahn in 1920. Hahn and Schumpeter are of the view that Credit funds an economy (Hagemann, 2020). According to the theory, capital formation is not the outcome of savings deposit, but as a result of loan supply. This means that Commercial banks do not get their accumulated capital from deposit of customers rather capital formation is as a paid. This becomes a profit to the result of credit allocated because on repayment an interest bank and increase in the capital of the bank, making them have more available loan funds.

## Empirical Review

Nnamdi and Mgbataogu (2025) researched on bank deposits and demand for credit in Nigeria. The explained variable used is total loans and advances while the independent variables were Fixed deposits, demand deposits and savings deposits with data ranging from 1981- 2013 extracted from central bank statistical bulletin. The study employed unit root, co-integration, error correction and granger causality to evaluate the secondary data. The outcome of the Ordinary least square analysis employed indicated a causal association and long run relationship between deposits and demand for credit. The study concludes that an increase in deposit significantly influences credit demand in Nigeria. It recommended that deposits should be strengthened by Nigerian banks in order to meet the increasing credit demand in Nigeria. Akinyomi (2024) investigated the effects of deposits on banks' credit behavior in Nigeria post consolidation era. The independent variable was volume of deposits while the dependent variable was loan and advances. The data were collected from the audited annual reports of 22 banks which spanned from 2006 - 2012. The study used SPSS package to conduct regression analysis. The result exposed the significant positive relationship between volume of deposit and loan supply in the selected banks. The study recommends that bank management should develop techniques which will enhance customers' deposits and also further studies should be done by future researchers on other factors that might affect bank lending in Nigeria.

Torbira and Princewill (2021) studied credit disbursement response to deposit structure in Nigerian banks. Savings, time, and demand deposits

was used to proxy deposit structure while bank credit.to private, government, agriculture and forestry, mining, manufacturing, real.estate and construction was used to proxy sectorial credit by banks. Various ordinary least square techniques were used to analyze the annual Nigerian data series from 1992-2015. The data was obtained from the central bank of Nigeria statistical bulletin and the Nigeria stock exchange. The analysis aftermath displayed a short run and long run influence of deposit structure to credit allotment to various sectors of the economy. The study concludes that deposit structure influences credit allotment through the financial intermediation window and thus recommends that refinement of deposit management system so as to better credit supply to various productive sectors.

## METHODOLOGY

The researcher adopted quasi-experimental research design for the study. The reason for this is because the elements of the design are not under the control of the researcher and the study sought to establish the relationship between the dependent and independent variables. This study relied on secondary data from the Central Bank of Nigeria's Statistical Bulletin (Various Issues), National Bureau of Statistics (NBS), Nigeria Budget Data, articles, and internet.

### Model Specification

Based on the theoretical underpinnings and extensive reviews related to this study, we can therefore present our linear model as follows,

TLAt f(FDA, DDA, SDA)_____(3.1)

The constant term and error term was introduced thus we have

$TLA_t - \alpha_o + \alpha_1 FDA_t + \alpha_2 DDA_t + \alpha_3 SDAt + \mu_t$_____(3.2)

Where:
TLA-Total loans and Advances
FDA- Fixed Deposit Account
DDA-Demand Deposit Account
SDA Savings Deposit Account
$\alpha_0$-Constant Term
$\alpha_1$- $\alpha_3$ Coefficients
$\mu$= Error Term
t = Time

### Data Presentation and Analysis

Descriptive Statistics

**Table 1: Descriptive Statistics Results**

| | TLA | FDA | DDA | SDA |
|---|---|---|---|---|
| Mean | 3954.123 | 1525.129 | 1970.114 | 987.6235 |
| Median | 965.5300 | 282.8210 | 496.9830 | 249.4200 |
| Maximum | 19218.20 | 4962.542 | 6988.810 | 4044.310 |
| Minimum | 18.75600 | 7.985000 | 6.893000 | 4.869000 |
| Std. Dev. | 5352.460 | 1730.196 | 2797.358 | 1478.562 |
| Skewness | 1.353264 | 0.998962 | 0.895519 | 1.388711 |
| Kurtosis | 2.988922 | 2.566953 | 2.432252 | 3.778980 |
| Jarque-Bera | 6.878356 | 5.822684 | 5.255406 | 10.92320 |
| Probability | 0.033452 | 0.058267 | 0.081444 | 0.004024 |
| Sum | 142652.4 | 39896.00 | 58765.30 | 29345.13 |
| Sum Sq. Dev. | 8.86E+08 | 83567341 | 1.92E+08 | 47860987 |
| Observations | 32 | 32 | 32 | 32 |

