



LIQUIDITY MANAGEMENT AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANK PERFORMANCE IN NIGERIA

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Abstract

This study investigates the impact of liquidity management on performance of deposit money bank in Nigeria. The study made use of ex-post facto research design. Secondary data were sourced on dependent as well as independent variables employed by the investigation were sourced from the reported annual accounts of fourteen (14) chosen DMBs for a period of 15 years, (2009-2023) which was downloaded from the Nigerian Group Exchange (NGX). Dependent variable was financial performance measured using Return on Assets while input variable was liquidity management measured using debt to equity ratio: loan to deposit ratio and liquidity coverage ratio. Firm size was employed as control variable. sourced was analyzed in three stages preliminary, model estimation and post estimation test using panel data regression on -View version 12. The outcome of the evaluation established that equity to debt ratio significantly and negatively impacted ROA, loan to deposit ratio negatively and insignificantly impacted ROA while liquidity coverage ratio negatively and weakly impacted ROA as revealed by the testing of hypothesis at five percent level of significance. The study concluded that the interaction between liquidity management and financial performance of selected financial institutions in Nigeria is complicated. Considering this fact, it was suggested that deposit money banks should adopt liquidity management policy that will make them to achieve efficiency and effectiveness with attention on: liquidity, debt to equity, loan to deposit as well coverage ratios

Keywords: Deposit Money Bank: Financial Performance: Liquidity Coverage Ratio: Liquidity Management: Loan-to Deposit Ratio: Return on Asset

INTRODUCTION

Liquidity Management and Financial performance are factors that determine the long run survival, sustainability and growth of Money Deposit Bank and so the ability to man over the tradeoff between the two is a serious concern to the managers of the institution (Efemena & Augustine, 2024). Nigerian banks are perceived to be confronting with a lot of challenges associated with liquidity risk and the way some of them are failing influences negatively public trust in them, leading to inefficient financial intermediation (Adeolu, 2023). Deposit Money Banks profitability are derived basically from their operations in financial intermediation and advise service rendering to their clients. The Net interest income generated on loans and deposit reveal their efficiency in their intermediation role and their performance financially are basically considered in terms of absolute profit figures, Earning Per Share (EPS) increase in asset and liquidity (Kyari et al. ,2023). Liquidity in the context of Deposit Money Banks is a critical issue and it is the ability of the financial institution to discharge current and expected commitments of

depositors and creditors meet the new loan demand without compromising current reserve requirements.

Objective of managing liquidity as stated by Idowu et al. (2017) is to ensure that the way money is coming in is for companies is matched with the way it is been spent. Theoretically, the relationship between liquidity and financial performance is inverse: as increase in liquidity leads to decrease in performance. Higher liquidity implies that fund does not go out and little interest is expected as income and consequently little profit. On the other hands to make interest income, bank will need to lend out long-term loan which indicates low liquidity. The liquidity management in banking first got serious attention during from 2007 and 2011 global financial crisis when banking sector experienced serious liquidity challenges, when perceived liquidity disappeared like illusion, swept away some banks (Wuave et al., 2020). The problem still persists till today as many banks have also experienced same challenge in the recent times leading to merging and in some cases folding up of some financial institutions. However, if well managed, liquidity can last for longer period than expected. Liquidity management affects operations, sustainability as well as financial performance especially in the current economic challenges being faced by nations, therefore for long term survival and to be profitable. A clear policy on the level of liquidity to hold must be formulated (Almakura,2024).

The needed funds to meet obligation and ensure cash availability to fulfil the obligation at the right moment by combining different funding sources that are accessible in both regular and emergency situations. (Basseyy et al.,2016). In pursuing objective of financial performance by DBM, attention should therefore be given to liquidity management and this should be an ongoing process with the view of ensuring that cash available conforms with the required reserve level as specified by the regulatory agency and at the same time meeting customers expectation, emergency cash needs, as well as other obligation (Jona & Shekhars, 2020). The challenge is therefore the choice of optimal level at which Money Deposit Banks can maintain their liquid assets so as to maximize the duo objectives of performance and liquidity. This problem is more pronounced as several deposit money banks pursue the objective of performance (profitability) at the expense of liquidity. However, profit maximization turns to myth as the resulting liquidity can lead to insolvency with the consequence of low patronage, deposit flight and erosion of asset base. Poor liquidity planning and implementation can affect not only the bank's operations but also exhibit long run effect on the economy as a whole.

