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Research Article

Liquidity and Financial Growth in Nigeria: Evidence from Listed Deposit Money.

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ABSTRACT

Liquidity in the banking sector plays a crucial role in economic development; however, in Nigeria, stringent liquidity regulatory measures such as high cash reserve and liquidity ratios may be constraining the credit creation capacity of Deposit Money Banks (DMBs), thereby limiting their financial growth. Therefore, this study examines the impact of liquidity indicators on the financial growth of listed DMBs in Nigeria from 2014 to 2023. Adopting an ex-post facto research design, the study utilizes secondary data sourced from the annual reports of 12 listed DMBs on the Nigerian Exchange Group. Earnings Per Share (EPS) serves as the dependent variable, while the liquidity ratio (LR) and the cash reserve ratio (CRR) are the independent variables, with inflation included as a control variable. Using Ordinary Least Squares (OLS) regression and relevant diagnostic tests, the findings reveal that the liquidity ratio has a positive but statistically insignificant effect on the financial growth (EPS) of listed Deposit Money Banks (DMBs) in Nigeria when inflation is controlled, whereas the Cash Reserve Ratio (CRR) has a positive and statistically significant effect on the financial growth (EPS) of listed Deposit Money Banks (DMBs) in Nigeria. The study recommends that policymakers and regulatory authorities, particularly the Central Bank of Nigeria, implement liquidity-enhancing policies and adopt a more flexible cash reserve policy to promote credit expansion and stimulate financial growth.

Key Words: Liquidity, Cash Reserve and Earnings Per Share

1.0 Introduction

Liquidity in the global banking industry remains a fundamental determinant of financial stability, profitability, and sustainable growth. Internationally, well-managed liquidity enables banks to allocate credit efficiently, finance productive investments, and maintain investor confidence, which in turn strengthens shareholder returns. In advanced economies, monetary authorities use liquidity policy tools to balance financial stability with profit generation, while in emerging markets, liquidity challenges are often more acute due to volatile macroeconomic environments and less diversified funding sources (World Bank, 2023).

Across sub-Saharan Africa, the banking sector plays a central role in financial intermediation, yet remains exposed to risks from inflationary pressures, exchange rate volatility, and constrained access to capital markets (IMF, 2024). These risks influence banks' capacity to generate consistent earnings, particularly as reflected in Earnings Per Share (EPS), a measure of the portion of a company's profit allocated to each outstanding share, which directly signals shareholder value and financial growth. Thus, liquidity management is not only a prudential concern but also a driver of EPS performance across the region.

In Nigeria, Deposit Money Banks (DMBs) operate in an environment characterized by high inflation, fluctuating interest rates, and regulatory tightening. Liquidity indicators such as the Liquidity Ratio (LR) which is the proportion of highly liquid assets to short-term obligations and the Cash Reserve Ratio (CRR) which is the mandatory proportion of deposits kept with the Central Bank of Nigeria (CBN) are key tools for influencing monetary conditions. In principle, an optimal LR ensures that banks meet withdrawal demands while funding profitable ventures, and a balanced CRR supports macroeconomic stability without excessively immobilizing

lendable funds. Both ratios, therefore, have direct implications for EPS, as they influence the availability of funds for income-generating activities.

However, the current reality in Nigeria presents a contrasting picture. Regulatory thresholds for liquidity indicators particularly the 32.5% cash reserve ratio (CRR) introduced by the Central Bank of Nigeria (CBN) in 2023 and the sustained 30% liquidity ratio have raised significant concerns. These thresholds have immobilized a substantial share of bank deposits, constraining banks' ability to extend credit and explore profitable investment avenues. Consequently, listed DMBs are facing limited income-generating capacity, with potential downward pressure on their EPS and long-term financial growth (Ene & Okpara, 2021). This tightening of available liquidity reduces the dynamism of the banking sector and weakens the potential for sustainable earnings.

The consequences are far-reaching. Constrained lending capacity diminishes banks' profitability, impairs their capacity to compete and innovate, and could lead to a slowdown in shareholder returns. Furthermore, sustained reductions in EPS across the sector may discourage investor confidence and reduce capital inflows. According to World Bank (2023) and CBN (2024) reports, the persistent rigidity in monetary policy instruments may be partly responsible for the sector's sluggish financial performance despite its regulatory compliance and operational stability.

Addressing this issue requires a more responsive and data-informed monetary policy framework that aligns regulatory prudence with profitability objectives. Options could include the periodic recalibration of the CRR and LR based on economic cycles, or the adoption of tiered reserve requirements to accommodate systemic banks differently from smaller institutions' growth (Onafowokan & Olowofeso, 2020, and Musa et al 2014). In addition, improving liquidity management strategies within banks—through innovative digital financial services or risk-sensitive asset allocation—can enhance financial efficiency without compromising stability.

Despite growing interest in the relationship between liquidity and financial growth, two notable gaps remain unaddressed in existing literature. First, most empirical studies on liquidity indicators in Nigeria, such as Abiona et al. (2024), Ibrahim et al (2023), and Olofin et al. (2024), focused primarily on profitability proxies like Return on Assets (ROA) and Return on Equity (ROE), leaving out Earnings Per Share (EPS). This direct shareholder value metric better reflects financial growth. Second, although Ugwuene et al. (2023), Musa et al (2015) and Mathews et al. (2021) examined the link between liquidity ratios and EPS, their studies were limited to foreign or non-bank firms, and did not specifically assess the combined influence of the liquidity ratio (LR) and cash reserve ratio (CRR) on listed Deposit Money Banks (DMBs) in Nigeria. This study fills both gaps by empirically examining the impact of LR and CRR on EPS among DMBs in Nigerian.

