

**IMPACT OF FINANCIAL INTERMEDIATION ON
ECONOMIC GROWTH IN NIGERIA 1994 – 2013**

BY

**NWAEZE CHINWEOKE
PG/M.Sc/09/54333**

**DEPARTMENT OF BANKING AND FINANCE
SCHOOL OF POSTGRADUATE STUDIES
UNIVERSITY OF NIGERIA, NSUKKA**

DECEMBER, 2015

**IMPACT OF FINANCIAL INTERMEDIATION ON
ECONOMIC GROWTH IN NIGERIA 1994 – 2013**

BY

**NWAEZE CHINWEOKE
PG/M.Sc/09/54333**

**BEING A RESEARCH THESIS PRESENTED TO THE
DEPARTMENT OF BANKING AND FINANCE
FACULTY OF BUSINESS ADMINISTRATION
UNIVERSITY OF NIGERIA, ENUGU CAMPUS**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE AWARD OF DEGREE OF MASTER OF SCIENCE (M.Sc)
IN BANKING AND FINANCE**

**SUPERVISOR:
DR. OKORO, OKORO E. U.**

DECEMBER, 2015

CERTIFICATION/APPROVAL

This is to certify that this study: Impact of Financial Intermediation on Economic Growth in Nigeria 1994 ï 2013, carried out by Nwaeze Chinweoke under my supervision, has satisfied the necessary requirements for the award of the Master of Science Degree (M.Sc) in Banking and Finance of the University of Nigeria, Nsukka.

é é é é é é é é é é é ..
Dr. Okoro, Okoro E. U.
(Supervisor)

é é é é é é ..é .é
Date

é é é é é é é é é é é ..
Associate Prof. E. C. Nwude
(Head of Department)

é é é é é é é é ..
Date

DECLARATION

I, Nwaeze Chinweoke, a Postgraduate Student in the Department of Banking and Finance with Reg. Number PG/M.Sc/09/54333 do hereby declare that the work embodied in this thesis is original and has not been submitted in part or full for Diploma or Degree of this University or any other Institution of higher learning.

é é é é é é é é é é é é
Nwaeze Chinweoke
PG/M.Sc/09/54333

é é é é é é é é
Date

DEDICATION

This work is dedicated to God Almighty
who is the source of my strength
and my knowledge.

ACKNOWLEDGEMENTS

I express deep appreciation to God Almighty for making it possible for me to undertake this research. I remain grateful to Prof. C. U. Uche, Dr. Austin Ujunwa and Dr. Okoro, Okoro E. U, my new Supervisor who all guided me through this research work.

Profound gratitude also goes to the Head of Department of Banking and Finance, Associate Prof. E. C. Nwude for his directives and encouragement. To Prof. J.U.J. Onwumere who taught me research methodology, I remain very grateful. I am highly indebted to Dr. Mrs. N. J. Modebe for her assistance in the course of this research work as well as Dr. E. O. C. Onah and Dr. B. E. Chikeleze. My Special regards go to Prof. J. O. Nnabuko, Dean - Faculty of Business Administration.

My special thanks go to my family ï My wife, Mrs. Gift Nneamaka Nwaeze and my children ï Nonso, Manma, Chiagozie and Chimezirim for their continued patience, understanding and support during the long periods of research. A big thank you also goes to my siblings, Dr. Obii, Okey, Akuu and Bekee.

To you Charly my course mate, I remain grateful for all your assistance. Kudos to Mrs. Kate Emmanuel for your professionalism in handling most of my academic typing works. I also remain thankful to my numerous friends ï Azu, Anetor, Mike, Madu, and Chido and Babaonye for their support and encouragement.

ABSTRACT

One of the activities of financial institutions (banks) involves intermediating between the surplus and deficit units of the economy. Banks as financial intermediaries emerge to lower the cost of reaching potential investments, exerting corporate controls, managing risks, mobilizing savings and conducting exchanges. In Nigeria, banks dominate the financial sector and there is detailed information about Nigerian banking history but little information is available on the activities of the financial industry and how they affect the economy where they operate. Therefore, this study explored in the light of past trends, the extent to which financial intermediation impacted on the economic growth of Nigeria between the period 1994 – 2013. The study adopted the ex-post facto research design. Time series data for the twenty years period 1994 – 2013 were collated from secondary sources and the Ordinary Least Squares (OLS) regression technique was used to estimate the hypotheses formulated in line with the objectives of the study. Real Gross Domestic Product per capita, proxy for economic growth was adopted as the dependent variable while the independent variables included bank deposits, bank credits and bank liquid reserves. The empirical results of this study show that bank deposits, bank credits and bank liquid reserves exert a positive and significant impact on the economic growth of Nigeria for the period 1994 – 2013. This paper recommended amongst others that banks should adopt and engage in aggressive marketing of their services in order to help increase their deposit base and as well ensure that a major part of their credit is channeled to the productive sectors of the economy such as agriculture, industry and power to encourage growth of the economy. It further recommended that banks should shore up their liquid reserves to further enhance stability of their operations.

TABLE OF CONTENTS

Title page	-	-	-	-	-	-	-	-	-	i
Certification/Approval	-	-	-	-	-	-	-	-	-	ii
Dedication	-	-	-	-	-	-	-	-	-	iii
Acknowledgements	-	-	-	-	-	-	-	-	-	iv
Abstract	-	-	-	-	-	-	-	-	-	v
Table of Contents	-	-	-	-	-	-	-	-	-	vi

CHAPTER ONE: INTRODUCTION

1.1	Background of the Study	-	-	-	-	-	-	-	1
1.2	Statement of the Problem	-	-	-	-	-	-	-	6
1.3	Objectives of the Study	-	-	-	-	-	-	-	8
1.4	Research Questions	-	-	-	-	-	-	-	8
1.5	Research Hypotheses	-	-	-	-	-	-	-	8
1.6	Scope of the Study	-	-	-	-	-	-	-	9
1.7	Significance of the Study	-	-	-	-	-	-	-	9
	References	-	-	-	-	-	-	-	11

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1	Introduction	-	-	-	-	-	-	-	-	13
2.2	Conceptual Framework	-	-	-	-	-	-	-	-	13
2.2.1	Financial Intermediation	-	-	-	-	-	-	-	-	13
2.2.2	Requirements of Financial Intermediation	-	-	-	-	-	-	-	-	16
2.2.2.1	Cost	-	-	-	-	-	-	-	-	16
2.2.2.2	Convenience	-	-	-	-	-	-	-	-	16
2.2.2.3	Confidence	-	-	-	-	-	-	-	-	17
2.2.3	Roles and Functions of Deposit Money Banks in Financial Intermediation	-	-	-	-	-	-	-	-	19

2.2.3.1 Acceptance of Deposits	-	-	-	-	-	-	19
2.2.3.2 Lending to Customers	-	-	-	-	-	-	19
2.2.3.3 Agency Services	-	-	-	-	-	-	19
2.2.3.4 Safe-Guarding of Valuables	-	-	-	-	-	-	20
2.2.3.5 Foreign Exchange Services	-	-	-	-	-	-	20
2.2.3.6 Buying and Selling of Shares	-	-	-	-	-	-	20
2.2.3.7 Use of Cheques and Bank Drafts	-	-	-	-	-	-	20
2.2.3.8 Business and Investment Advisory Services	-	-	-	-	-	-	21
2.2.3.9 Provision of Status Reports	-	-	-	-	-	-	21
2.2.3.10 Sale of Examination and Admission Forms	-	-	-	-	-	-	21
2.2.4 Concept of Economic Growth	-	-	-	-	-	-	22
2.2.5 Sources of Funds and Types of Bank Accounts	-	-	-	-	-	-	23
2.2.5.1 Current (Demand Deposit) Account	-	-	-	-	-	-	24
2.2.5.2 Savings Deposit Account	-	-	-	-	-	-	25
2.2.5.3 Time (Fixed) Deposit Account	-	-	-	-	-	-	25
2.2.6 The Concept of Bank Credit	-	-	-	-	-	-	27
2.3 Theoretical Framework	-	-	-	-	-	-	29
2.3.1 Theories of Economic Growth	-	-	-	-	-	-	29
2.3.1.1 Neo-Classical Growth Model	-	-	-	-	-	-	29
2.3.1.2 Endogenous Growth Model	-	-	-	-	-	-	30
2.3.2 Impact of Banks on the Growth of the Economy	-	-	-	-	-	-	31
2.3.2.1 Information Acquisition and Resource Allocation	-	-	-	-	-	-	32
2.3.2.2 Savings Mobilization	-	-	-	-	-	-	33
2.3.2.3 Facilitating Exchange and Trade	-	-	-	-	-	-	34
2.3.2.4 Management Monitoring and Corporate Control	-	-	-	-	-	-	34
2.3.2.5 Facilitating Risk Management	-	-	-	-	-	-	36
2.3.3 Challenges and hindrances to Effective Financial Intermediation by Banks	-	-	-	-	-	-	37
2.3.3.1 Poor Banking Habit in Nigeria	-	-	-	-	-	-	37

2.3.3.2 Attitude of Bank Staff	-	-	-	-	-	-	38
2.3.3.3 Fraud in Banks	-	-	-	-	-	-	38
2.3.3.4 Adverse Banking Regulations	-	-	-	-	-	-	39
2.3.3.5 Inadequate Rural Banking Practice	-	-	-	-	-	-	39
2.3.3.6 Low Interest Deposit Rate	-	-	-	-	-	-	40
2.4 Empirical Review	-	-	-	-	-	-	40
2.4.1 The Nigerian Financial System ĩ An Overview	-	-	-	-	-	-	40
2.4.1.1 Financial Development Drives Growth in the Economy	-	-	-	-	-	-	43
2.4.1.2 Growth in the Economy Motivates Financial Development	-	-	-	-	-	-	44
2.4.1.3 Bi-Directional Relationship between Financial Development and Economic Growth	-	-	-	-	-	-	44
2.5 Summary of Reviewed Literature	-	-	-	-	-	-	45
2.5.1 Cross Section Studies	-	-	-	-	-	-	46
2.5.2 Individual-country Studies	-	-	-	-	-	-	47
2.5.3 Firm-Industry Level Studies	-	-	-	-	-	-	48
References	-	-	-	-	-	-	51

CHAPTER THREE – RESEARCH METHOLOGY

3.1 Research Design	-	-	-	-	-	-	55
3.2 Population and Sample Size	-	-	-	-	-	-	55
3.3 Nature and Source of Data	-	-	-	-	-	-	56
3.4 Description of Research Variables	-	-	-	-	-	-	56
3.5 Techniques for Analysis	-	-	-	-	-	-	58
3.6 Specifications of Models	-	-	-	-	-	-	59
References	-	-	-	-	-	-	61

CHAPTER FOUR – DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation	-	-	-	-	-	-	62
-----------------------	---	---	---	---	---	---	----