Although, there have been many empirical studies on the impact liquidity management exert on financial performance of banking and other sectors, some studies affirmed positive relationship; (Abdulyakeem et al., 2025: Oyewunmi, 2024) Some reported negative relationship; (Danmulki et al., 2022: Kyari et al., 2023) while some other reported mixed outcomes;(Joseph & Adelegan, 2023: Obim et al., 2020: Efemena &Augustine, 2024: Okeke,2024) leaving the outcome inconclusive. This study therefore investigates the impact of liquidity management on financial performance of selected Money Deposit Banks in Nigeria. The study gathered data for a longer duration and most recent period compared to most of the previous studies and consider larger number of money deposit banks as population size than most previous studies. The distinct objectives are; (i) to examine the effect of debt-to-equity ratio on returns on asset, (ii) to investigate the impact of liquidity coverage ratio on return on assets and (iii) to examine the impact of ratio of loan-to-deposit on return on assets.

LITERATURE REVIEW

Conceptual Review

Liquidity Management

Liquidity simply means having liquid assets at disposal. Wuave et al. (2020) described liquidity as the capacity to finance expansion of resources and attend to the obligation avoiding unexpected losses. Liquid assets are assets that are easily transformed to money with the goal of meeting debt and financial obligations. Ability of banks to discharge immediate and expected future obligations of depositors and creditors including new loan demand without compromising current reserve requirements as laid down by regulatory body is known as bank liquidity (Abdulyakeem et al., 2025, Idowu et al., 2017)

Liquidity Management in Deposit Money Banks is therefore, Deposit Money Bank's skills to maintain sufficient cash and liquid assets to meet depositors and creditors demand for loans, savings withdrawals with no negative implication on expected expenditure (Bassey et al., 2016). Jena and Shekhars (2020) stressed that management of liquidity should be a continuous process and must ensure available cash conforms to the required reserve specified by the government regulatory agency and at the same time meeting the customers expectation, contingent cash needs and other obligations. Management of liquidity must be therefore be a balanced policy so that there should be no excess liquidity or insufficient liquidity because higher liquidity according to Okeke (2024) is costly to the bank and limits performance even though it reduces the risk and premium to pay off investors for the consequences of bankruptcy, while low liquidity exposes them to risk. Banks use liquidity strategy such as investing in treasury bills, treasury certificate to meet deposit loan demands (Adesina & Adewunmi, 2022).

Financial Performance

Financial performance describes firm's capability to earn income and gains using resources available, reflecting overall financial health and the operation success at large. According to Sani et al. (2022) it is the degree to which financial goals are been realized. Bank Financial performance is the evaluation of a banks profitability and efficiency usually assessed using ROA and ROE employed. This is bank's capacity to earn reasonable income from using its resources and equity. Financial performance is usually assessed by analyzing components of financial statement such as statement of income, financial position's statement and movement in cash report using certain metrics such as profitability ratios, liquidity ratios and Return on Assets (ROA) (Okeke, 2022). It measures revenue, expenses, profitability, assets, liabilities, cash flow and efficiency. Profitability is usually adopted as a means of measuring performance. Profitability according to Adesina and Adewunmi (2022) is the capacity of a business to produce revenue from operations and other distinct revenue's potential at point in time. When revenue exceeds income, there is profit. The basic expectation is that revenue and expenditure happen the same time and earning is directly related to expenditure.

Maintaining strong liquidity position by bank can result to good performance reflecting in profitability because. Bank will be able to meet up with its obligation and still continue operations. Theoretically, inverse interaction exists between management of liquidity and financial success, increase in one lead to decrease in the other. Higher liquidity i.e. investing in liquid assets will not yield much interest to the bank signifies little profit. Consequently, if bank intends to make high profit, it must lend out money to long term loans or invest in bonds, debentures stock but bank in such situation will have low liquidity.

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The best liquidity management strategy will be to determine the proportion of the investment in both liquid and illiquidity assets to and ensure balanced performance devolving of risk.