Source: E-views Output

From the above table. Mean: It can be seen that TLA has the highest mean 3954.123 followed by DDA with the mean of 1970.114 then FDA with 1525.129, and finally, SDA with the mean of 987.6235. Median: SDA has the lowest median value of 249.4200 followed by FDA having 282.8210, then DDA has 496.9830,n while TLA has

the highest median 956.5300. Minimum: TLA has the highest minimum 18.75600, followed by FDA 7.985000, then 6.893000 for DDA, whereas SDA has the lowest minimum which is 4.869000. Standard Deviation: TLA has the highest standard deviation 5352.460, followed by DDA 2797.358, then 1730.196 for FDA and finally SDA with 1478.562. Skewness: The highest is SDA 1.388711, followed by TLA 1.353264, then FDA 0.998962 and DDA 0.895519. Kurtosis: SDA has the dominating kurtosis 3.778980, followed by TLA 2.988922, then FDA 2.566953 and finally DDA 2.432252. Jarque-Bera: The test showed that SDA 10.92320 is the highest, second is TLA with 6.878356, followed by 5.822684 for FDA and DDa 5.255406. Probability: It reported that DDA is 0.081444 as the highest, nest is FDA 0.058267, then TLA 0.033452 and SDA 0.004024. Observations for the variables is 32.

**Philips-Perron (PP) Unit Root Test**

In order to test for the trend of stationarity, we further conduct the unit root test making use of the Philips-Perron test. This test will help us ascertain the trend of stationarity between the data used which will serve as a guide to tell us the nest test to be used for the investigation.

**Table 2: PP Unit Root Test Result**

| Variable | PP Test Statistic | Critical Value 5% | | | Order of Integration | Prob. |
|---|---|---|---|---|---|---|
| | | 1% | 5% | 10% | | |
| D(TLA) | -6.518075 | -4.2967 | -3.56838 | -3.21838 | I(1) | 0.0000 |
| D(FDA) | -7.660242 | -4.2967 | -3.56838 | -3.21838 | I(1) | 0.0000 |
| D(DDA) | -4.914676 | -4.2967 | -3.56838 | -3.21838 | I(1) | 0.0023 |
| D(SDA) | -5.288902 | -4.2967 | -3.56838 | -3.21838 | I(1) | 0.0000 |

Source: E-view Output

From the analysis above it is discovered that the variables attain stationarity at order one 1(1), the outcomes of the deposit structure variables revealed that the t-statistic of the TLA variable is -6.518075, which is > (greater) than the critical value's at 1%, 5% and 10% levels, and with a probability of 0.0000, followed by FDA variable -7.660242 which is greater than the critical value's at 1%, 5% and 10% respectively with also a 0.0000 probability, DDA was also integrated at order 1 which the critical values were less in comparison to the t-statistics -4.914676 having a probability of 0.0023, finally the t-statistics adjusted value for SDA is -5.288902 with a probability of 0.0000, which is greater than the critical values at 5% and 10%, in summary, in order for the data to follow the same trend of analysis we have to use the PP Test which was discovered that the variable attain stationarity at first difference, then we can further conduct the Johansen Co-Integration test, this test will tell us if there is a long run association/relationship between the variables.