4.1.1	Real GDP Per Capita	-	-	-	-	-	-	63
4.1.2	Deposit Money Bank. Deposit	-	-	-	-	-	-	63
4.1.3	Deposit Money Banks Credit	-	-	-	-	-	-	63
4.1.4	Deposit Money Banks Liquid Reserve	-	-	-	-	-	-	64
4.2	Data Analysis	-	-	-	-	-	-	64
4.3	Empirical Results	-	-	-	-	-	-	68
4.4	Test of Hypothesis	-	-	-	-	-	-	75
4.4.1	Hypothesis 1	-	-	-	-	-	-	75
4.4.2	Hypothesis 2	-	-	-	-	-	-	75
4.4.3	Hypothesis 3	-	-	-	-	-	-	76
4.5	Implications of the Findings	-	-	-	-	-	-	76
	References	-	-	-	-	-	-	80

CHAPTER FIVE – SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1	Summary of Findings	-	-	-	-	-	-	81
5.2	Conclusion	-	-	-	-	-	-	81
5.3	Recommendations	-	-	-	-	-	-	81
5.4	Recommended Area for Further Research	-	-	-	-	-	-	83
5.5	Contribution to Knowledge	-	-	-	-	-	-	83
	Bibliography	-	-	-	-	-	-	85
	Appendix I	-	-	-	-	-	-	91
	Appendix II	-	-	-	-	-	-	92
	Appendix III	-	-	-	-	-	-	93

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

One of the activities of financial institutions (banks) involves intermediating between the surplus and deficit sectors of the economy. According to Bencivenga and Smith (1991), the basic activities of banks are acceptance of deposits and lending to a large number of agents, holding of liquid reserves against predictable withdrawal demand, issuing of liabilities that are more liquid than their primary assets and eliminating or reducing the need for self financing of investments. In particular, by providing liquidity, banks permit risk averse savers to hold bank deposits rather than liquid (but unproductive) assets. The funds obtained are then made available for investment in productive capital.

Moreover, by exploiting the fact that banks have large number of depositors and hence predictable withdrawal demand, they can economize on liquid reserves holdings that do not contribute to capital accumulation. Again, Bencivenga and Smith (1991), further argued that by eliminating self-financed capital investment, banks also prevent the unnecessary liquidation of such investment by entrepreneurs who find that they need liquidity. In short, an intermediation industry permits an economy to reduce the fraction of savings held in the form of unproductive liquid assets, and to prevent misallocation of invested capital due to liquidity needs (Bencivenga and Smith, 1991). Schumpeter in Kings and Levine (1991), argued that the services provided by financial intermediaries—mobilizing savings, evaluating projects, managing risks, monitoring managers and facilitating transactions, are essential for technological innovation and economic growth and development.

Levine et al (2000), posits that financial intermediaries emerge to lower the costs of reaching potential investments, exerting corporation, controls, managing risks, mobilizing savings and conducting exchanges. Financial intermediaries by providing these services to the economy, influence savings and allocation decisions in ways that may alter long-run growth rates. Banks play an effective role in the economic growth and development of a country. This role they perform excellently by helping to mobilize idle savings of the Surplus Unit (SUs) for onward lending to the Deficit Units (DUs), thus helping in the capital formation of a nation (Ujah and Amaechi, 2005). It is in realization of the importance of bank's role in financial intermediation that successive governments in Nigeria have been allocating deliberate roles to them in various National Development Plans.

Afolabi (1998), states that with financial intermediation, the transfer of funds from the surplus sector to the deficit sector becomes very simple. The intermediary will act as a pool, collecting deposits of millions of savers and can create forums, e.g. interest-yielding accounts. The intermediary matches the deposit requirements of the saver with the investment requirements of the borrower. He acts as a pool, collecting savings of different sizes from different categories of savers and meeting the investment needs of the various types of investors. The surplus sector therefore gains by placing his money with the intermediary since the income to be earned does not depend on whether or not the intermediary has in fact lent the money out or whether or not the money was profitably lent. The overall economic effect according to Afolabi (1988) is that financial intermediation leads to a better aggregation of savings and therefore helps in capital formation and investment in the economy.

The banks are mainly involved in financial intermediation, which involves channeling funds from the surplus units to the deficit units of the economy, thus transforming bank deposits into loans or credits. The role of credit on economic

growth has been recognized as credits are obtained by various economic agents to enable them meet operating expenses (Bencivenga and Smith, 1991). For instance, business firms obtain credit to buy machinery equipment. Farmers obtain credit to purchase seeds, fertilizers, erect various kinds of farm buildings. According to Nwanyanwu (2010), the provision of credit with sufficient consideration for the sector's volume and price system is a way to generate self-employment opportunities. This is because credit helps to create and maintain a reasonable business size as it is used to establish and/or expand the business to take advantage of economies of scale. It can also be used to improve informal activity and increase its efficiency. This is achievable through resource substitution, which is facilitated by the availability of credit, while highlighting the role of credit. Nwanyanwu (2010), further explained that credit can be used to prevent an economic activity from total collapse in the event of natural disaster, such as flood, drought, disease or fire. Credit can be generated to revive such an economic activity that suffered the set back.

The banking sector helps to make these credits available by mobilizing funds from savers who have no immediate needs of such funds and thus channel such funds in form of credits to investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital to execute the ideas. It is instructive to note that the banking sector has stood out in the financial sector as of prime importance, because in many developing countries of the world, the sector is virtually the only financial means of attracting private savings in a large scale to enhance economic growth (Afolabi, 1998).

Banks all over the world as we have earlier noted, provide a wide range of services including financial intermediation to suit the needs of their customers, be they individuals, corporate or government customers. In developing nations as ours, the majority of the people are poor, capital for investments are in short supply,

means of transport are underdeveloped as well as basic infrastructures. Banks through their intermediation role and other services, aim at overcoming these obstacles and thus, promote economic growth of the nation. Economic growth is often measured in terms of the level of production within the economy, the Gross Domestic Product (GDP) as well as the rate of physical capital accumulation among other possible measures (Zakaria, 2008). Majority of scholars accept economic growth as an increase in the level of national income and output in a country. According to Nnanna (2004), it implies an increase in the net national product in a given period of time. He explained that economic growth is generally referred to as a quantitative change in economic variables, normally persisting over successive periods. He added that the determinants of economic growth are availability of natural resources, rate of capital formation, capital output ratio, technological progress, dynamic entrepreneurship and other factors.

Oluitan (2010) sees economic growth as a steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income. Jhingan (2006) viewed economic growth as an increase in output. He explained further that it is related to a quantitative sustained increase in the country's per capita income or output accompanied by expansion in its labour force, consumption, capital and volume of trade. The major characteristics of economic growth are high rate of productivity, high rate of structural transformation, international flows of labour, goods and capital. From the synthesizing insights of these definitions, economic growth in this work is defined as a sustained increase in national income or output of a nation. Thus, an economy is said to be growing if there is a sustained increase in the actual output of goods and services per head.

According to Greenwood and Jovanovich (1990), the dependence on domestic sources of capital, therefore, requires a wide range of independent well-organized

and adapted financial institution, which has to mobilize internal resources for the purpose of capital formation and allow the capital to be invested conveniently and freely into desired developmental ventures.

Deposit Money Banks, the basic component of financial institutions should be thus the major relevant and important institutions, which encourage and mobilize savings and channel them into productive investments because of their network of offices, their generally numerous clientele and the relative ease with which people transact business with them. Thus, they are the dominant institutions of financial intermediation. It is therefore expected that effective financial intermediation will exert a positive impact on economy.

The importance of banks in generating growth within an economy has been widely discussed by various scholars. Many economists believe that financial intermediaries play important roles in economic growth. Studies by Beck, Levine and Loayza (2000a) and Levine, Loayza and Beck (2000) confirm that well-functioning banks accelerate economic growth. Furthermore, a seminal study conducted by King and Levine (1993) on seventy seven countries made up of developed and developing economies showed that finance not only follow growth; finance seems important to lead economic growth. Greenwood and Jovanovich (1990) also observed that financial institutions produce better information, improve resource allocation and thereby induce growth. These studies further buttress the assertion that financial intermediation stimulate economic growth. Despite the above views, some scholars believe that finance is a relatively unimportant factor in economic growth. They postulate that economic growth is a causal factor for financial development. Gurley and Shaw (1967) as cited in Oluitan (2010) argue that as the real sector grows, the increasing demand for financial services stimulate the financial sector. Lucas (1988) in Kings and Levine (1993) believed that economists have badly over-stressed the role of financial

factors in economic growth. Robinson (1952) as cited in King and Levine (1993) contends that financial development simply follows economic growth and that the engine of growth must be sought elsewhere.

Nigeria is the most populous African country with a population of over 160 million people. It is also one of the world's top producers of crude oil and despite this, the country is among the poor economies in the world. Banks dominate the financial sector in Nigeria and therefore, given the mixed results of empirical finding as shown above, it is important to examine whether such postulations hold for the Nigerian economy. Again, there is detailed information about Nigerian banking history, but little information is available on the activities of the financial industry and how they affect the economy where they operate. Similarly, factors which motivate or drive growth within the economy relative to the industry are largely under researched. All these stimulate and motivate the researcher towards carrying out this study to fill this gap.

It is therefore against this background and given the intermediary role of deposit money banks in economic growth and development that this study aims at exploring in the light of past trends, the extent to which financial intermediation impacts on the economic growth of Nigeria.

1.2 STATEMENT OF THE PROBLEM

The role of deposit money banks in financial intermediation cannot be over-emphasized as they help in mobilizing the idle ĩ savings of the surplus units (SUs) for onward lending to the deficit units (DUs), thus solving most of the problems standing between the lender and the borrower. However, certain issues or factors have continued to pose problems to the success of financial intermediation on the economic growth of the Nigerian economy.

Financial repression is one factor that affects and constitutes a great problem to financial intermediation by banks. Afolabi (1998) identified that the sources of repression are government legislations and policies such as legal restrictions on activities and interest rate policies that distort the full operation of the market mechanism in fixing prices for financial resources. There is also the issue of poor banking habit among Nigerians. Most of them prefer to keep and save their monies in boxes, under their mattresses or in holes in their houses, to having any business to do with the deposit money banks. According to Ngwu (2006), this may be as a result of illiteracy on their part and also as a result of the losses these people have sustained in the past due to bank failures and distresses.

It is very crucial to ensure that financial institutions exert the desired effects on the economy in which they operate. An efficient and highly intermediation system is essential in a healthy economy. Its primary role is to facilitate the channeling or transfer of funds from the surplus units to the deficit units. Thus, the activity of financial intermediation affects every citizen within the economy. Uremadu (2000) posits that large-scale production and a high degree of specialization of labour can only function if an efficient and highly developed financial system exists for paying for goods and services, whether they are needed in production or are offered for sale. Business organizations can obtain the money or capital they need to purchase capital goods, such as machinery and equipment only if the necessary institutions, instruments and procedures have been established for making savings available for such investments. Bencivenga and Smith (1991) opine that in the absence of banks, too much investment is self-financed which results to the slow cycle of production. This may further result to the problems of long delays between investment expenditures and receipts of profit from capital. Thus, an intermediation industry is expected to permit an economy to reduce the fraction of its savings held in the form of unproductive liquid assets and to prevent misallocations of invested capital due to liquidity needs. Thus, it is very

imperative to investigate and confirm the extent to which financial intermediation by deposit money banks impact on the Nigerian economy.