Theoretical Review

Trade-off Theory

The Proponents of this theory were Kraus and Litzberger in the year 1973. The theory suggested that the determinant of effective and efficient capital structure management is the benefits as well as the cost associated with each of the existing sources of financing. According to the model, optimal capital structure is selected by firms, by maximizing interest tax savings less cost of debts by so doing, gaining the net debt benefits (Kamal & Babak, 2019). Debt Financing had advantage of tax saving, however trade off of bankruptcy and cost of servicing debt should be considered in taking a decision on debt financing considering trade off between the cost and the associated benefits (Adesina & Adewunmi, 2022). The theory is theory of capital structure, it however applicable to liquidity management because there is also trade off between liquidity and performance. For Deposit Money Bank, liquidity and performance especially profitability cannot be pursued concurrently, one will definitely affect the other. There is a need therefore for DBMs to keep optimal level of liquidity that will strike out a balance benefits of holding cash to minimize transaction cost of fund raising and the price of keeping money in the form of tax advantages.

Empirical Review

Numerous studies have been carried out to probe in to how capital structure impact financial performance in different countries and different sectors:

Abdulyakeen et.al (2025) examined the way the liquidity is been managed implication on how deposit money banks perform economically in Nigeria. Secondary information for quoted selected Deposit Money Banks (DBM) sourced were processed with the aid of Correlation and Regression Analysis. The outcome showed that cash reserve and loan deposit ratios positively and significantly impacted financial performance of the selected DBMs.

Joseph and Adelegan (2023) inquired in to how financial performance is being influenced by the way liquidity is been managed in Deposit Money Banks in Nigeria for 12 years (2011-2022) time series data. Analysis on the data collected was done using EViews Statistical package for descriptive and Correlation analysis and STATA 11 after best estimator test. The outcome showed that ratio of deposit to Asset is positively, statistically insignificantly influenced ROA, ratio of Cash reserve is inversely, statistically insignificantly influenced ROE, while ratio of loan to Deposit is inversely, statistically and insignificantly related to net interest margin.

Oyewunmi (2024) investigated how firm financial performance is been affected by liquidity management of consumers goods firms that are quoted in the Nigeria Stock Exchange using ex-post facto research methodology. Time series information collected for 15 firms using a judgmental basis relying on information available, were analyzed using OLS Technique. The result indicated that the manner the liquidity is been managed significantly influenced the way the chosen firms performed economically.

Talatu et al. (2024) examined liquidity management effect on the economic success of the industry engaged in the production of consumer goods in Nigeria using ex-post facto research design. Time series information gotten from the yearly report of 10 quoted consumer goods production companies for 5 years (2018-2022) was processed using panel analysis. The outcome showed that

cash and cash equivalent significantly and positively impacted financial performance, cash conversion cycle negatively and significantly influence financial performance. Quick ratio negatively and insignificantly affected financial performance while current ratio and working capital positively and significantly influenced Financial Performance in the period under study. Okeke (2024) examined the way management of liquidity influenced financial success of Deposit Money Banks in Nigeria. The information sourced were processed and the fundings indicated that management of liquidity did not impact profitability and return on asset, it influences noticeable effect on return on Equity of Union Bank.

Almakura et al. (2024) investigated the way the management of liquidity affect the financial performance of oil and gas industry. Time series data collected from 5 oil and gas firms financial reports for 2012-2021 in accordance with the information available at the period of investigation was analyzed using Regression Analysis, it was discovered that quick ratio and cash ratio positively and significantly influenced ROCE, while current ratio negatively and significantly impacted ROCE.

Adesina and Adewumi (2022) evaluated the relationship between management of liquidity on the financial performance of five Deposit Money Banks in Nigeria for 2017-2021. Secondary information used to do the study collected from audited published annual report was analyzed and the outcome indicated that liquid asset to total deposit positively and insignificantly impacted Financial Performance, liquid assets to total deposit positively and insignificantly impacted ROCE, total loan to total assets impacted financial performance.

METHODOLOGY

The study utilized ex-post facto methodology to investigate how management of liquidity and performance in financial term are interacted in deposit money banks in Nigeria. Relevant secondary data on the variables used were extracted from yearly published account of fourteen selected deposit money banks for a period of fifteen years, (2009-2023) which was downloaded from the Nigerian Group Exchange (NGX). The response variable is financial performance proxy Return on Assets while exposure variable is the liquidity management using: ratio of liquidity coverage ratio, loan to deposit ratio as well as ratio of debenture to shareholders fund and firm size is chosen as control variable.

Variables and Variable Measurement

The variables for this study consist of both the dependent and independent. The independent variable is that which is believed to affect the dependent variable, while the dependent is that which is affected. The variables of the study are explained in this section of the study.