1.1 Research Objectives

The main objective of this study is to examine the impact of liquidity on Earnings Per Share (EPS) of listed Deposit Money Banks (DMBs) in Nigeria. Specifically, the study aims to:

1. Examine the effect of Liquidity Ratio (LR) on Earnings Per Share (EPS) of listed Deposit Money Banks in Nigeria.

ii. Assess the effect of Cash Reserve Ratio (CRR) on Earnings Per Share (EPS) of listed Deposit Money Banks in Nigeria.

1.2 Hypotheses of the Study

The following null hypotheses are formulated in line with the research objectives:

H_{01}: Liquidity Ratio (LR) has no significant effect on Earnings Per Share (EPS) of listed Deposit Money Banks in Nigeria.

H_{02}: Cash Reserve Ratio (CRR) has no significant effect on Earnings Per Share (EPS) of listed deposit money banks in Nigeria.

2.0 Literature Review

The financial sector plays a pivotal role in fostering economic development, with liquidity in deposit money banks (DMBs) being a central component of this dynamic. This section critically reviews the existing literature to provide a conceptual and theoretical foundation for understanding how bank liquidity affects the financial growth of DMB, particularly Earnings Per Share (EPS) in Nigeria. The review is structured into three key components: conceptual review, theoretical framework, and a synthesis of empirical evidence, which collectively establish the rationale for the study's hypotheses.

4.1 Conceptual Review

To adequately frame the discussion, this section clarifies the key concepts that underpin the study: liquidity, cash reserve ratio (CRR), and Earnings Per Share (EPS). These concepts are essential for delineating the mechanisms through which banking operations may influence financial growth of DMBs.

a. Liquidity in Banking Institutions

Liquidity is traditionally defined as the ability of an entity to meet its short-term financial obligations without incurring unacceptable losses (Daruwala, 2023). Within the banking system, liquidity refers to a bank's capacity to maintain sufficient liquid assets to satisfy customer withdrawals and settle interbank or regulatory obligations. Bank liquidity is critical not only for operational efficiency but also for maintaining systemic confidence and stability.

In the context of Deposit Money Banks (DMBs), liquidity ensures the continuous provision of financial intermediation services, mobilizing deposits and extending credit, which are fundamental to productive investment and financial growth of DMB. According to Joseph & Adelegan (2023) and Success et al (2025), bank liquidity management entails deliberate planning and control of liquid asset levels to meet anticipated and unforeseen financial commitments. Poor liquidity management can result in insolvency, restricted credit creation, and even systemic financial crises.

Onyeka-Iheme & Akintoye (2023), Ejura et al (2023) note that central banks, including the Central Bank of Nigeria (CBN), establish liquidity thresholds to mitigate systemic vulnerabilities. Ghenimi et al. (2020) and Musa et al (2016) emphasize that illiquidity is often a precursor to banking distress, capable of triggering depositor panic and widespread financial contagion.

Ajibola & Olowolaju (2019) and Musa eat al (2013) further underscore the role of effective asset-liability management (ALM) in achieving liquidity stability. Through strategic structuring of asset portfolios and liability maturities, banks can mitigate liquidity mismatches and better align cash flow patterns. This is critical because banks must strike a delicate balance: holding too much liquidity can reduce profitability due to idle cash, while insufficient liquidity heightens the risk of default and regulatory sanctions (Igwenwanne et al., 2023) and Ibrahim et al (2022).

Effiong & Enya (2020), Success et al (2023) argue that optimal liquidity management is essential for sustaining financial performance. Liquidity must be aligned with revenue-generating activities to ensure that banks remain solvent while supporting their financial growth. Isa et al. (2023) add that the effective deployment of tools such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), as promoted by the Basel III framework, enhances banks' resilience to liquidity shocks.

In practical terms, banks also employ liquidity forecasting, cash flow modelling, and gap analysis to anticipate and manage periods of liquidity stress (Eze & Okezie, 2023 and Musa et al 2023). These techniques allow institutions to optimize liquidity buffers without compromising lending activities, thereby reinforcing their role as financial intermediaries.

b. Cash Reserve Ratio (CRR)

The Cash Reserve Ratio (CRR) is a mandatory monetary policy tool employed by central banks to regulate money supply and control systemic liquidity. It stipulates the minimum fraction of customer deposits that commercial banks must hold as reserves, either in cash or deposits with the central bank, and not use for lending or investment.

In Nigeria, the CRR has played a prominent role in the Central Bank's monetary policy stance, particularly in response to inflationary pressures and currency volatility. As of 2023, the CBN maintained the CRR at 32.5% of total customer deposits, which is among the highest globally (CBN, 2023). While this policy aims to reduce inflation and maintain the financial growth of DMB, it also has profound implications for bank liquidity and credit intermediation.

According to Mishkin (2019), an elevated CRR restricts the volume of funds banks can lend, thereby tightening credit conditions and potentially affecting the financial growth of DMB. Aregbesola et al. (2024) argue that stringent reserve requirements, although useful in controlling inflation, can inadvertently reduce profitability and discourage innovation in the financial sector. Similarly, Success et al (2023), Egor et al. (2024) and Ejura et al (2023) observe that an excessively high CRR may cause banks to adopt risk-averse strategies, such as investing in government securities rather than lending to the private sector.