1.3 OBJECTIVES OF THE STUDY

The general objective of this work is to determine the impact of financial intermediation on economic growth in Nigeria. The specific objectives of this study are as follows:

1. To determine the impact of deposit mobilization on economic growth of Nigeria.
2. To determine the impact of bank credit on the growth of the Nigerian economy.
3. To determine the impact of liquid reserves of banks on the economic growth of the nation.

1.4 RESEARCH QUESTIONS

In this study, the following research questions are pertinent to the realization of the stated objectives of the study:

1. To what extent does deposit mobilization impact on Nigeria's economic growth?
2. To what extent has bank credit impacted on the growth of the Nigerian economy?
3. To what degree has liquid reserves impacted on the economic growth in Nigeria?

1.5 HYPOTHESIS OF THE STUDY

The study is guided by the following statement of hypotheses formulated based on the objectives of the study:

- H₀₁: There is no positive and significant impact of the bank deposits on economic growth in Nigeria.

H₀₂: There is no positive and significant impact of bank credits on the growth of the Nigerian economy.

H₀₃: There is no positive and significant impact of bank liquid reserves on the economic growth of Nigeria.

1.6 SCOPE OF THE STUDY

This study focused on the impact of financial intermediation on Nigeria's economic growth using variables such as deposit mobilization, bank credit and liquid reserves. This study focused on Nigeria and covers the period 1994 to 2013. The reason for choosing this period is that the post-consolidation era when Nigerian banks were adduced to be strong as well as the pre-consolidation era, characterized by a lot of instability in the Nigerian banking sector were captured or taken into consideration.

1.7 SIGNIFICANCE OF THE STUDY

This study will lend support both to the financial intermediation literature as well as the economic growth literature. There is detailed information about the Nigerian banking industry, but little information is available on the activities of the financial industry and how they affect the economy where they operate. In other words, factors which drive growth in the economy, relative to the financial industry are largely under researched. Hence, this research will attempt to fill this gap. In addition, it will be of immense benefits to the following parties:

1. The Government

This study is expected to benefit the government and its agencies in understanding the impact of financial intermediation on economic growth. The outcome of this study will help in the formulating and implementation

of policies regarding the operation of banks in the area of financial intermediation and in line with the aspirations of the economy.

2. Money Market Regulations

The outcome of this study will be of immense benefit to the Central Bank of Nigeria (CBN). Designing and formulating appropriate regulations to guide the operations of banks will require a good understanding of the impact of financial intermediation on economic growth.

3. Academicians

The outcome of this study will add to the body of existing literature on financial intermediation and economic growth. It will serve as a basis for further researches in this very important area of study and as well as in related issues in Nigeria. It will also serve as a document or body of knowledge which can be consulted from time to time by researchers studying on related topics.

4. The Public

To economic watchers and the interested public, this study will provide some insight into the impact of financial intermediation on the growth of the Nigerian economy.

REFERENCES

- Afolabi, L. (1998). *Monetary Economics*. Lagos: Perry Barr Limited.
- Beck, T. and Levine, R. (2002). "Industry Growth and Capital Allocation: Does having a market or a bank-based system matter?" *Journal of Financial Economics*. 64, pp. 147-180.
- Beck, T., Levine, R. and Loayza, N. (2000a). "Finance and the Sources of Growth". *Journal of Financial Economics*. 58, pp. 261-300.
- Bencivenga, V. R. and Smith, B. D. (1991). "Financial Intermediation and Endogenous Growth". *Review of Economics Studies*. Vol. 58, pp. 195-209.
- Greenwood, J. and Jovanovich, B. (1990). "Financial Development, Growth and the Distribution of Income". *Journal of Public Economy*. Vol. 98, pp. 1076-1107.
- Jhinga, M. L. (2004). *Money, Banking, International Trade and Public Finance*. New Delhi: Virinda Publications (P) Ltd.
- Jhinga, M. L. (2006). *The Economics of Development and Planning*. New Delhi: Virinda Publications (P) Ltd.
- King, R. G. and Levine, R. (1993). "Finance and Growth Schumpeter Might Be Right". *Quarterly Journal of Economics*, pp. 717-737.
- Levine, R., Loayza, N. and Beck, T. (2000). "Financial Intermediation and Growth, Causality and Causes". *Journal of Monetary Economics*. Vol. 46, pp. 31-75.
- Lucas, R. E. (1988). "On the Mechanics of Economic Development". *Journal of Monetary Economics*. Vol. 22, pp. 3-42.
- Ngwu, T. C. (2005). *Bank Management*. Owerri: Bon Publications.
- Nnanna, O. J. (2004). "Financial Sector Development and Economic Growth in Nigeria: An Empirical Investigation", *Economic and Financial Review* Vol. 42, (3) pp. 1-17.
- Nwanyanwu, O. J. (2010). "An Analysis of Bank Credit on the Nigeria Economic Growth (1992-2008)". *Jos Journal of Economics*. Vol. 4, pp. 43-58.

Oluitan, R (2010). "Bank Credit and Economic Growth: The Nigerian Experience." A Paper Presented at the AFE Conference in Greece, July.

Robbinson, J. (1952). "The Generalization of the General Theory", in *the Rate of Interest and Other Essays*. London: Macmillan, pp. 67 ï 146.

Ujah, N. I. and Amaechi, A. E. (2005). *Money, Banking and Finance in a Developing World*. Aba: Cheedal Global Prints.

Uremadu, S. O. (2000). *Bank Management: Basic Issues in Money, Bank Lending and Credit Administration*. Benin: Mindex Publishing Company.

Zakaria, Z. (2008). "The Level of Economic Development and the Impact of Financial Structure on Economic Growth: Evidence from Dynamic Panel Analyses". *Asian Academy of Management Journal of Accounting and Finance*, Vol. 3, pp. 21-42.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION

The importance of financial institutions especially, bank in generating growth within the economy has been widely discussed in literature. Several economists have argued that the role of intermediation that banks play help in providing linkages for different sectors of the economy as well as encouraging high level of specialization, expertise, economies of scale and creating a conducive environment for the implementation of various economic policies of government. For instance, Schumpeter (1912) as cited in Zakaria (2008), argued that financial intermediation through the banking system plays an essential role in economic development by affecting the allocation of savings, thereby improving productivity, technical change and the rate of economic growth. He acknowledged that efficient savings through identification and funding entrepreneurs is vital to achieving desired objectives. Thus, one of the activities of financial institutions involves intermediating between the surplus and deficit sectors of the economy. The availability of credit function positively allows the fruition of this role and is also important for growth of the economy.

2.2 CONCEPTUAL FRAMEWORK

2.2.1 FINANCIAL INTERMEDIATION

Finance is required for different purposes by different organizations, individuals and other economic agents. In order to provide the needed finance, there are varieties of institutions rendering financial services. Such institutions are called financial institutions. Deposit Money Banks are among such institutions that render financial services. They are mainly involved in financial intermediation, which involves channeling funds from the surplus unit to the deficit unit of the economy, thus transforming bank deposits into loans or credits.

In the primitive stages before evolution of financial intermediation, anyone who needs to spend more than he could himself provide would have to look for a wealthy person or persons from whom he could borrow. This is known as a system of direct or unintermediated finance. Afolabi (1998) posits that as crude as this system was, it probably satisfied the need of that time because financial requirements then were limited to such personal uses like marriages, burial ceremonies and minor commercial activities like farming. He further argued that at that time, intermediation was neither necessary nor sufficient for capital formation to take place. Financial intermediation will thus, not be necessary for instance, if the lender and the borrower can come into direct contact and would in fact not be necessary if there is no deficit or surplus sector. However, modern economic transactions will be difficult, if not impossible, with unintermediated finance as the business world nowadays is much more complex and financial requirements are too large. Even without considering the complexity of modern times, unintermediated finance has its inherent problems such as high tendency for subjectivity, unattractive interest rates, method of security was too crude and at times inhuman, repayment periods were usually too short for any meaningful long-term use such that it became difficult for long-term projects to be financed from money raised from such medium amongst others. According to Bencivenga and Smith (1991), in the absence of banks i.e. financial intermediation, too much investment is self-financed and long delays exist between investment expenditure and receipts of profits from capital invested. They further argued that the absence of intermediary sector results in a composition of savings that is unfavourable to capital formation. Thus, an intermediation industry permits an economy to reduce the fraction of the savings held in the form of unproductive liquid assets, and to prevent misallocations of invested capital due to liquidity needs.

The argument just given suggests that financial intermediaries may naturally tend to alter the composition of savings in a way that is favourable to capital accumulation. Then, if the composition of savings affects real growth rates, intermediaries will tend to promote growth. Here, the analysis draws heavily on the contributions of the endogenous growth literature, as exemplified by Romer (1986) and Lucas (1988). One of the many insights of this literature is that savings behaviour will generally influence equilibrium growth rates. In particular, to the extent that intermediaries tend to promote capital investment, they will also tend to raise rates of growth.

According to Afolabi (1998), the importance of an intermediary to the borrower is also very important as the borrower is confident that the intermediary, as a pool, will have or can organize sufficient funds which can be passed on to him in a friendly manner and at relatively attractive conditions. Modern intermediaries do advertise and therefore the borrower does not depend on highly subjective factors like tribe, family connection, etc. As much as the borrower is credit-worthy and his investment is viable, he would be able to raise funds. Where an intermediary is not in position to meet the requirement of a customer, he can arrange for syndication. Another main advantage of the intermediary to the economy apart from matching depositor's savings requirement with the borrower's investment requirement is the intermediary's skill in resource allocation. As a specialist in fund management, the intermediary would subject all potential borrowers to critical analysis to ensure that the lending would be repaid in the ordinary course of business (Ujah, 2007). The intermediary therefore helps to eliminate waste and promote efficiency in resource allocation. Again, for the fact that the intermediary is usually guided by the macro-economic objectives of the society and the directives of the Central Bank, he helps in channeling funds to the productive and socially-desirable sectors of the economy.

An incentive exists for banks to form and provide "liquidity" to depositors as in Diamond and Dybvig (1983). If these banks are allowed to form, then they will hold liquid reserves against predictable withdrawable demand. Relative to the situation in the absence of banks, (financial autarky), banks reduce liquid reserve holdings by the economy as a whole and also reduce the liquidation of productive capital. Then, with an externality in production of the type considered by Romer (1986), higher equilibrium growth rates will be observed in economies with an active intermediary sector. The overall economic effect therefore is that financial intermediary leads to better aggregation of savings, and therefore helps in capital formation and investment in the economy.