Table 1: Dependent and Independent Variables

Variables	Variable Type	Proxy/Measurement
LIQUIDITY MANAGEMENT	Independent Variable	<ul style="list-style-type: none"> • Liquidity Coverage Ratio (LCR) • Loan Deposit Ratio (LDR) • Debt to equity ratio = $\frac{\text{Total Liabilities}}{\text{Equity}}$

Financial performance	Dependent Variable	• Return On Asset (ROA) = $\frac{Net\ income}{Total\ Assets}$
Firm size	Control Variable	

Source: Researcher’s compilation (2025)

Model Specification

The research investigated relationship between liquidity management and financial performance (dependent variable), proxied earnings on assets, earnings on equity, and earnings per share, and liquidity management (independent variable), measured by liquidity coverage ratio, loan-to-deposit ratio, and debt-to-equity ratio, while controlling for firm size. The model is adopted based on the empirical studies revelation of a direct interaction between the measured as well as predictor variables. Relying on this premise, the effective form of the model is given as:

$$ROA = f (DER, LDR, LCR, FSZ) \dots\dots\dots (i)$$

Where:

ROA = Return on Assets (computed as Total Net Income/Total Asset)

DER = Debt to equity ratio (Total Liabilities/equity)

LCR = Liquidity Coverage Ratio

LDR = Loan to Deposit Ratio (computed as Total Loan/Total Deposit)

FSZ = Firm size as the control variable.

The econometric model is functionally specified and re-stated as:

$$ROA_{it} = \beta_0 + \beta_1DER_{it} + \beta_2LDR_{it} + \beta_3LCR_{it} + \beta_4FSZ_{it} + \mu_{it1} \dots\dots\dots (1)$$

Where:

β_0 = Constant parameter/Intercept

$\beta_1 - \beta_4$ = Coefficients of independent variables

μ_{it1} = Error term/White Noise/Stochastic Variables

Subscript $i = 1, 2, \dots, 14$ individual deposit money banks

Subscript $t =$ individual time point (2009 - 2023)

RESULTS AND DISCUSSION

Descriptive Analysis

The overview summary statistics of the variables for the research work are provided in this section, including earnings on assets (ROA), debenture to shareholders fund ratio (DER), ratio of liquidity coverage (LCR), loan to deposit ratio (LDR), and firm size (FSZ).

Table 2:- Statistics’ summary
Sample Structure: $N = 14, T = 15$ (2009 - 2023)

Variables	Obs	Mean	Std. Dev.	Min	Max	Skew.	Kurt.
ROA	180	0.457	0.173	0.092	1.217	1.108	6.463
DER	180	1.39	6.890	0.001	78.547	9.906	102.97
LDR	180	0.270	0.215	0.053	0.909	1.512	4.317
LCR	180	0.213	0.061	0.067	0.375	0.128	2.510
FSZ	180	8.782	0.880	6.075	9.711	-0.738	2.661

Source: Computation of Researcher, (2025).

The summary statistics in Table 2 highlight unique features of the variables. Most variables, excluding DER, show low variability, with standard deviations lower than their means, indicating strong predictive power for financial performance and liquidity management. In

contrast, DER exhibits high variability, with a standard deviation of 6.890 exceeding its mean of 1.390, suggesting limited predictive capacity.

The variables' distributions also display varying levels of skewness and kurtosis. All variables except FSZ have positively skewed distributions. Regarding peakedness, ROA, DER, and LDR have leptokurtic distributions (kurtosis > 3), while LCR, and FSZ have platykurtic distributions (kurtosis < 3). These findings offer valuable insights into the variables' behavior and potential predictive power, shedding light on their characteristics and potential applications in financial analysis.

Multicollinearity

To assess multicollinearity among policy variables in each model, The Variance Inflation Factor (VIF) was employed against correlation matrix, since there are more than two variables under consideration. VIF quantifies the extent to which the variance of an explanatory variable's estimate is amplified due to correlations with other explanatory variables, effectively detecting the presence or absence of multicollinearity.

Table 3:- Variance Inflation Factor
Sample: N = 14, T = 15 (2009 - 2023)

Dependent Variables: ROA		
Variable	VIF	1/VIF
LCR	1.032	0.969
LDR	1.029	0.972
FSZ	1.007	0.993
DER	1.003	0.997
Mean VIF	1.018	.

Source: Researcher's computation (2025).