Johansen Co-Integration Test (TLA, FDA, DDA, SDA)

Table 3: Co-Integration Test Results

Simple (Adjusted): 1997-2022

Included Observations: 25 after adjustments

Trend Assumption: Linear Deterministic Trend

Series: TLA, FDA, DDA, SDA

Lags Interval (In first differences): 1 to 1

| Unrestricted Co-integration Rank Test (Trace) | | | | |
|---|---|---|---|---|
| Hypothesized No. of CE(s) | Eigenvalue | Trace Statistic | 0.05 Critical Value | Prob. ** |
| None* | 0.972825 | 162.7138 | 47.89813 | 0.0001 |
| At most 1* | 0.784130 | 64.64951 | 29.80707 | 0.0020 |
| At most 2* | 0.475594 | 20.14821 | 15.53471 | 0.0092 |
| At most 3* | 0.031744 | 0.797432 | 3.931466 | 0.3914 |

Trace test indicates 3 co-integration (s) at the 0.05 level

Sources: E-views Output

The rejection of the null hypothesis of no co-integrating equation can be seen when comparing the observed trace statistic of 162.7138 is greater than the critical value of 47.89813 at 5% level. The second equation also pointed out that the trace statistic of 64.64951 is greater than the critical value of 29.80707; finally, the trace statistics of 20.14821 is greater than the critical value of 15.53471. It was only one equation that the critical

value of 3.931466 was higher than the trace statistics of 0.797432. So we can conclude that there is long run substantial co-integrating equation between the variables. We further conduct the OLS regression analysis before the Error correction test, this test will be used for check the speed of adjustment between the variable.

**Error Correction Model Estimates (ECM)**

The presence of co-integration necessitates the need to check for adjustment between the short run and the long run between FDA, DDA, and SDA series

Table 4: Error Correction Model Result

Dependent Variable: D(TLA)

Method: Least Squarea

Sample (Adjusted): 1997-2022

Included Observation: 25 after adjustments

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -86.34861 | 162.2182 | -0.532299 | 0.5990 |
| D(FDA) | 1.285671 | 0.286885 | 4.481481 | 0.0001 |
| D(DDA) | 0.027493 | 0.432312 | 0.063595 | 0.9498 |
| D(SDA) | 3.193929 | 0.918720 | 3.476499 | 0.0018 |
| ECM(-1) | -0.122703 | 0.034162 | -3.591622 | 0.0024 |
| R-squared | 0.789931 | | Mean dependent var | 507.2698 |
| Adjusted R-squared | 0.662616 | | S.D dependent var | 1028.485 |
| S.E. of regression | 680.1892 | | Akaike info criterion | 16.02931 |
| Sum squared reside | 12029091 | | Schwarz criterion | 16.26060 |
| Log likelihood | -243.4543 | | Hannan-Quinn criter. | 16.10470 |
| F-statistic | 10.64739 | | Durbin-Watson stat | 1.692866 |
| Prob(F-statistic) | 0.000030 | | | |

Source: E-views Output

**Global Statistics**

The result of the global statistics is not far from the OLS identified earlier in the result in table 4. above, the $R^2$ which is 0.789931, making the model fit for decision making, it also means collectively all the predictor variable account for 79% while the remaining 28% cannot be accounted for in the model specified. Whereas at 5% level the speed of adjustment has a right negative sign this depicts that the speed of adjustment is kept at approximately 12%. In this study, the number of observations n=32 and the independent variable k=3. Hence the significance point of dL (lower) and $d_u$ (upper) on the Durbin-Watson table is 1.5 and 1.55. Now the compound Durbin-Watson statistics at 0.05 level of significance is 1.699 which is greater than 1.55. Thus there is no evidence of first – order serial correlation. This means that the variable can be used for the study. Relative Statistic ECM shows that all the deposits structure indicators exhibit strong influence on credit allotment in Nigeria with some deviation in the degree of the influence. This suggest that the predictor variables credit allocation in Nigeria banks, this thereby supports least square regression (OLS) results.

Granger Causality Tests

Table 5: Granger Causality Test Results

Pairwise Granger Causality Tests

Sample: 1997-2022

Lags: 2

| Null Hypothesis | Obs | F-Statistic | Prob. |
|---|---|---|---|
| FDA does not Granger Cause TLA | 25 | 16.7894 | 0.0015 |
| TLA does not Granger Cause FDA | | 11.9727 | 0.0002 |
| DDA does not Granger Cause TLA | 25 | 7.74504 | 0.0004 |
| TLA does not Granger Cause DDA | | 0.54597 | 0.5538 |
| SDA does not Granger Cause TLA | 25 | 1.83654 | 0.1347 |
| TLA does not Granger Cause SDA | | 6.83917 | 0.0042 |