2.2.2 REQUIREMENTS OF FINANCIAL INTERMEDIATION

Afolabi (1998) posits that for financial intermediation to succeed, three qualities are essential. These are usually called the three Cs of intermediation namely: cost, convenience and confidence.

2.2.2.1 Cost

Costs refer to the transaction cost that the saver or borrower is made to bear in the process of his dealing with the intermediary. Thus, costs like bank charges, commission and interest payable must be considerably low. For instance, the local money lenders most times charge very exorbitant interest, hence only hard pressed people, who are not likely to be credit-worthy to the bank, do patronize them. If there is appreciable cost of transacting business with an intermediary, many people will prefer to by-pass them.

2.2.2.2 Convenience

Convenience on its own has to do with the ease with which people transact business with the intermediary and this will include the formalities involved in how rigorous? Thus, simplicity of operation must be ensured such that it does not

require specialist knowledge or certain level of education to deal with an intermediary. According to Afolabi (1998), the ease with which forms could be completed and terms understood are very important considerations. Also important is the waiting time. Conveniences can in fact be associated with costs. There are some costs that have to do with convenience. If, for example, the intermediary is too far away, the customer will have to incur additional transport costs and inconvenience each time he wants to transact business, though the online banking has gone far in reducing this problem. It is therefore imperative that intermediation facilities be very near the people for effective fund mobilization like rural banking schemes as the microfinance banks are not only socially desirable but an economic necessity to minimize the volume of funds in the otherwise ñunbankedò areas.

2.2.2.3 Confidence

Confidence is another important requirement of financial intermediation. According to Ujah (2010), people must have confidence in the financial intermediary. As a saver, you must have the confidence that your money will be repaid to you as per the terms of the account you keep. Thus, if you maintain a current account, your money must be made available to you on demand and if you maintain a term deposit account, you must be able to withdraw on the expiration of the term or an expiration of the notice, if notice of withdrawal is required like in call deposit account and so on.

Perhaps, confidence is the most pillar upon which financial intermediation rotates. Savers will not keep money with a daily collector who is known as a swindler nor will they keep money in a bank if they have some fear that the bank may fail. Worst still, if a saver has lost money in a bank failure in the past, he will hesitate to patronize another bank in the future and hence, he will as much as possible; keep money away from any intermediary. It is therefore important that in an

attempt to use financial intermediaries as vehicles for mobilizing savings, a failure-proof system must be designed and sustained (Afolabi, 1998). If a bank fails, it is not only the customers of the bank that will suffer, the economy as a whole will be affected because a dangerous signal, which may affect people's confidence in the financial system generally, has been sent. According to Uche (2001), bank failure has a contagion effect on the economy.

History has it that the indigenous banks in Nigeria had problems of confidence in the 1940s because of the failure of many of them in the previous decade. Again, the failure of most finance houses and some banks in the mid 1990s affected the confidence of depositors.

Cost, Convenience and Confidence are not only as they related to depositors, they are also in relation to borrowers. We have earlier stated that high interest rate or bank charges will deter borrowers and the processing time and conditions have to be very favourable to attract worthy investors. Also, the borrower must have the confidence that if he has a good project and he is in all other respects credit-worthy, he will not be discriminated against fund-wise, hence, he will not be afraid of investment. It is therefore important that the monetary authorities control these three variables, especially in a relatively uncompetitive financial system. However, once the system becomes competitive, most of these variables will take care of themselves and control will have to be relaxed. For instance, in a competitive environment, cost will be low, efficiency will be high and therefore convenience will be high. Efficiency of each firm will inspire confidence and intermediation will tend to become smooth and friction-free for better savings mobilization and investment generation.

2.2.3 ROLES AND FUNCTIONS OF DEPOSIT MONEY BANKS IN FINANCIAL INTERMEDIATION

A bank is an institution involved in the business of banking. Traditionally, banks make the transmission mechanism possible. They transform short-maturity liabilities into long-maturity assets. Again, they provide the mechanism for channeling the savings of households into the investments forms. Accordingly, banks as financial intermediaries move resources of households and businesses (Afolabi 1998). These are the intermediation roles of banks.

Below is a summary of major roles and functions of Deposit Money Banks in Nigeria today. They include the following:

2.2.3.1 Acceptance of Deposits

Essentially, Deposit Money Banks make available the facilities for the pooling of savings through the acceptance of deposits from the public. The deposits are kept in savings, fixed and time deposits and current accounts. The savings so mobilized are made available for economically and socially desirable purposes. Acceptance of deposits is the oldest function of Deposit Money Banks (Adekanye, 1986).

2.2.3.2 Lending to Customers

Economic units in need of cash or fund for investment purposes (deficit units) go to the Deposit Money Banks to obtain funds for financing their business ventures. Thus, banks grant loans and overdrafts to customers to finance their businesses. They charge interest rate on these loans and overdrafts.

2.2.3.3 Agency Services

Deposit Money Banks perform agency services in the following ways:

- (i) Collection and payment of bills and cheques.
- (ii) Payment of subscription, insurance premium, club dues, etc.

- (iii) Effecting fund transfers locally and internationally on behalf of their customers.

In return, banks charge commissions for rendering such services to their customers. Agency services of banks facilitate business transactions in the economy.

2.2.3.4 Safe-Guarding of Valuables

A commercial bank accepts, and takes charge of securities and other valuables for customers. Customers can keep their valuables such as wills, deeds, academic certificates, share certificates, gold, and other valuable materials with the banks for safe-custody and in this way, a contract of bailment is created, the banker being the bailee and the customer, the bailor (Afolabi, 1998).

2.2.3.5 Foreign Exchange Services

Deposit Money Banks provide traveler's cheques and foreign currency notes to their customers travelling abroad. The banks also help customers in converting their local currencies to hard currencies and vice versa. These activities of Deposit Money Banks help to promote foreign trade.

2.2.3.6 Buying and Selling of Shares

Deposit Money Banks engage in brokerage services for their customers. They may act as issuing houses for the purpose of selling financial securities on behalf of their customers through licensed stockbrokers. Banks also buy shares on behalf of their customers.

2.2.3.7 Use of Cheques and Bank Drafts

Banks make the use of cheques possible. They also issue local bank draft which is a cheque drawn by a branch of a bank on another branch or on its head office (Ujah 2005). Many payments are effected using bank drafts. Examples will include payment of school fees for primary, post-primary and post-secondary

institutions, entry fees for various examinations conducted by examining bodies such as the West African Examinations Council (WAEC), Joint Admissions and Matriculation Board (JAMB), National Examination Council (NECO), etc.

2.2.3.8 Business and Investment Advisory Services

The banks at times act as business and investment advisers to their customers. This may be in the area of accounting policies to adopt, internal control measures, financing options to choose, dividend policy, working capital management, stores administration, etc. Banks also advise customers on the most appropriate investment opportunities, bearing in mind the risk and returns trade-off.

2.2.3.9 Provision of Status Reports

Banks prepare status reports on the financial standing of their customers when the need arises. That is in response to a status enquiry made by a business associate or another bank on a customer's financial standing. The bank in writing such reports cross-checks their information about the customer for accuracy and reliability purposes. Negligent reports by banks may cause the bank to pay for damages if found negligent (Orji, 1996).

2.2.3.10 Sale of Examination and Admission Forms

It is a common thing now to see Deposit Money Banks engage in the selling of examination entry forms for various examining bodies and educational institutions in Nigeria. Examples include the West African Examination Council (WAEC), Joint Admissions and Matriculation Board (JAMB), and several tertiary institutions in Nigeria.

2.2.4 CONCEPT OF ECONOMIC GROWTH

Economic growth as a concept is viewed differently by different scholars. This is attributed to the condition prevailing at the time of these scholars. Majority accept it as an increase in the level of national income and output of a country. According to Dewett (2005) as cited in Nwanyanwu (2010), it implies an increase in the net national product in a given period of time. He explained that economic growth is generally referred to as a quantitative change in economic variables, normally persisting over successive periods. He added that determinants of economic growth are availability of natural resources, the rate of capital formation, capital-output ratio, technological progress, dynamic entrepreneurship and other factors. Afolabi (1999) sees economic growth as the result of abstention from current consumption for future consumption. Households purchase consumer goods while firms buy capital goods for further production. However, not all incomes are spent on consumption, i.e. net savings is usually positive as part of income is usually saved for investment purposes. Firms borrow this money (savings) for investments in capital goods which adds to the economy's capital stock and therefore the economy grows. Jhingan (2006), viewed economic growth as an increase in output. He explained growth as an increase in output. He explained further that it is related to a quantitative sustained increase in the country's per capita income or output accompanied by expansion in its labour force, consumption, capital and volume of trade.

The main characteristics of economic growth are high rate of growth of per capita income or output, high rate of productivity, high rate of structural transformation, international flow of labour, goods and capital (Ochejele, 2007). Economic growth is also measured in terms of Gross Domestic Product (GDP).

2.2.5 SOURCES OF FUNDS AND TYPES OF BANK ACCOUNTS

According to Nwankwo (1991), Nigerian Deposit Money Banks like their counterparts elsewhere in the world obtain their funds mainly from two sources. One is through capital funds and reserves; the other is through deposits made by customers. Capital funds represent equity of the shareholders while deposits are the bank's liability to customers or depositors.

Capital usually make-up one of the major sources of funds at the disposal of the Deposit Money Banks and its adequacy according to Ekezie (1997), does not only safeguard the customer deposits but also help the liquidity position of Deposit Money Banks and, in most cases, determine their operating efficiency. He further emphasized that no bank can meet its obligation to the customers without having adequate equity base in the form of capital. This is more so as the banks cannot rely solely on the customers all the time and justified by banking regulations regarding minimum authorized capital of Deposit Money Banks.

Generally, banks mobilize deposits from the general public (individuals, businesses, governments, parastatals, non-profit making associations etc) as part of their intermediation roles. The general public believes that these deposits are safe and also has a high level of liquidity. This is principally because the deposits are insured with the Nigerian Deposit Insurance Corporation. The monetary authorities seek to control and regulate the conduct of banks in the mobilization of deposits from the public and in the competition for deposits. Such controls are in the area of regulating the mode and nature of advertisement for deposits.

Section 61, Banks and other Financial Institutions Acts (BOFIA), 1991 defines banking business as "the business of receiving deposit on current account or other similar account, paying or collecting cheques drawn by or paid in by customers, provision of finance or such other business as the Governor of the Central Bank may by order publish in the Gazette, designate as banking business". The Central

Bank of Nigeria in adopting universal banking in 1999 defined banking as "the business of receiving deposits on current account, savings or other accounts; paying or collecting cheques drawn or paid by customers, provision of finance, consultancy and advisory services relating to corporate and investment matters; making or managing investments on behalf of any person; and the provision of insurance, marketing services and capital market business; or such other services as the Governor of the Central Bank of Nigeria may by Gazette, designate as banking business".