Table 3 presents the Variance Inflation Factors (VIFs) and tolerance values (1/VIF) for the explanatory variables. According to conventional standards, VIFs below 10 indicate no significant multicollinearity. Since all variables have VIFs less than 10, it confirms the absence of high correlations among the explanatory variables in the three models, meeting the standard requirement.

Model Estimation Results

Given the study's data structure, we utilized static panel data estimators, including common effect (CE), random effect (RE), and fixed effect (FE) with the least square dummy variable (LSDV) estimator. Our panel consisted of 14 listed deposit money banks (N=14) over a 15-year period (T=15), spanning 2009 to 2023. Before model estimation, we conducted endogeneity tests using the two-stage least-squares (2SLS) instrumental variable (IV) regression method. The results of these tests for the ROA model are presented in Table 4

Table 4:- Endogeneity Test Results
Sample: N = 14, T = 15 (2009 - 2023)

Model	H ₀	Durbin Chi2	p-value	Wu-Hausman F-stat.	p-value
ROA	Exogenous	6.7909	0.0789	2.2437	0.0860
Test of Over-identifying Restriction					
Model	H ₀	Sargan	p-value	Basman	p-value
ROA	Valid instruments	0.0086	0.9957	0.0082	0.9959

Source: Computation of Researcher (2025)

The endogeneity test results in Table 4 show that both the Durbin chi-square and Wu-Hausman test statistics are insignificant for the ROA model. This suggests that endogeneity is not a concern, meaning the models are free from biases related to omitted variables, measurement errors, or simultaneity. Consequently, the policy variables are inherently exogenous. Furthermore, the insignificant over-identifying restriction tests confirm that the materials used are dependable. In general, Outcomes indicate that the policy variables in the model are exogenous.

Table 4 presents the estimates and statistics from the study's model estimation using various estimators. The stability impact test (F-stat = 4.530, $p < 0.05$) suggests that the Fixed Effect (FE) estimator is more suitable than the Common Effect (CE) estimator. The random effect test (BP-LM stat = 27.580, $p < 0.05$) demonstrates that the Random Effect (RE) estimator is more efficient than the CE estimator. However, the Hausman test ($\chi^2 = 329.72$, $p < 0.05$) reveals that the FE estimator is more appropriate than the RE estimator. Therefore, the FE estimator is adopted for inferential analysis, suggesting homogeneity among the selected deposit money banks.

Table 5:- Panel Model Estimation Results
Panel Structure: $N = 14, T = 15$ (2009 - 2023)

Dependent Variable: ROA

<u>Estimator:</u>	FE: LSDV	RE	CE
Independent Variables			
<i>Intercept</i> (C)	0.861** (0.0108)	0.405** (0.0398)	0.275** (0.0457)
<i>DER</i>	-0.0037** (0.0379)	-0.0031* (0.0799)	-0.00125 (0.495)
<i>LDR</i>	-0.0358 (0.683)	-0.0665 (0.366)	-0.0939 (0.116)
<i>LCR</i>	-0.346* (0.0927)	-0.387* (0.0552)	-0.406* (0.0530)
<i>FAZ</i>	-0.0358 (0.350)	0.0179 (0.410)	0.0337** (0.0200)
Further Statistics and Tests			
Effect Tests			
CE-FE: Fixed Effect test (F-Stat.)	4.530*** (0.000)	-	-
CE-RE: BP-LM Test (X^2)	-	27.580*** (0.000)	-
RE-FE: Hausman Test (X^2)	-	329.72*** (0.000)	-
Explanatory Power			
R-squared	0.2033	0.1250	0.0742
Adj. R-squared	-	-	0.0531
F-statistic (or Wald Test)	2.390* (0.0526)	109.00*** (0.000)	5.510** (0.0088)
Diagnostics			
CD Test:			

Friedman's test	6.104 (0.8051)	5.052 (0.7022)	-
Specification test (RESET)	-	-	0.209 (0.7442)

Source: Computation of Researcher (2025)

Note: The values in the parentheses () are *p*-values of the respective coefficients and statistics while ***, ** & * denote statistical significance at the conventional 1%, 5% and 10% levels of significance, respectively.