In effect, CRR functions as both a monetary control mechanism and a prudential regulatory requirement. Its application must therefore be calibrated carefully to avoid crowding out productive investment and undermining financial intermediation.

c. Financial growth

Financial growth refers to the sustained increase in a firm's or economy's financial performance indicators, such as profitability, earnings per share, and asset value, over time (Kaur & Kiran, 2023). It is essential for enhancing shareholder value, attracting investments, and ensuring long-term competitiveness. In banking, financial growth strengthens capital adequacy, supports credit expansion, and promotes economic stability (Adegbite & Omisakin, 2022). Consequently, understanding its determinants enables policymakers and managers to adopt strategies that foster profitability and resilience (Okafor et al., 2024). This study employed Earnings Per Share (EPS) to measure financial growth.

EPS is widely regarded as a fundamental metric of corporate profitability and shareholder value. Gharaibeh et al. (2022) define EPS as a critical financial ratio derived by dividing a company's net income by its outstanding shares, thereby providing a standardized measure for comparing firm performance across industries. Similarly, Onyeka-Iheme and Akintoye (2023) emphasize that EPS reflects a company's ability to generate

profit per share, making it central to investment analysis and valuation. Ugwuene, Okwo, and Ubesie (2023) further clarify that EPS represents the net profit remaining after tax, allocated to each ordinary share, thereby serving as a direct indicator of returns to shareholders. The core purpose of EPS, as Setyana and Nurcahyono (2024) and Success et al (2024) argue, is to inform investors about the firm's profit prospects and operational efficiency, helping them make informed decisions about whether to buy, hold, or sell shares. High EPS signals financial health and growth potential, as noted by Eneh et al. (2024), instilling investor confidence and attracting capital. In contrast, Almeida (2019) critiques the overemphasis on EPS targets, warning that it can encourage short-termism and distort long-term value creation. Thus, while EPS remains a vital tool for financial evaluation, excessive reliance on it may obscure broader measures of sustainable corporate performance.

4.2 Review of Empirical Studies

Success et al (2025). This study examines the effect of liquidity on the financial growth of listed Deposit Money Banks (DMBs) in Nigeria, specifically focusing on the relationship between Liquidity Ratio (LR) and Earnings Per Share (EPS). Using secondary panel data from 12 listed DMBs in Nigeria over a ten-year period (2015–2024), the study employs a Panel EGLS (Cross-section weights) regression model to explore how liquidity influences profitability. The results reveal a moderate positive correlation between liquidity ratios and earnings per share, indicating that higher liquidity is associated with better financial performance. This finding aligns with both Liquidity Preference Theory and the Trade-Off Theory of Liquidity, which suggest that while liquidity ensures financial stability and mitigates risks, its balance with profitability is crucial. However, the study also acknowledges that excessive liquidity can lead to idle funds, reducing returns, while insufficient liquidity may expose banks to financial distress. Thus, the study recommends that Nigerian DMBs maintain an optimal liquidity ratio that allows them to meet short-term obligations and seize profitable opportunities. It further suggests that liquidity management should be dynamically integrated with broader financial strategies, including risk management and operational efficiency. Future research should explore the impact of other macroeconomic factors on liquidity management and financial growth, using more advanced econometric models to deepen understanding of liquidity dynamics in Nigeria's volatile banking sector

Success et al (2024). This study examines the relationship between capital adequacy and Nigeria's financial growth, utilizing panel data from 12 listed deposit money banks spanning the period from 2014 to 2023. The study adopts an ex-post facto research design and utilizes secondary data sourced from the Nigerian Exchange Group and the Central Bank of Nigeria (CBN) Statistical Bulletin. Financial growth is proxied by earnings per share (EPS), while the explanatory variables include Capital Adequacy Ratio (CAR), Paid-Up Share Capital (PUSC), and Share Premium (SP). Using fixed effect model regression and relevant diagnostic tests, the findings indicate that CAR has a negative but statistically insignificant effect on EPS, while both PUSC and SP exert statistically significant negative effects on EPS. The results suggest that increases in equity capital components may not necessarily enhance financial growth in listed DMBs. The study concludes that capital adequacy elements should be more efficiently managed to optimize shareholder value. It recommends that banks review their capital structure strategies to ensure that capital accumulation directly supports profitability and shareholder returns.

Success et al (2024). This studied is on effect of corporate governance on risk management by deposit money banks in Nigeria. Selected deposit money banks base on FOBES list were selected to address the effect in question. The questions asked to which answers were provided among others includes: To what extent (if any) does board strength, shareholders influence and management efficiency influence or affect capital risk, credit risk and liquidity risk of banks in Nigeria. The study is limited to six randomly selected listed commercial banks in Nigeria over the period of six years. In carrying out the analysis, the panel data regression analysis method was adopted. The variables used for this analysis are: the board index and management influence as proxies for corporate governance; capital risk, credit risk and liquidity risk all as proxy variables for risk taking by banks. The data were sourced from the audited financial statements of the sample banks. The estimated result revealed a negative relationship between capital risk and corporate governance which invariably means that the capital risk goes up as Corporate Governance disclosure increases. The result further shows that the more the corporate governance disclosure, the less the credit and liquidity risk taking by the banks in Nigeria.

Mathews etal (2021) examined the relationship between liquidity ratios and Earnings Per Share (EPS) among public listed companies. Conducted in Malaysia over the period 2015–2019, the study used secondary data derived from financial statements. The independent variables were three liquidity ratios: current ratio, acid-test ratio, and cash ratio, while EPS served as the dependent variable and proxy for financial performance. Regression analysis was used to determine the strength and direction of the relationship. The findings revealed that cash ratio had the most significant and positive influence on EPS compared to the current and acid-test ratios, implying that higher cash holdings improve a firm's per-share earnings and financial strength.