Based on these definitions, bank deposits account according to Ujah (2007) can be classified into three categories, namely:

- (i) Current (demand deposit) account
- (ii) Savings deposit account
- (iii) Time deposit (fixed deposit) account

2.2.5.1 Current (Demand Deposit) Account

Ujah (2007) posits that a current account or demand deposit account is a deposit account that is kept with the banker on the condition that it may be withdrawn by the depositor or transferred by him to some other persons without previous notice to the bank, at anytime during banking hours. The money is therefore repayable to the customer as soon as he demands for it or calls for it. The balance, on this account is always currently due for repayment on demand, hence the name, "demand deposit account. Current account appears to be the most popular of the various types of accounts to businessman and people with high earnings. This can be witnessed by the different cheque leaves circulating around us daily. Most Deposit Money Banks do not pay interest on credit balance on current account, rather they charge commission for services rendered to customers. Statements of account are also made out periodically to show the customer's state of affairs with the particular bank. From the standpoint of withdrawals, deposits may be

classified as demand and time. Demand deposit account may be withdrawn by the depositor or transferred to someone else at any time without previous notice to the bank. According to Uremadu (2000), they are maintained by depositors who need liquid balance.

2.2.5.2 Savings Deposit Account

Orji (1996) posits that savings deposit account become more and more popular among Nigerians especially since the currency exchange in 1984. Savings deposit accounts are accounts opened by customers to help surplus funds. This type of account is usually operated or opened by small savers, groups of individuals and unincorporated bodies like clubs, associations, etc. (Ujah, 2007). The customers keep money with the bank for some time before they come to withdraw it. For allowing the bank the use of the money for a period of time, savings account holders are paid interest. This is normally calculated on monthly basis and depending on the bank's policy, credited monthly or quarterly.

Legally, a period of seven days is required before withdrawals are made from a savings account. However, banks do not insist on such notice in practice. In fact, most banks no longer include such period of notice as part of the savings account contract. The effect is that in practice, both savings and current accounts are withdrawable on demand. Any bank that wishes can still insist on the period of notice; however, most banks have done away with the notice period because of the stiff competition in the sector. No cheque withdrawals are allowed on savings accounts. Savings deposit account is mainly operated to encourage savings and thrift.

2.2.5.3 Time (Fixed) Deposit Account

This form of deposit usually has definite tenure and specified interest rate which may be fixed or floating (Nzotta, 2004). Time deposit accounts are accounts into

which customers deposit money on the condition that the money in such accounts would be left for a fixed period of time. Such a period of time varies from three months, six months, nine months, one year or more. The account is opened with a term in the contract between the bank and the customer that neither the whole, nor part of the deposit may be withdrawn before the maturity date. A time deposit account has an implied term in the contract that the account holder will give some days' notice to the bank before making withdrawals. However, banks no longer insist on such notice in practice because of competition for deposits. Thus, the amount deposited in fixed deposit account can be withdrawn without notice, but the account holder will be penalized. The penalty is normally part of the interest earned on the account.

Ujah (2007) sees time deposit accounts as ideal for customers who have surplus funds that they do not need for immediate consumption but on which they may wish to earn some interests. Since the bank will use the money deposited in this type of account for a longer period, the interest payable on them is usually higher than that payable on ordinary savings deposit account. In terms of size, the amount kept on time deposit accounts are also usually higher than those of ordinary savings account.

The bank normally acknowledges money kept in a time deposit account by issuing a certificate of deposit to the customer. The certificate of deposit contains the amount deposited, and the duration of the deposit. It is an evidence of debt. Some certificates of deposits may be described as 'negotiable' while others are 'non-negotiable'. Negotiable certificates of deposits are those, which the holder can negotiate or transfer to another person, usually in return for an amount less than the original deposit. The difference between the amount originally deposited and what the transferee pays is called the 'discount'. For instance, a negotiable certificate of deposit of ₦5,000 due in six months time may be negotiated

(discounted) now at ₦4,500. The transferee holds the certificate until maturity, presents it to the bank and collects the full value of ₦5,000. Discounting the negotiable certificate of deposit thus enables the customer to get the money he deposited before the fixed time, but he loses some part of it, such certificates can be traded in the secondary market.

2.2.6 THE CONCEPT OF BANK CREDIT

Credit is the extension of money from the lender to the borrower. Spencer (1977) noted that credit implies a promise by one party to pay another for money borrowed or goods and services received. Credit cannot be divorced from the banking sector as banks serve as a conduit for funds to be received in form of deposits from the surplus units of the economy and passed on to the deficit units who need funds for productive purposes. Banks are therefore debtors to the depositors of funds and creditors to the borrowers of funds. They are mainly involved in financial intermediation, which involves channeling funds from the surplus unit to the deficit unit of the economy, thus transforming bank deposits into loans or credits. Bank credit is the borrowing capacity provided to an individual, government, firm or organization by the banking system in the form of loan (Nzotta, 2004).

According to CBN (2003), the amount of loans and advances given by the banking sector to economic agents constitute bank credit. It is often accompanied with some collateral that helps to ensure the repayment of the loan in the event of default. Credit channels savings into productive investment thereby encouraging economic growth. Thus, the availability of credit allows the role of intermediation to be carried out, which is important for the growth of the economy. The role of credit in economic growth and development has been recognized as credits are obtained by various economic agents to enable them meet operating expenses. For instance, business firms obtain credit to buy machinery and equipment. Farmers

obtain credit to purchase seeds, fertilizers, erect various kinds of farm buildings etc. Governmental bodies obtain credits to meet various kinds of recurrent and capital expenditures. According to Ademu (2006), the provision of credit with sufficient consideration for the sector's volume and price system is a way to generate self-employment opportunities. This is because credit helps to create and maintain a reasonable business size as it is used to establish and or expand the business, to take advantage of economies of scale. It can also be used to improve informal activity and increase its efficiency. This is achievable through resource substitution, which is facilitated by the availability of credit. While highlighting the role of credit, Ademu (2006), further explained that credit can be used to prevent an economic activity from total collapse in the event of natural disaster such as flood, drought, disease, or fire. Credit can be garnered to revive such an economic activity that suffered the set back.

The banking sector helps to make these credits available by mobilizing surplus funds from savers who have no immediate needs of such funds and thus channel them in the form of credit to investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital to execute the ideas. It is instructive to note at this juncture that the banking sector has stood out in the financial sector as of prime importance, because in many developing countries of the world, the sector is virtually the only financial means of attracting private savings on a large scale, Mckinnon (1980) as cited in (Adeniyi, 2006).

The debate on the intermediary role of banks in economic growth has dominated many discussions in literature. However, there seem to be a general consensus that the intermediary role of banks help in boosting economic development. Ngwu (2006) identified bank's traditional roles to include financing of agriculture, manufacturing and syndicating of credit to productive sectors of the economy. Credits of banks to the Nigerian economy have been increasing over the years.

Adekanye (1986) observed that in making credit available, banks are rendering a great social service because through their actions, production is increased, capital investment are expanded and a higher standard of living realized.

In general, the total domestic bank credit can be sub divided into two: credit to the private sector and credit to the public sector. Several studies have proven that credit to the public sector is weak in generating growth within the economy because they are prone to waste and politically motivated programmes which may not deliver the best result to the populace. Boyreau i Debray (2003) as cited in Oluitan (2010), found a negative correlation between growth and banking debt due to the fact that Chinese banks were mobilizing and pouring funds into the declining parts of the Chinese State enterprise, and hence, the system has not been growth promoting. Nwanyanwu (2010) emphasized the importance of focusing on allocation of credit to the private sector as opposed to all bank intermediation. Similarly, Leine et al (2002) also observed private credit as a good predictor of economic growth.

2.3 THEORETICAL FRAMEWORK

2.3.1 THEORIES OF ECONOMIC GHROWTH

2.3.1.1 Neo-Classical Growth Model

Nwude (1991) posits that all growth models are based on the premise that capital accumulation increases growth and that to accumulate capital, there is need to increase savings. The neo-classical model of growth was first devised by Robert Solow. The model believes that a sustained increase in capital investment increases the growth rate temporarily. This is because the ratio of capital to labour goes up (there is more capital available for each worker to use) but the marginal product of additional units of capital is assumed to decline and the economy eventually moves back to a long-term growth path, with real GDP growing at the same rate as the workforce plus a factor to reflect improving ñproductivityò. A

steady-state growth path is reached when output, capital and labour are all growing at the same rate, so output per worker and capital per worker are constant. Neo-classical economists believe that to raise an economy's long term trend rate of growth requires an increase in the labour supply and an improvement in the productivity of labour and capital. Differences in the rate of technological change are said to explain much of the variation in economic growth between developed countries. The neo-classical model treats productivity improvements as an exogenous variable meaning that productivity is assumed to be independent of capital investment.

According to Nnanna, Englama and Odoko (2004), based on Solow's analysis of the American data from 1909 to 1949, he observed that 87.5% of economic growth within the period was attributable to technological change and 12.5% to the increased use of capital. The result of the growth model was that financial institutions had only minor influence on the rate of investment in physical capital and the changes in investment are viewed as having minor-effects in economic growth.

2.3.1.2 Endogenous Growth Models

Endogenous growth theory or new growth theory was developed in the 1980s by Romer (1986) and Lucas (1988), among other economists as a response to criticism of the neo-classical growth model. Simply, the body of literature that challenged the assumption of the Solow model came to be known as endogenous growth model. The model holds that policy measure can have an impact on the long-run growth rate of an economy. The growth model is one in which the long-run growth rate is determined by variables within the model, not an exogenous rate of technological progress as in a neo-classical growth model. Jhingan (2006) explained that the endogenous growth model emphasizes technical progress

resulting from the rate of investment, the size of the capital stock and the stock of human capital.

In an endogenous growth model, Nnanna, Englama and Odoko (2004), observed that financial development can affect growth in three ways which are: raising the efficiency of financial intermediation, increasing the social marginal productivity of capital and influencing private savings rate. This means that a financial institution can affect economic growth by efficiently carrying out its functions, among which is the provision of credit.