| | | | |
|---|---|---|---|
| DDA does not Granger Cause FDA<br>FDA does not Granger Cause DDA | 25 | 14.7656<br>1.54704 | 0.0005<br>0.2347 |
| SDA does not Granger Cause FDA<br>FDA does not Granger Cause SDA | 25 | 5.24417<br>8.96326 | 0.0016<br>0.0022 |
| SDA does not Granger Cause DDA<br>DDA does not Granger Cause SDA | 25 | 0.74552<br>2.75886 | 0.5020<br>0.0745 |

Source: E-views Output

From the result above it can be seen that there is a bi-directional relationship existing between TLA and FDA, this means past values of TLA can be used to predict the future value of FDA, same direction of causality exists between SDA and FDA, likewise FDA and SDA, this also means that past value of FDA can predict the future value of SDA vice versa. It also means there is a re-enforcement relationship between the two variables under investigation. This goes to show that the relationship between the variables moves in both directions which indicates that FDA promotes/supports TLA and TLA promotes/supports FDA. Also FDA promotes/supports SDA, likewise SDA and FDA. A uni-directional relationship was established between DDA and TLA, this means DDA causes a change in TLA that is past values of DDA can predict the future value of TLA, but past values of TLA cannot be use to predict that of DDA. A uni- directional causality is identified between TLA and SDA, this means past values of TLA can predict the future value of SDA, but past values of SDA cannot predict that of TLA. It was also seen that past values of DDA can predict changes in FDA but FDA cannot predict changes in DDA, this logically means uni-directional causality can be identified between DDA and FDA. This goes to show that LA promotes/supports SDA but SDA does not promote/support TLA. Also DDA promotes/supports FDA but FDA does not promote/support DDA. Lastly, no causal relationship exists between SDA and DDA, likewise DDA and SDA, this means past values of SDA cannot be use to predict future value of DDA vice versa. This means the variables SDA and DDA does not promote/support each other.

Test of Hypotheses

Using 5% confidence level or acceptance and rejection of hypotheses.

Hypothesis 1

HO1: Significant relationship does not exist between fixed deposit account and credit allocation in deposit money banks.

$HA_1$:` Significant relationship exist between fixed deposit account and credit allocation in deposit money banks.

Result Interpretation 1

Following the result fixed deposit (FDA) exhibited a positive coefficient of 1.051801 alongside a P-value of 0.0187 which is less than 0.05 level of significance, thus suggesting acceptance of the alternate hypotheses, which states that significant relationship exist between fixed deposit account and credit allocation in deposit money banks.

Hypothesis 2

$HO_2$: Significant relationship does not exist demand deposit account and credit allocation in deposit money banks.

$HA_2$: Significant relationship exist demand deposit account and credit allocation in deposit money banks.

Result Interpretation 2

Following the result in table 4.6 demand deposit (DDA) exhibited a positive coefficient of 0.303508 alongside a P-value of 0.3822 which is greater than 0.05 level of significance, thus suggesting acceptance of the null hypotheses, which states that significant relationship does not exist demand deposit account and credit allocation in deposit money banks

**Conclusion**

From the study, deposit money banks accumulate funds through different account holdings that make up deposit structure. When these funds are gathered, it forms the capital base of the bank from which the deposit money bank allocates credit to individuals in various sectors (including business operators), companies, government and so on. This whole process is hinged on financial intermediation.

5.3.2 Be it as it may, it could be seen from this research study that the various accounts that is fixed deposit account, demand deposit account, and savings

deposit account play a major role in ensuring that banks are able to grant loans in the banking industry. The findings of this study necessitates the following recommendations: The management team of the bank should ensure that ground plans and systems are developed to ensure deposits are mobilized so as to enhance credit. They should develop strategies to ensure that borrowers adhere to credit rules to avoid irrecoverable funds which will affect the commercial banks' liquidity. The regulatory authority (Central bank of Nigeria) has to ensure that banks are checked as regard deposits taking and credit creation. The management team should ensure that lending activities are managed properly by scrutinizing customers before giving out loans.

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