Ugwuene et al (2023) analyzed the effect of accounting ratios on the performance of foreign companies operating in Nigeria between 2011 and 2020. The dependent variable was Earnings Per Share (EPS), while accounting ratios—Debt Equity Ratio (DER), Time Interest Earned Ratio (TIER), Long-Term Debt Ratio (LTDR), and Liquidity Ratio (LQR)—served as independent variables. The population comprised foreign firms in Nigeria, and data were obtained from their annual reports. Using multiple regression analysis with EViews

9.0, the study found that DER and LQR had significant and positive effects on EPS, while TIER and LTDR had insignificant and negative effects. The authors advised firms to utilize liquidity ratios to boost profitability and maintain financial stability.

Sulemana et al. (2023) conducted a study on the positive effects of bank liquidity on the performance of Ghanaian banks. Using pooled regression and descriptive statistics, the study analyzed secondary data without specifying the sample size or period. Variables included liquidity and performance indicators such as interest income and operational efficiency. Findings highlighted a positive relationship between liquidity and bank performance, while exchange rate volatility had an adverse effect on liquidity. The authors recommended the adoption of digital innovations and investment diversification, including the use of mobile and IT infrastructure, to improve liquidity and performance outcomes in Ghanaian banks.

Edwin et al. (2023) explored liquidity risk management and its influence on financial performance in 32 commercial banks in Kenya over a ten-year period (2010–2019). The study adopted explanatory and longitudinal designs based on the liquidity shiftability theory and positivist paradigm. Time series and panel data were analyzed using descriptive and inferential statistics in EViews. Financial performance was measured via ROA and ROE, while liquidity risk indicators served as independent variables. Results indicated a negative and insignificant relationship between liquidity risk and both profitability metrics. The study advised banks to minimise their exposure to liquidity risks to mitigate adverse impacts on their performance.

Udenwa et al. (2023) examined the moderating influence of liquidity risk on financial performance in 11 listed Nigerian deposit money banks using panel data from 2014 to 2021. Liquidity risk was proxied by ratios such as loans to total deposits and loans to total assets, while return on assets served as the performance metric. Panel regression analysis revealed significant relationships between liquidity risk metrics and financial performance. Recommendations included diversifying loan portfolios, strict adherence to the CBN's 65% loan-to-deposit ratio, and enhancing deposit mobilisation to support credit growth and financial sustainability.

Saleh (2023) investigated the impact of financial ratios, firm size, and cash flows from operating activities on earnings per share (EPS) among industrial companies listed on the Palestine Exchange. The study, conducted in Palestine, covered the period 2016–2020 using secondary data. The independent variables were financial ratios (proxied by return on equity, debt-to-equity, and price-to-book value), firm size (likely measured by total assets or market capitalization), and operating cash flows, while the dependent variable was EPS. The study population comprised all industrial firms listed on the Palestine Exchange, although the exact sample size was not specified. Using quantitative methods of data analysis, the findings revealed that firm size and financial leverage had a significant positive effect on EPS, while liquidity and cash flows from operating activities had no statistically significant impact.

Setyana and Nurcahyono (2024) investigated the effects of EPS, leverage, liquidity, company size, and age on stock prices in technology sector firms listed on the Indonesia Stock Exchange from 2021 to 2023. The study targeted software and IT services companies, with a sample of 14 firms selected via purposive sampling (42 firm-year observations). Using secondary data from documentation, the independent variables included EPS, liquidity, leverage, company size, and age, while stock price was the dependent variable. Multiple regression analysis was performed using SPSS version 26. The study found a positive and significant relationship between EPS, liquidity, and other firm characteristics and stock prices, highlighting EPS and liquidity as key drivers of firm valuation.

Abiona et al. (2024) investigated the relationship between liquidity risk and profitability among listed Nigerian deposit money banks over a 16-year period (2008–2023). The study focused on five systemic banks listed on the Nigerian Exchange Group. Using secondary panel data extracted from audited financial statements, the variables considered included the liquidity ratio, cash reserve ratio, loan-to-deposit ratio (independent variables), and return on equity (dependent variable). The analysis employed panel unit root testing, Ordinary Least Squares (OLS) regression, and the Hausman specification test. The study found a significant positive effect of cash reserve ratio and loan-to-deposit ratio on profitability, while the liquidity ratio was negatively but insignificantly associated. Recommendations included a downward revision of the cash reserve ratio by the Central Bank of Nigeria (CBN) and the employment of competent liquidity managers to optimize banks' credit allocation capacity.

Uruakpa (2024) examined the impact of liquidity management on the profitability of listed deposit money banks in Nigeria using an ex post facto design. The population comprised all listed DMBs, and the study period spanned from 1995 to 2021. Data were collected from CBN and NDIC bulletins. The variables analyzed included cash management, shareholders' capital, and loan-to-deposit ratio (independent variables), with return on assets as the dependent variable. Employing multiple regression and descriptive analysis, the study established significant effects of shareholders' capital and cash management on profitability, as well as a strong association between the loan-to-deposit ratio and return on assets. The study recommended that bank management formulate effective cash management strategies to improve profitability.