2.3.2 IMPACT OF BANKS ON THE GROWTH OF THE ECONOMY

The importance of financial institutions in generating growth within an economy has been widely discussed in the literature. Early economists such as Schumpeter in 1991 identified banks' role in facilitating innovation through their intermediary role. He believed that efficient allocation of savings through identification and funding of entrepreneurs with the best chances of successfully implementing innovative products and production processes are tools to achieve this objective. Several scholars thereafter (Mckinnon 1973, Shaw 1973, Fry 1988, King and Levine 1993a) have supported the above postulation about the significance of banks to the growth of the economy. In assessing the relationship a large number of recent empirical studies have relied on measures of size or structure to provide evidence of a link between financial system development and economic growth. They used macro or sector level data such as the size of financial intermediation or of external finance relative to GDP and found that financial development has a significant positive impact on economic growth. The relation between financial intermediaries and economic growth can be usefully illustrated by sketching the progress from market functions to growth via the emergence of financial markets (Levine, 1991). The cost of acquiring information and making transactions, and problem of such endeavours, motivate the emergence of financial markets and

institutions. The financial system facilitates the allocation of resources across space and time in an uncertain environment. The financial system's functions affect growth through capital accumulation and technology innovation, (Levine, 1997). In general, the financial system can impact positively on the economy in the following ways:

2.3.2.1 Information Acquisition and Resource Allocation

Transaction costs are believed to decline with the emergence of financial institutions. It is widely accepted that financial institutions assist in collecting and processing information about investment opportunities more efficiently and at lesser cost than what obtains under the barter system, (King and Levine, 1993). It is also costly and difficult to evaluate firms, managers and market conditions. Savers shy away from investment activities with unreliable information, which may negatively affect resource allocation. Instead of having each potential investor seeking and paying for information, an intermediary can do it for all of them. According to Greenwood and Jovanovic (1990), since many firms and entrepreneurs will solicit for capital, financial intermediaries and markets that are better at selecting the most promising firms and managers will induce a more efficient allocation of capital and faster growth.

Financial intermediaries may also promote the rate of technological innovation by identifying those entrepreneurs with the best chances of successfully initiating new goods and production processes (Levine, 1997). Thus, economies of scale are enjoyed with the existence of banks. This action reduces the cost of investments. In essence, a low financial development distorts growth and increases the cost of financial transactions.

Asymmetric information between borrowers and lenders which cause adverse selection and moral hazard often prevent market adjustment from operating

between demand and supply through the price mechanism. However, banks are able to minimize these risks through screening and monitoring of potential customers. Gross (2001), argues that financial intermediaries determine the allocation of capital by diminishing (but not totally eliminating) the level of risks through information gathering and special contract design. This implies that banks make use of the imperfect nature of the market to determine who to allocate funds to.

2.3.2.2 Savings Mobilization

As stated earlier, transaction costs and asymmetric information i.e. adverse selection and moral hazard, makes savings mobilization difficult and costly. Well-developed financial markets can aid or facilitate effectively savings mobilization in an economy. In the presence of asymmetric information, risk-averse agents do not feel comfortable entrusting their savings to others. King and Levine (1993), posit that for the fact that transaction and information costs are associated with mobilizing savings from many disparate agents, financial markets emerge to ameliorate these frictions and ease savings mobilization.

Better functioning financial system ease the external financing constraints that impede firm and industrial expansion. Banks accept deposits from individuals and institution thus transferring funds from the surplus sector to the deficit sector of the economy (Greenwood and Smith, 1996). Though they are subject to certain regulations by the regulatory authorities, financial intermediaries still determine the rules for allocating funds and as such they play a significant role of determining the type of investment activities, the level of job ration and the distribution of income, (Gross 2001).

2.3.2.3 Facilitating Exchange and Trade

Better specialization demands more (costly) transactions. Therefore, financial arrangements which lower transaction costs, can promote specialization, learning by doing, technology innovation and growth. An easily recognizable medium of exchange (money) may arise to facilitate exchange, since it lowers transaction and information costs. Economic development can spur the development of financial markets and this can occur when there are fixed costs associated with establishing markets. Higher income per capita lowers these fixed costs associated with establishing markets, (Greenwood and Smith, 1996).

Furthermore, well-developed financial intermediaries and institutions help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal on. They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and acceptance of bill of exchange, providing overdraft facilities, issuing drafts, etc. Moreover, they finance both export and import of developing countries by providing foreign exchange facilities to exporters and importers of goods (Jhingan, 2006).

2.3.2.4 Management Monitoring and Corporate Control

Transaction costs are believed to decline with the emergence of financial institutions, thus making it possible for the economies of scale to be enjoyed with the existence of banks. The existence of financial contracts, markets and intermediaries may arise to decrease the cost of acquisition of information and the enforcement cost of monitoring firm managers. They also decrease the cost of exerting corporate control ex post. However, there are financial arrangements that may help to converge firm managers's actions with those of the firms's owners. In addition, outside creditors e.g. banks may create financial arrangement so as to

compel inside managers and owners to act in accordance with the interests of outside creditors. If such financial arrangements are not in existence, deposit mobilization may be adversely affected. The effect is that capital may not freely flow to profitable investments (Olson, 1996).

In a situation where it is very costly for outside investors in a project to verify project returns while insiders intend to misrepresent project returns to outsiders, external credit mobilization is adversely affected or hindered when project return is sufficiently high, the insiders pay an amount to the outsiders to simply not monitor. On the other hand, when project return is insufficient, the borrower defaults and the lenders pay the monitoring costs to verify the project returns. Thus, verification costs impede investment decisions and reduce economic efficiency because outsiders constrain firms from borrowing to expand investment. Collateral and financial contracts that lower monitoring and enforcement costs reduce impediments to efficient investment because higher leverage implies greater risk of default and higher verification expenditures by lenders (Afolabi, 1998). Financial intermediaries can thus reduce information cost further because they can manage and economize on monitoring costs. The financial intermediary collects savings from many savers and lends these resources to project owners and therefore economizing will arise because monitoring of borrowers is undertaken by one agent and not by all individual savers.

According to Diamond (1984), a system that facilitates corporate control allows for an efficient separation of ownership from management of the firm. In effect, this will allow for efficient specialization in production, in line with the principle of comparative advantage.

2.3.2.5 Facilitating Risk Management

According to Nwankwo (1991), risk is the possibility of loss, injury or damage or peril which is inevitable in life. No aspect of human endeavour is devoid of or can escape it. Financial intermediaries and market may arise to ease the trading, hedging and pooling of risk in business. Several kinds of risks – liquidity, interest rate, credit, investment risks etc. exist and financial institutions, intermediaries and markets may arise to control these risks in order to reduce or mitigate their effects on the economy. Liquidity is the ease with which an asset can be converted into cash with certainty (Ujah, 2005). A link exists between liquidity and development since some high-return projects require a long-run commitment of capital whereas some savers do not like to lose control of their savings for long periods.

According to Bencivenga and Smith (1991), without banks, households are forced to hold unproductive liquid assets in order to provide against unpredictable future liquidity needs (self-insurance). The magnitude of investments then is lower and the number of liquidated investment is higher as households need self-finance to a large extent. The effect is that growth promotes savings and thus, capital accumulation and real growth is lower than when banks act as financial intermediaries between savers and investors. The reason is that banks, with their large number of depositors can economize on liquid reserve holdings that do not contribute to capital (Levine, 1991). This entails that high liquidity risk leads to less investment and lower growth. Financial systems as stated earlier also mitigate other forms of risks through risk diversification trading and pooling. If risk can be diversified, risk-averse savers are willing to lend some of their funds to high-return projects that are riskier than low-return projects. Hence, resource allocation and the savings rate may be altered.

It is important to note that most models on enhanced liquidity and risk sharing theoretically have ambiguous effect on savings rate and economic growth.

Enhanced liquidity leads to higher investment returns and lower uncertainty, but income and substitution effects from higher returns ambiguously affect savings and same is true for lower uncertainty. Risk diversification can also affect technological innovation as agents continuously try to make technological advances to gain a profitable market niche. Levine (1991), argue that since innovation is risky, the ability to hold a diversified portfolio of innovative project reduces risk in growth-enhancing innovation activities.

2.3.3 CHALLENGES AND HINDRANCES TO EFFECTIVE FINANCIAL INTERMEDIATION BY BANKS

Deposit Money Banks in Nigeria are faced with a lot of hindrances, problems and challenges in their quest to perform their intermediation role needed for economic growth and development of the country. Ujah (2005) identified the challenges of Deposit Money Banks in Nigeria to include:

2.3.3.1 Poor Banking Habit in Nigeria

It is a common knowledge that many Nigerians do not save their money with the banks, rather they prefer holding the physical cash. This group of Nigerians can be classified into two:

- (i) Those Nigerians who refuse to bank their money due to lack of formal education.
- (ii) Those Nigerians who actually realize the importance of banking but refuse to save their money in the bank for reasons best known to them (Ngwu, 2006).

Nigerians in group (i) can hardly be convinced on why they should save or keep money with the banks. Those in group (ii), are usually highly placed and educated Nigerians who really realize the importance of banking but refuse to deal with the banks due to the attitude of some bank staff, delays in bank transactions, the

experienced distress in the banking sector which led to the loss of huge sums of money by those people and other numerous reasons which may be personal to them. Both groups hold physical cash and practice what has been described by the Deposit Money Banks as the "hiding technique banking" whereby money is hidden under mattresses, pillows and holes in the homes.

2.3.3.2 Attitude of Bank Staff

According to Ujah (2005), most bank staff adopt a poor attitude towards their customers. In many instances, bank staff use abusive words on their customers, adopt careless attitude towards customers' accounts, favouritism in attending to customers, delays in processing cheques, passbooks, drafts and other banking transactions. All these attitudes which could be described as "negative and negligent" culminate in discouraging customers from depositing funds in the bank with the resultant effect of reduce the bank's ability to mobilize adequate swings in the economy. It is important to note that with the introduction of information technology via computerization of most banks, delays in banking operations is now on the decrease.

2.3.3.3 Fraud in Banks

Fraud has been identified as having an adverse or negative relationship with mobilized funds or savings in Deposit Money Banks. Uzoaga (1981) defines fraud or forgery as "deceit or trickery deliberately practiced in order to gain some advantage dishonestly." For an action to constitute a fraud there must be a dishonest intention and the action must be intended to benefit the perpetrator to the detriment of another person. Fraud is also the act of falsifying or altering any writing for the purpose of inflicting injury on another person (Orjih, 1996).

Fraud and forgeries in banking transactions can be carried out through the falsification of entries in the accounts of customers with a view to taking benefit of

the excess proceeds of the shortfalls. When a customer discovers this in his account with a bank, he is discouraged from banking and he goes home with the feeling that the same thing is applicable to all Deposit Money Banks. This as a result, reduces fund mobilization as well as the number of customers of the bank.

2.3.3.4 Adverse Banking Regulations

In many occasions, Deposit Money Banks in Nigeria have complained of some adverse Central bank regulations. The Central Bank of Nigeria (CBN) regulates almost every aspect of commercial banking in Nigeria. According to Uzoaga (1981), Deposit Money Banks operate within the limits set in the Central Bank's banking and credit guidelines. These guidelines determine the minimum and maximum amount to be held by any commercial bank at any given period, their investments, reserve requirements, aggregate credit ceilings, sectoral allocation of credits, loans to indigenous borrowers, loans to rural areas, capital funds interest rates, to mention but a few.