Test of Hypotheses

According to the Fixed Effect (FE) estimator results in Table 5, an increase in debt-to-equity ratio (DER) has a remarkable and adverse impact ($\beta_1 = -0.0037$, $p = 0.0379 < 0.05$) on earnings on assets (ROA) of the observed deposit money banks in Nigeria. This suggests that ROA responds negatively and significantly to changes in DER. Given the significance of the outcomes, the null hypothesis ($H_0: \beta_1 = 0$) is ignored at the 5% level, revealing a statistically significant relationship between DER and ROA. Similarly, changes in loan-to-deposit ratio (LDR) have a negative but insignificant impact ($\beta_2 = -0.0358$, $p = 0.683 > 0.1$) on earnings on assets (ROA) of the observed deposit money banks in Nigeria. This suggests that ROA responds negatively but not significantly to LDR. Given the insignificance of the outcomes, the null hypothesis ($H_0: \beta_2 = 0$) is retained at the 10% level, revealing no statistically significant relationship between LDR and ROA. The changes in liquidity coverage ratio (LCR) have a negative and weakly significant impact ($\beta_3 = -0.346$, $p = 0.0927 < 0.1$) on earnings on assets (ROA) of the observed DMBs in Nigeria. This suggests that ROA responds negatively and somewhat significantly to LCR, indicating a mild level of significance. Given the findings, the null hypothesis ($H_0: \beta_3 = 0$) is declined at the 10% level, showing a statistically significant relationship between LCR and ROA. Meanwhile, changes in firm size (FSZ) have a negative but insignificant impact ($\beta_4 = -0.0358$, $p = 0.350 > 0.1$) on ROA, suggesting that ROA does not respond significantly to FSZ. Consequently, the null hypothesis for FSZ ($H_0: \beta_4 = 0$) is retained, indicating no statistically notable interaction between firm size and earnings on assets.

Model Adequacy Evaluation

The post-estimation test, specifically the cross-sectional dependence test, was conducted. According to the Friedman test results in Table 5 under the Fixed Effect (FE) estimation method, the null hypothesis of "no cross-sectional dependence" cannot be rejected, given the *p*-value (0.7022) is above the 0.05 significance level. This indicates that the selected deposit money banks are cross-sectionally independent. As a result, the estimated parameters of the ROA model are reasonable and dependable for making inferences as well as informed strategic decisions.

Discussion of Findings

The discoveries from this empirical study provide useful revelation into the manner the management of liquidity may affect financial performance of selected deposit money banks in Nigeria. Notably, the research reveals that an increase in debt-to-equity ratio significantly and adversely impacted return on assets (ROA) ($\beta_1 = -0.0037$, $p = 0.0379 < 0.05$) This implies that banks that have higher level of debt in relation to equity tend to experience a decline in (performance) as represented by return on asset, this might be explained by potential increase in financial risk and the burden associated with debt servicing. The negative nature of the interaction between debt-to-equity ratio and ROA underscores the importance of maintaining an optimal capital structure to support asset performance. In contrast, the study discovered that the loan-to-deposit

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ratio has adverse but insignificant implication on ROA, ($\beta_2 = -0.0358$, $p = 0.683 > 0.1$) This suggests that although banks may face challenges in generating returns from loans, the effect is not statistically significant. Furthermore, the liquidity coverage ratio exerted adverse and weakly important effect on ROA ($\beta_3 = -0.346$, $p = 0.0927 < 0.1$) This implies that holding higher liquidity reserves may lead to a slight reduction in asset returns, potentially due to the opportunity cost related with holding liquid assets.

CONCLUSION AND RECOMMENDATION

Based on the findings from the analysis of the study, it was finalized that the relationship between liquidity management and financial performance in Money Deposit Bank in Nigeria is a complex one. The study recommended that the authorities of Deposit Money Bank in Nigeria should formulate strong liquidity management policy that will ensure that efficiency and effectiveness in operation is achieved. The Management of DMBs should pay detail attention to some performance measurement including but not limited to: Debt to equity ratio, loan to Deposit ratio, liquidity coverage ratio. Money Deposit Bank should avoid keeping excessive liquidity because they want to meet customers withdrawal demands, but should adopt other means of meeting such demand such as borrowing and lending at interbank market interest rate. The study increases the number of existing empirical literature on the interaction between the manner in which liquidity is been managed MDBs in Nigeria, and their economic performance, thereby contributing to the body of knowledge. The investigation utilized current data and considerably longer duration period than most of the previous studies. It is however suggested that the scope of this study should be extended to other sectors such as communication where the studies have not been given attention.

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