Adam and Ayagi (2024) examined the relationship between liquidity and profitability among nine purposively selected listed deposit money banks in Nigeria, drawn from a population of 13 as of 2022. Using data from 2013 to 2022, the study examined profitability (proxied by return on assets and return on equity) in relation to liquidity indicators, including current assets, cash ratio, and free cash flow. Control variables included leverage and firm size. Data analysis was conducted using descriptive statistics, correlation analysis, and multiple regression with Stata V14.2. The study found a significant positive relationship between profitability

and liquidity, recommending that bank management implement policies that simultaneously ensure optimal liquidity and enhance profitability.

Olofin et al. (2024) examined the impact of liquidity risk on the profitability of listed Nigerian deposit money banks using a 16-year panel dataset (2008–2023) compiled from the financial statements of five systemic banks. The variables included cash reserve ratio, liquidity ratio, and loan-to-deposit ratio as independent variables, and return on equity as the dependent variable. Panel data econometrics, including unit root tests, OLS regression, and the Hausman test, were employed. The findings mirrored those of Abiona et al. (2024), confirming a positive impact of cash reserve and loan-to-deposit ratios on profitability, while the liquidity ratio showed a negative and insignificant effect. Policy suggestions included CBN intervention to reduce reserve requirements and the need for banks to appoint qualified professionals for liquidity management.

Kumshe et al. (2024) analyzed the effect of liquidity on both profitability and credit risk management of 12 out of 14 listed DMBs in Nigeria, based on complete financial records from 2019 to 2023. Using an ex post facto design, the study adopted panel regression to analyze the relationships among return on assets, return on equity, return on capital employed (dependent variables), and liquidity (independent variable). The results revealed mixed effects: ROA had a positive but insignificant influence on credit risk management, ROE had a significant positive effect, while ROCE had a significant negative impact. The study concluded that effective liquidity management plays a vital role in enhancing profitability and credit risk management, recommending strategic liquidity practices among bank managers.

Erhijakpor (2024) examined how liquidity issues affect the performance of DMBs in Nigeria, using secondary data covering the period from 2008 to 2023. The study included the entire banking sector and used return on equity as the dependent variable, with liquidity ratio, cash reserve ratio, non-performing loans, and loan-to-deposit ratio as independent variables. Employing time series econometric tools, including descriptive statistics, correlation, VIF, the Breusch-Pagan heteroskedasticity test, and OLS (via EViews 9.0), the findings showed that only the loan-to-deposit ratio had a significantly negative impact on ROE. Liquidity ratio and non-performing loans showed positive but insignificant effects, while cash reserve ratio had an adverse, non-significant effect. The study recommended improving credit risk controls, reassessing liquidity benchmarks, and optimizing loan issuance relative to deposits.

Sintawati et al (2025) explored the impact of financial ratios—liquidity, solvency, and market value—on stock prices, using profitability (EPS) as a moderating variable. The study focused on 29 food companies listed on the Indonesia Stock Exchange, with 145 firm-year observations derived via purposive sampling. Secondary data were analyzed using multiple linear regression and Moderated Regression Analysis (MRA) through SPSS software. Liquidity, solvency, and market value were independent variables, stock price was the dependent variable, and EPS was the moderator. Results revealed that all three financial ratios had positive effects on stock prices, and EPS significantly moderated these relationships, implying that higher profitability enhances the effect of liquidity and solvency on market valuation.

4.3 Theoretical Review: Financial Intermediation Theory

The Financial Intermediation Theory provides a foundational perspective on the role of financial institutions in promoting sound financial system. This theory was initially articulated by John G. Gurley and Edward S. Shaw in their seminal 1960 work, Money in a Theory of Finance. Prior to their contribution, financial systems were predominantly viewed as passive channels through which savings were merely transferred from surplus units to deficit units. Gurley and Shaw challenged this notion by emphasizing that financial intermediaries actively shape the flow of funds by assessing risk, screening borrowers, managing asymmetries in information, and minimizing transaction costs. In this way, intermediaries such as banks, insurance companies, and mutual funds play a dynamic role in financial systems by enhancing credit allocation and improving overall market efficiency.

Financial intermediaries reduce the frictions inherent in direct finance by performing several transformative functions. One of the most critical is risk transformation. Through pooling deposits and extending loans to a diversified set of borrowers, banks can mitigate idiosyncratic risks that would otherwise expose individual savers to significant financial losses. This process stabilizes the financial system and fosters public trust. Another essential function is maturity transformation. Financial intermediaries mobilize short-term savings while providing long-term loans, thereby balancing the liquidity preferences of savers with the long-term capital needs of borrowers. In doing so, they enhance capital formation and stimulate investment. Additionally, financial institutions perform size transformation by aggregating small deposits from numerous savers into sizable loanable funds, which are then deployed into large-scale investments and productive ventures that individual savers could not finance on their own.

Contemporary scholarship has built upon the foundational model of Gurley and Shaw. Diamond and Dybvig (1983) extended the theory by introducing the concept of bank runs and underscoring the role of deposit insurance in safeguarding financial stability. Their model demonstrated how the absence of institutional mechanisms could lead to panic withdrawals and systemic failure, even in fundamentally solvent banks. More recently, Allen and Santomero (1998) emphasized the evolving complexity of financial instruments and markets, arguing that modern financial intermediaries are not merely lenders but also facilitators of risk transfer and innovation within the financial ecosystem. They contend that intermediaries have increasingly become central actors in the risk management processes that underpin financial globalization.

In the context of developing economies such as Nigeria, the Financial Intermediation Theory remains especially relevant. Financial institutions are pivotal in addressing capital scarcity, a common constraint in emerging markets. By channeling funds from surplus sectors to underfunded productive sectors, banks contribute to employment generation, income redistribution, and overall growth of the financial system. Nguyen (2021) and Liang et al. (2020) affirm that banks' ability to diversify portfolios and manage risk through sophisticated credit appraisal techniques contributes significantly to economic resilience, especially during periods of macroeconomic volatility.