2.3.3.5 Inadequate Rural Banking Practice

The rural areas that comprise of communities that are not yet developed have the capacity to increase mobilization of savings by the Deposit Money Banks. The money generated from sales of crops and other forms of revenue from the farmers in the villages and the contribution of various organizations could go a long way to increase the savings mobilized by the Nigeria Deposit Money Banks.

Owing to the lack of banking facilities and practices in the rural environments, the rate of savings mobilization has been hindered greatly. It is worthy of note here that most bank branches in the rural areas complain of low patronage by the rural communities. However, the establishment of micro-financed banks in Nigeria has helped, in no small measure to encourage banking habits in the rural areas.

2.3.3.6 Low Interest Deposit Rate

This factor has greatly affected the mobilization of savings of Deposit Money Banks in that interest rate for savings and time deposits does not rise relatively with inflation, thereby making savings in the bank a profitless investment to some customers. According to Nzotta (1999), since the present value of money saved today cannot appreciate to equal or counter inflation effect, therefore, people tend to invest their money in real estate or physical assets such as equipment and land, etc.

2.4 EMPIRICAL REVIEW

2.4.1 THE NIGERIAN FINANCIAL SYSTEM – AN OVERVIEW

An efficient and a high developed financial system is essential in a healthy economy. At any point in time in an economy, there are economic agents or units (individuals, institutions, organizations, government, etc) who have funds or resources in excess of their present needs. These are the surplus units (SUs). There are others too who run short of their immediate need for cash and require more. These are the deficit units (DUs). This situation of supply and demand of resources requires an institutional arrangement that will facilitate the transfer of resources (funds) from the surplus units to the deficit units. Such an arrangement will require institutions, instruments of transfer (securities), laws and regulations as well as regulatory agencies or bodies to ensure that rules and regulations are adhered to or complied with. This role is played by the financial system.

Ujah (2005) defines the financial system as the institutional arrangement involving institutions, laws, regulations, instruments and regulatory agencies for the facilitation of financial flows among various economic agents in an economy. The institutions include banks and non-bank finance institutions, while the instruments used to transfer funds from the surplus units to the deficit units are known as financial instruments or securities. The regulations are financial regulations and markets; this refers to market institutions such as the money and capital market.

According to Nwude (2004), the Nigerian financial system consists of financial markets, financial intermediaries, financial instruments, rules, conventions and norms that facilitate and regulate the flow of funds through the macro economy. Its primary role is to facilitate the channeling or transfer of funds from the surplus units to the deficit units. For example, the personal savings of an individual placed in a bank, can be loaned to another individual to buy a house or to a business firm to build a plant. Thus, the activity of a financial system affects every citizen within that economy.

The Federal Ministry of Finance (FMF) and the Central Bank of Nigeria (CBN) are at the apex of the Nigerian financial system. These two agencies or bodies are the regulatory agencies. The Central Bank of Nigeria is an agency of the Federal Government that plays its role directly using circulars and guidelines issued to the banks and non-bank financial institutions. It supervises the activities of the financial intermediaries and monitors adherence to the government's monetary and fiscal policies. Of great importance here, is the introduction of the Prudential Guidelines in 1990 to ensure that banks comply with prudential banking practices.

The principal participants in the financial system include the financial intermediaries or institutions, the ultimate savers and users of funds, enterprises, households and government entities. However, the financial intermediaries constitute a good or large proportion of the Nigerian financial system. Sometimes, the banking system in Nigeria is seen as equated with the Nigerian financial system. One of the apex regulatory agency, the Central Bank of Nigeria, classified the Nigerian Financial System into many ways: one is by the type of financial claim, such as debt market and equity market. The financial system in Nigeria is also classified based on the maturity of the claim, thus we have i short-term financial intermediaries called money market and long-term financial intermediaries called the capital market. Another classification is based on

financial claims which are newly issued, called the primary market and the trade on financial claims or securities which are previously issued, called the secondary market. The Nigerian financial market is further classified based on cash or derivative instruments market, giving rise to an auction market, an over the-counter- market or an intermediated market.

Large-scale production and a high degree of specialization of labour can only function if an efficient and a highly developed financial system exists for paying for goods and services, whether they are needed in production or are offered for sale. Business organisations can obtain the money or capital they need to buy capital goods, such as machinery and equipment only if the necessary institutions, instruments and procedures have been established for making savings available for such investments. The federal government and other governmental agencies and units can carry out their wide range of activities on the domestic and international scene only if efficient means exist for raising money, for making payments and for borrowing. It is important to note at this juncture that the challenges such as weak infrastructures, poor technological transformations, and the prevalence of a strong cash economy has continued to hinder the growth of the Nigerian financial system. However, the CBN is now adopting a cashless programme aimed at making the Nigerian financial system most efficient in the nearest future.

The importance of financial institutions especially banks in generating growth within the economy has been widely discussed in literature. Early economists such as Schumpeter in 1991 identified banks' role in facilitating technological innovation through their intermediary role. He believed that efficient allocation of saving through identification and funding of entrepreneurs with the best chances of successful implementing innovative products and production processes are tools to achieve growth in an economy. Several others thereafter (McKinnon 1973, Shaw 1973, King and Levine 1993) have all supported the above postulation about

the significance of banks to the growth of the economy. In assessing the relationship, a large number of recent empirical studies have relied on measures of size or structure to provide evidence of a link between financial system development and economic growth.

They use macro or sector level data such as the size of financial intermediation or of external finance relative to Gross Domestic Product (GDP) and found that financial development has a significant positive impact on economic growth.

2.4.1.1 Financial Development Drives Growth in the Economy

The direction of casualty has been described by Patrick (1966), as supply-leading and demand-following hypothesis. This postulation was buttressed by Mckinnon (1973). When casual relationship runs from financial development to growth, it is termed supply-leading because it is believed that the activities of the financial institutions increase the supply of financial services which create economic growth. The proponents of this hypothesis believe that the activities of financial institutions serve as a useful tool for increasing the productive capacity of the economy. They opine that countries with better developed financial system tend to grow faster. According to Mackinnon (1973), a farmer could provide his own savings to increase slightly the commercial fertilizer that he is now using and the return on the marginal new investment could be calculated. However, there is a virtual impossibility of a poor farmer's financing from his current savings, the total amount needed for investment in order to adopt the new technology. As such access to finance is likely to be necessary over the one or two years when the change takes place, he concluded.

Going through the literature in more detail, the seminal study conducted by King and Levine (1993), on seventy countries made up of developed and developing economies used cross-country growth regression. The aim of the research was to find out whether higher levels of financial development are significantly and

robustly correlated with faster current and future rates of economic growth, physical capital accumulation and economic efficiency improvements. The results showed that finance not only follows growth; finance seems important to lead to economic growth. Demirguc-Kunt and Levine (2008) in a review of the various analytical methods used in finance literature, found strong evidence that financial development is important for growth. To them, it is crucial to motivate policy makers to prioritize financial sector policies and devote attention to policy determinants of financial development as a mechanism for promoting growth.

2.4.1.2 Growth in the Economy Motivates Financial Development

Similarly, when growth within the economy results in increase in the demand for financial services and this subsequently motivates financial development, then it is termed demand-following hypothesis. The proponents of this hypothesis believe that economic growth is a causal factor for financial development. According to them, as the real sector grows, the increasing demand for financial services stimulates the financial sector (Gurley and Shaw, 1967). Robinson (1952) was of the opinion that economic activities propel banks to finance enterprises. Thus, where enterprises lead, finance follows. The study by Muhsin and Eric (2000) on Turkey as cited in Olutain (2010) further lends credence to this postulation. According to their study, when banks deposits; private sector credit or domestic credit ratios are alternatively used as proxy for financial development; causality runs from economic growth to financial development. They therefore concluded that growth seems to lead financial sector development.

2.4.1.3 Bi-Directional Relationship between Financial Development and Economic Growth

However, there are other scholars who believe that causality runs in both directions. The proponents of this view postulate that there is a bi-directional relationship between financial development and economic growth. Demetriades

and Andrianova (2004), postulate that whether financial development causes growth, it is important that the financial system is well functioning. If so, they believe it will assist the real economy to fully exploit available new opportunities. When there is reverse causation, it is assumed that when the real economy grows, there will be more savings coming into the financial system which will allow it to extend new loans. This assertion could readily be applied to the Shan and Jianhong (2006) study of China economy where they found a two-way causality between finance and growth. Using five variables namely GDP, total credit to the economy, labour, investment and trade, the study observed that financial development was the second most important sector after the contribution from labour force in affecting economic growth. They also found out that a strong economic growth in the last 20 years has significant impact on financial development by providing a solid credit base. The study concluded that causality for GDP growth to financial development is stronger than the causality from finance to GDP growth.

Concluding, although evidence from empirical work support the fact that both finance and real output are positively related to each other, the relationship is country specific and one should not extrapolate one country's to another.

2.5 SUMMARY OF REVIEWED LITERATURE

A growing body of theoretical and empirical work demonstrates a strong, positive link between financial development and economic growth and the theoretical underpinnings of this relationship can be traced back to the work of Schumpeter (1912) and more recently, to McKinnon (1973) and Shaw (1973). The main policy implication of the McKinnon-Shaw school is that government restrictions on banking systems hinder financial development, and ultimately reduce growth. A flourishing body of empirical work includes three approaches in order to examine this positive relationship. They are: Cross-country studies, individual

country studies and firm industry level studies. In this section these three approaches will be reviewed with focus on benefits and limitations.

2.5.1 Cross Section Studies

The seminal work in this area is by Goldsmith (1969). Using data from 5 countries from 1860 to 1963, Goldsmith found that a positive association could be observed between economic and financial development if periods of several decades are considered. However, his work has several weaknesses: (i) it involves limited observations on only 35 countries, (ii) it does not have control for other factors influencing economic growth, (iii) the size of financial intermediaries may not accurately measure the functioning of the financial system and (iv) it does not identify the direction of causality. Recently, researchers have taken steps to address some of these weaknesses. King and Levine (1993a,b) provided evidence for 80 developing countries over the period 1960 ÷ 1989. They controlled other factors affecting long-run growth, and examined the productivity growth channels. Besides that, they used four measures of the level of financial development to more precisely measure the functioning of the financial system than Goldsmith's size measure. Furthermore, King and Levine (1993b) studied whether the value of financial depth in 1960 predicts the rate of economic growth and productivity improvements over the next 30 years. The regressions indicate that financial depth in 1960 is significantly correlated with each of the growth indicators averaged over the period 1960 ÷ 1989. Thus, results suggest that the initial level of financial development is a good predictor of subsequent rates of economic growth and economic efficiency improvements over the next 30 years even after controlling for income, education, political stability and measures of monetary and fiscal policy.