Moreover, the theory underscores the importance of regulatory oversight in maintaining the confidence of depositors and investors. Ariffin and Kassim (2021) emphasize that sound prudential regulation, including capital adequacy requirements and stress testing, is crucial for preventing systemic risks and ensuring long-term financial stability. Cuza (2009) further adds that the modern financial intermediation framework not only examines the operational roles of banks but also considers the influence of monetary policy and regulatory interventions on intermediation efficiency. This perspective is particularly relevant in light of the Central Bank of Nigeria's recent policy mandating the recapitalization of Deposit Money Banks by 2026, a measure aimed at strengthening their liquidity base and enhancing their capacity to support national development objectives.

5.0 Methodology

The study adopted an ex-post facto research design, which is appropriate for evaluating historical relationships among variables where the researcher cannot manipulate the independent variables. The research relied on secondary panel data obtained from the published annual reports of the 12 listed Deposit Money Banks (DMBs) in Nigeria, as of December 31, 2023, and macroeconomic data from the Central Bank of Nigeria's (CBN) Statistical Bulletin. The panel dataset covers ten years from 2014 to 2023.

The study's population includes all deposit money banks operating in Nigeria. However, the sample was restricted to those that are publicly listed on the Nigerian Exchange Group (NGX) and for which complete and consistent data were available over the study period. The study examined the effect of bank liquidity indicators on financial growth measured by Earnings Per Share (EPS). The key explanatory variables include the Liquidity Ratio (LR) and the Cash Reserve Ratio (CRR). Inflation (INFLA) was included as a control variable to account for macroeconomic instability.

Given the panel nature of the data, the study employed panel data econometric techniques. The initial analysis involved descriptive statistics to summarize the distributional properties of the variables. Diagnostic tests were conducted to ensure the validity of the regression estimates. These included a Variance Inflation Factor (VIF) test to assess multicollinearity among the explanatory variables and the Breusch-Pagan-Godfrey test to detect potential heteroscedasticity.

To examine the relationship between bank liquidity and financial growth, the study applied Pooled Ordinary Least Squares (OLS) regression. Although the data structure qualifies for advanced panel estimation techniques (such as Fixed Effects or Random Effects models), pooled OLS was used due to the absence of significant unobserved heterogeneity across banks, as suggested by preliminary diagnostics.

All statistical tests were conducted at the 5% significance level, and model estimation was performed using EViews 13 software.

5.1 Model Specification

The study employed an econometric model developed by Erhijakpor (2024), who investigated liquidity problems and the performance of Deposit Money Banks in Nigeria. The functional form of the model of the study is specified as:

$EPSt = (LR, CRR, INFLA)$ ---------- (1)

$EPSt = \beta_0 + \beta_1 LRt + \beta_2 CRRt + \beta_3 INFLAt + \varepsilon t$---------- (2)

Where: $EPSt$ = Earnings Per Share at time t,
LRt = Liquidity Ratio at time t,
$CRRt$ = Cash Reserve Ratio at time t,
$INFLAt$ = Inflation rate at time t
β_0 = Constant term,
β_1, β_2 = Coefficients of independent variables,
εt = Error term.

The model is justified as it is grounded in financial theory and incorporates key variables influencing financial growth. Drawing on Erhijakpor (2024), this study examines the impact of the liquidity ratio, cash reserve ratio, and inflation rate on EPS. The model's linear regression framework enables empirical analysis, hypothesis testing, and informed conclusions, making it suitable for investigating liquidity management and the impact of monetary policy on Nigeria's financial growth.

Table 1: *Variable, Measurement and Sources*

S/No	Variable Name	Type	Measurement	Proxy	Source
1	Financial growth (Earnings Per Share)	Dependent	Net income divided by average outstanding shares.	EPS	Saleh (2023)
2	Liquidity Ratio	Independent	Liquid Assets/Total Assets	LR	Oluitan & Akinbobola (2020)
3	Cash Reserve Ratio	Independent	Cash Reserve/Total deposits	CRR	Mishkin (2019).
4	Inflation Rate	Control	Annual percentage change in consumer price index (CPI)	INFLA	Otu et al. (2021).

Source: Researchers' Tabulation

6.0 Result and Discussion

This research begins with the presentation of descriptive statistics for the key variables, as shown in Table 2. The descriptive statistics provide insight into the distribution and characteristics of the key variables used in this study.

Table 2 presents the descriptive statistics. The mean value of EPS is 2.519, indicating the average earnings per share among the sampled listed DMBs over the study period. However, the median value of 1.100 suggests that the distribution is positively skewed, which is confirmed by a high skewness value of 3.069. The maximum and minimum values of 21.550 and 0.050, respectively, show a wide dispersion in EPS among banks. The standard deviation of 3.746 further reflects a high variability around the mean. The kurtosis value of 13.817, which is much greater than 3, suggests a leptokurtic distribution with a sharp peak and heavy tails. The Jarque-Bera statistic (773.307) with a probability value of 0.000 indicates that the EPS variable is not normally distributed at the 1% significance level.

Table 2: *Descriptive Statistics*

	EPS	LR	CRR	INFLA
Mean	2.519	0.147	0.294	1.130
Median	1.100	0.144	0.290	1.135
Maximum	21.550	0.294	0.560	1.270
Minimum	0.050	0.021	0.150	1.040
Std. Dev.	3.746	0.059	0.060	0.067
Skewness	3.069	0.504	0.772	0.616
Kurtosis	13.817	2.819	5.989	2.709
Jarque-Bera	773.307	5.245	56.591	8.022
Probability	0.000	0.073	0.000	0.018
Observations	120	120	120	120

Source: E-View 13 Output

The mean liquidity ratio is 0.147, with a median of 0.144, indicating that most banks maintained a similar liquidity position close to the mean. The minimum and maximum values are 0.021 and 0.294, showing relatively low variability, supported by a low standard deviation of 0.059. The skewness of 0.504 indicates a mild positive skew, suggesting more observations lie below the mean. The kurtosis value of 2.819, which is close to 3, points to a near-normal distribution. However, the Jarque-Bera statistic of 5.245 and a p-value of 0.073 imply marginal deviation from normality, though not statistically significant at the 5% level.

The mean CRR is 0.294, with a median of 0.290, suggesting that central bank-mandated reserves are fairly consistent among the sampled banks. The values range from 0.150 to 0.560, and the standard deviation of 0.060 implies modest dispersion. The skewness of 0.772 indicates a moderate right-skew, meaning most banks held lower reserve ratios while a few had much higher ones. The kurtosis of 5.989 reveals a leptokurtic distribution, suggesting occasional extreme values. The Jarque-Bera statistic (56.591) and the corresponding p-value of 0.000 confirm significant non-normality at the 1% level.

The inflation rate has a mean of 1.130 and a median of 1.135, indicating that inflation was relatively stable across the observed periods. The slight standard deviation of 0.067 confirms low variability, with values ranging narrowly between 1.040 and 1.270. A skewness of 0.616 suggests a slight positive skew. The kurtosis value of 2.709, close to the normal value of 3, suggests a moderately peaked distribution. The Jarque-Bera statistic of 8.022 and a p-value of 0.018 indicate that the inflation data marginally deviate from a normal distribution, being statistically significant at the 5% level.

Given that the descriptive statistics and normality tests (Jarque-Bera) indicate that variables such as EPS and CRR significantly deviate from normal distribution, a log transformation was applied to these variables to improve normality and ensure the validity of subsequent regression analysis.

Table 3: *Correlation Analysis.*

	EPS	LR	CRR	INFLA
EPS	1			
LR	0.371	1		
CRR	0.371	0.167	1	
INFLA	0.255	-0.008	0.155	1

Source: E-view 13 Output

Table 3 presents the correlation coefficients among the study variables. The correlation between EPS and LR is 0.371, indicating a moderate positive relationship. This suggests that an increase in liquidity ratio is moderately associated with an increase in earnings per share, implying that stronger liquidity positions may enhance financial growth in listed Deposit Money Banks. Similarly, the correlation between EPS and CRR is also 0.371, reflecting a moderate positive association. This indicates that higher cash reserve ratios tend to coincide with higher earnings per share, potentially due to improved stability and investor confidence. The correlation between EPS and INFLA is 0.255, showing a weak positive relationship, which suggests that inflation has a mild, positive influence on financial growth, possibly due to banks' ability to adjust pricing strategies under inflationary conditions.

Table 4: *Multicollinearity Test*

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	4.804	382.611	NA
LR	3.797	7.585	1.030
LOG(CRR)	0.314	39.908	1.055
INFLA	2.888	294.771	1.026

Source: E-View 13 Output

Table 4 presents the multicollinearity test using the Variance Inflation Factor (VIF). The centered VIF values for all independent variables—LR (1.030), LOG(CRR) (1.055), and INFLA (1.026)—are well below the commonly accepted threshold of 10, indicating the absence of multicollinearity among the predictors. This suggests that each independent variable provides unique information and is not highly linearly correlated with the others. Consequently, the regression estimates are unlikely to be distorted by multicollinearity, thereby enhancing the reliability of the model's explanatory power.

Table 5: *Heteroscedasticity Test Results*

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	173.928	66	0.000
Pesaran scaled LM	9.39393		0.000
Pesaran CD	7.11473		0.000

Source: E-view 13 Output.

Table 5 presents the results of the heteroskedasticity tests using the Breusch-Pagan LM, Pesaran scaled LM, and Pesaran CD statistics. All three tests indicate the presence of heteroskedasticity, as their p-values are 0.000, which are highly significant at the 1% level. Specifically, the Breusch-Pagan LM statistic (173.928, $p = 0.000$), the Pesaran scaled LM (9.39393, $p = 0.000$), and the Pesaran CD test (7.11473, $p = 0.000$) reject the null hypothesis of homoskedasticity. This implies that the variance of the residuals is not constant across observations. Given the presence of heteroskedasticity, a robust standard error was performed to obtain efficient and unbiased parameter estimates.

Table 6: *Regression Results*

Dependent Variable: LOG(EPS+6.3585)
Method: Panel EGLS (Cross-section weights)
Date: 08/15/25 Time: 04:15
Sample: 2014 2023
Periods included: 10
Cross-sections included: 12
Total panel (balanced) observations: 120
Linear estimation after one-step weighting matrix
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Robust Std. Error	t-Statistic	Prob.
C	1.415046	0.230701	6.133689	0.0000
LR	0.011384	0.184673	0.061644	0.9510
LOG(CRR)	0.158579	0.069747	2.273628	0.0250
INFLA	0.780807	0.284390	2.745546	0.0071
	Effects Specification			
Cross-section fixed (dummy variables)				
	Weighted Statistics			
R-squared	0.695030	Mean dependent var		4.018265
Adjusted R-squared	0.654367	S.D. dependent var		2.162290
S.E. of regression	0.246211	Sum squared resid		6.365075
F-statistic	17.09258	Durbin-Watson stat		1.087410
Prob(F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.553327	Mean dependent var		2.101352
Sum squared resid	7.089638	Durbin-Watson stat		1.063537

Source: E-view 13 Output

Table 6 presents the regression results on the effect of liquidity indicators on the financial growth of listed Deposit Money Banks (DMBs) in Nigeria, with financial growth measured as the log of Earnings Per Share (LOG(EPS)). The R-squared of 0.6950 indicates that about 69.50% of the variation in LOG(EPS) is explained by Liquidity Ratio (LR), Log of Cash Reserve Ratio (LOG(CRR)), and Inflation (INFLA). The adjusted R-squared of 0.6544 confirms a good model fit. Liquidity Ratio shows a positive but statistically insignificant effect ($\beta = 0.0114$, $p = 0.9510$), suggesting minimal impact on EPS. Conversely, LOG(CRR) has a positive and significant effect ($\beta = 0.1586$, $p = 0.0250$), while INFLA also exerts a positive and significant influence ($\beta = 0.7808$, $p = 0.0071$). The F-statistic of 17.093 ($p < 0.0001$) indicates that the model is statistically significant overall.

7.0 Discussion of Findings

The regression result reveals that Liquidity Ratio (LR) has a positive but statistically insignificant effect on the financial growth (EPS) of listed Deposit Money Banks (DMBs) in Nigeria when inflation is controlled. This may suggest that while maintaining higher liquidity may theoretically enhance a bank's ability to meet short-term obligations, it does not necessarily translate into improved earnings per share. One possible reason is that excess liquidity held in non-interest-bearing assets may reduce revenue generation. Additionally, during periods of high inflation, monetary tightening, and regulatory constraints could distort the effectiveness of liquidity in supporting bank profitability, thereby weakening the impact of liquidity ratios on financial growth. The finding that LR has a positive but statistically insignificant effect on EPS aligns with the studies by Edwin et al. (2023) and Olofin et al. (2024), both of which reported a similar insignificant relationship between liquidity and performance. However, it contrasts with Ugwuene et al. (2023) and Sulemana et al. (2023), who found a significant positive effect of liquidity on profitability and performance, respectively, indicating that in some contexts, liquidity may enhance financial outcomes more meaningfully than observed in this study.
The regression result shows that the Cash Reserve Ratio (CRR) has a positive and statistically significant effect on the financial growth (EPS) of listed Deposit Money Banks (DMBs) in Nigeria. This finding suggests that an increase in required reserves, contrary to conventional expectations, may strengthen investor confidence and

signal regulatory soundness, thereby boosting financial performance. DMBs that efficiently manage reserve requirements may benefit from improved risk management, reduced volatility, and better capital allocation strategies. Additionally, in Nigeria's inflationary environment, compliance with higher CRR may help insulate banks from systemic shocks, preserving core earnings and supporting more stable and sustainable EPS growth over time. The finding that CRR has a positive and significant effect on EPS agrees with Abiona et al. (2024) and Olofin et al. (2024), both of whom reported that a higher cash reserve ratio positively affects profitability among Nigerian banks. This reinforces the notion that adequate reserves can enhance investor confidence and earnings performance. However, Erhijakpor (2024) presented a contrasting result, showing an adverse but non-significant relationship between CRR and profitability.

8.0 Conclusion and Recommendations.

Conclusion

This study set out to examine the impact of liquidity on the financial growth of listed Deposit Money Banks (DMBs) in Nigeria, with financial growth proxied by Earnings Per Share (EPS). The findings indicate that while the Liquidity Ratio (LR) has a positive effect on EPS, this relationship is not statistically significant when inflation is controlled, suggesting that excess liquidity alone does not guarantee improved financial performance under inflationary pressure. This highlights the need for more strategic liquidity management practices. In contrast, the Cash Reserve Ratio (CRR) exhibits a positive and statistically significant relationship with EPS, implying that compliance with reserve requirements may foster financial stability and investor confidence, ultimately enhancing profitability. These results underscore the differentiated influence of liquidity indicators on financial performance and affirm the importance of macroeconomic stability in shaping bank earnings. Overall, the study concludes that while liquidity matters, its components impact EPS differently, emphasizing the need for targeted regulatory and managerial strategies.

Recommendations

i. Given the insignificant effect of the liquidity ratio on EPS, Nigerian banks should adopt strategic liquidity optimization frameworks. This involves investing excess liquidity in interest-yielding assets and improving credit allocation. Doing so will enhance profitability while ensuring liquidity is not idle, especially in Nigeria's inflation-prone financial environment.

ii. Since the Cash Reserve Ratio has a significant positive impact on EPS, regulatory bodies like the CBN should maintain a stable CRR policy while promoting transparency in reserve management. Nigerian banks can leverage reserve compliance to enhance investor trust, stability, and long-term performance through prudent capital planning and efficient asset deployment.

Future studies should explore the effect of other liquidity measures, such as the loan-to-deposit ratio and capital adequacy ratio, on the financial performance of banks in Nigeria. Furthermore, comparative studies across other sectors or countries could offer cross-sectional perspectives. Lastly, longitudinal studies incorporating post-pandemic data may reveal evolving patterns in bank liquidity management and earnings performance under dynamic macroeconomic and regulatory conditions.

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