2.5.2 Individual-Country Studies

Country-case studies provide a rich complement to cross-country comparisons. The most influential work in this area is by McKinnon (1973) as cited in Khaled and Samer (2006). He studies the relationship between the financial system and economic development in Argentina, Brazil, Chile, Germany, Indonesia, Korea and Taiwan in the post World War II period. He concluded that better functioning financial systems support faster growth. The proponents of this approach criticize empirical studies based on cross-country growth regressions. They argue that these studies do not explicitly confront the issue of causality. In particular, this approach involves averaging out variables over long time periods, and using them in cross section regressions aimed at explaining cross-country variables of growth rates. Therefore, these techniques cannot allow different countries to exhibit different patterns of causality. This means that the causality results are only valid on average. Furthermore, cross-country growth regressions suffer from a variety of errors: measurement errors, statistical errors and conceptual errors. Also, since various factors change during the period of study (policies, preferences and business cycles), hoping to capture all these changes by certain explanatory variables averaged over time is rather optimistic. Consequently, interpreting the coefficient derives from such studies is rather difficult. Recent empirical literature in country-case studies can be found in Demetriades and Luintel (1996) work. They examined the effects of various types of banking sector controls on the process of financial deepening using data from the Reserve Bank of India. They found that these controls, with the exception of a lending rate ceiling, influence financial deepening negatively, independently of the well-known effect of real interest rate. Gelbard and Pereira Leite (1999), examined the case of sub-Saharan Africa. They found that some progress has been achieved in terms of modernizing the financial sector since the mid 1980s, but conclude that much remains to be done. They also show some empirical evidence supporting the positive relationship between financial depth and growth for sub-Saharan Africa. The

positive and significant relationship between financial depth and growth has been found in studies using pure time series.

2.5.3 Firm-Industry Level Studies

This approach focuses on microeconomic aspects. For example, Rajan and Zingales (1998) analyzed the relationship between industry-level growth performance across countries and financial development. They find that industries that rely heavily on external funding grow comparatively faster in countries with well-developed intermediaries and stock markets than they do in countries that start with relatively weak financial systems. Similarly, using firm-level data from 30 countries, Demirguc-Kunt and Maksimovic (1996) argue that firms with access to more developed stock markets grow at faster rates than without this access. Furthermore, Rajan and Zingales (1998) tested the financial-growth nexus by focusing on the importance of the differential cost of external finance for firms. The firm's dependence on external finance is defined as the ratio capital expenditure minus flow cash from operations divided by capital expenditures. The authors focused then on the details of a mechanism by which finance affects growth, providing by the same occasion another test of causality, since they found evidence for a channel through which finance theoretically influences growth. Thus using firm and industry level data for a broad cross-section of countries present evidence consistent with the view that the level of financial development materially affects the rate and structure of economic development.

On the other hand, many studies show that there is negative relationship between financial development and economic growth. For example, De Gregorio and Guidotti (1995), in their empirical study of the long run correlation between financial development and economic growth, using panel data regressions with random effects for Latin American countries during the period 1950 ÷ 1985, also have found a strong negative correlation between financial development and

economic growth. They explained the finding by the effects of experiments of extreme liberalization of financial markets in some Latin American countries followed by their subsequent collapse.

Besides these three approaches, recent empirical literature has also revisited the old debate on the relative merits of bank-based financial systems (such as Germany and Japan) versus market-based financial systems (such as U. K. and U.S). Proponents of bank-based systems find that: (i) in highly liquid markets, information is quickly revealed to investors at large, creating a free-rider problem, (ii) small investors are unable to exert corporate control due to superior information of managers and the likely collusion between managers and a few powerful members of the board and (iii) liquid markets make it easy for concerned stockholders to simply sell their shares rather than coordinate pressure against management. Thus, those proponents argue that the combination of all of these market failures lead to an inefficient allocation of the saving and banks mitigate these failures by their long-term relationships with particular firms.

On the other hand, proponents of market-based systems focus on the weaknesses of bank-based systems, arguing that; (i) large banks tend to encourage firms to undertake very conservative investment projects, and extract large rents from firms, leaving them with low profits and little incentive to engage in new and innovative projects and (ii) shareholders have little oversight over bank managers who control not only banks but also, indirectly through financing, the firms. Moreover, the advocates of this system claim that it provides a various set of financial instruments that allow greater customization of risk management techniques than in a more standardized bank-based system. Emerging evidence suggests that neither view is fully correct. Khaled and Samer (2006), suggest that establishing a legal environment that strongly protects the right of investors is much more important than comparing between these two systems. Levine (1997),

argues that the choice is not either banks or markets because both of them provide complementary financial services to the economy, with both having positive implications for economic growth.

Finally, the array of both theoretical and empirical literature review above highlights a divergence of opinion on the impact or role of financial development on economic growth. However, empirical studies which argue strongly that financial development motivates economic growth is in the majority.

REFERENCES

- Adekanye, F. (1986). *The Elements of Banking in Nigeria*. Lagos: F and A Publishers Limited.
- Ademu, W. A. (2006). "The Informal Sector and Employment Generation in Nigeria. The Role of Credit in Employment Generation in Nigeria". Selected Papers for the 2006 Annual Conference of the Nigerian Economic Society, Calabar, August 22nd to 24th.
- Adeniyi, O. M. (2006). *Bank Credit and Economic Development in Nigeria: A Case Study of Deposit Money Banks*. Jos: University of Jos.
- Afolabi, L. (1998). *Monetary Economics*. Lagos: Perry Barr Limited.
- Arestis, P. and Demetriades, P. O. (1997). "Financial Development and Economic Growth: Assessing the Evidence." *The Economic Journal*, Vol. 107, No. 442 pp. 783-799.
- Barro, R. J. (1991). "Economic Growth in a Cross Section of Countries." *The Quarterly Journal of Economics*, Vol. 52, No. 2 pp. 407-443.
- Bekarert, G. (1996). "Market Integration and Investment Barriers in Emerging Stock Market." *The World Bank Economic Review*, Vol. 9, pp. 75-107.
- Bencivenga, V. R. and Smith B. D. (1991). "Financial Intermediation and Endogenous Growth." *Review of Economic Studies*, Vol. pp. 195 - 209.
- CBN (2003). CBN Briefs. Abuja: Research Department.
- De Gregorio, J and Guidotti, P. (1995). "Financial Development and Economic Growth." *World Development*, Vol. 23, pp. 433-438.
- Demetriades, P. and Andrianova, S. (2004). "Finance and Growth, What We Know and What We Need to Know." University of Leicester.
- Demetriades, P. and Luintel, K. (1996). "Financial Development, Economic Growth and Banking Sector Controls: Evidence from India." *The Economic Journal*, Vol. 106, pp. 359 - 374.
- Dewett, K. K. (2005). *Modern Economic Theory*. New Delhi: Shyan Lal Charitable Trust.

- Diamond, D. (1984). "Financial Intermediation and Delegated Monitoring." *Review of Economic Studies*, Vol. 51, pp. 393-414.
- Diamond, D. and Dybvig, P. (1983). "Bank Runs, Deposit Insurance and Liquidity." *Journal of Political Economy*, Vol. 85, pp. 191-206
- Ekezie, F. S. (1997). *The Elements of Banking*. Onitsha: Africana Fep Publisher Limited
- Fry, M. J. (1988). *Money, Interest and Banking in Economic Development*. London: University Press.
- Greenwood, J. and Jovanovic, B. (1990). "Financial Development, Growth and the Distribution of Income." *Journal of Political Economy*, Vol. 98, pp. 1076-1107.
- Greenwood, J. and Smith, B. (1996). "Financial Market, in Development and the Development of Financial Markets." *Journal of Economic Dynamics and Control*, Vol. 21, pp. 145-181.
- Gurley, J. and Shaw, E. (1967). "Financial Structure and Economic Development." *Economic Development and Cultural Change*, Vol. 15, No. 3, pp. 257-268.
- Jhingan, M. L. (2004). *Money Banking, International Trade and Public Finance*. New Delhi: Vrinda Publications (P) Ltd.
- Jhingan, M. L. (2006). *Economics of Development and Planning*. New Delhi: Vrinda Publications (P) Ltd.
- Khaled, A. and Samer, A. (2006). "Financial Development and Economic Growth: A New Empirical Evidence from the Mena Countries, 1989 – 2001." *Journal of Applied Econometrics and International Development*, Vol. 6, No. 3, pp. 137 – 150.
- King, R. G. and Levine, R. (1993a). "Finance and Growth: Schumpeter Might be Right." *Quarterly Journal of Economics*, Vol. 108, No. 3, pp. 717 – 737.
- King, R. G. and Levine, R. (1993b). "Finance, Entrepreneurship and Growth: Theory and Evidence." *Journal of Monetary Economics*. Vol. 32, pp. 513 – 542.

- Levine, R. (1991). "Stock Markets, Growth and Tax Policy." *The Journal of Finance*, Vol. 46, No. 4, pp. 1445 – 1465.
- Levine, R. (1997). "Financial Development and Economic Growth: Views and Agenda." *The Journal of Economic Literature*, Vol. 35, No.2, pp. 688 – 726.
- Levine, R. and Zervos, S. (1998). "What we Have Learnt About Policy and Growth from Cross-Country Regressions." *The American Economic Review*, Vol. 83. No. 2, pp. 426 – 440.
- Levine, R., Loayza, N. and Beck, T. (2002). "Financial Intermediation and Economic Growth: Causes and Causality." *Journal of Monetary Economics*, Vol. 46, pp. 31 – 77.
- Lucas, R. E. (1988). "On the Mechanics of Economic Development." *Journal of Monetary Economics*, Vol. 22, pp. 3 – 42.
- McKinnon, R. (1973). *Money and Capital in Economic Development*. Washington: The Brookings Institute.
- Ngwu, T. C. (2006). *Bank Management*. Owerri: Bon Publication.
- Nnanna, O. J., Englama, A., and Odoko, F. O. (2004). *Financial Markets in Nigeria*. Abuja: Kas Arts Service.
- Nwankwo, G. O. (1991). *Bank Management: Principles and Practice*. Lagos: Malthouse Press Limited.
- Nwude, E. C. (2004). *Basic Principles of Financial Management*. A First Course. Enugu: Chuke Nwabude Nigeria.
- Nzotta, S. M. (1999). *Money, Banking and Finance*. Owerri: International Educational Books and Publishers.
- Ochejele, J. J. (2007). *Economic Analysis*. Jos: Ichejum Press.
- Olson, O. J. (1996). "Big Bills Left on the Sidewalks: Why Small Nations are Rich and Others Poor." *The Journal of Economic Perspectives*, Vol. 10, No. 2, pp. 1 – 24.
- Oluitan, R. (2010). "Bank Credit and Economic Growth: The Nigerian Experience." A Presentation at the 7th AFE Conference in Greece, July.

- Orji, J. (1996). *Elements of Banking*. Enugu: Rock Communications Limited.
- Patrick, H. T. (1966). "Financial Development and Economic Growth in Underdeveloped Countries." *Economic Development and Cultural Change*, Vol. 14, pp. 174 – 189.
- Robbinson, J. (1952). "The Generalization of the General Theory", in the *Rate of Interest and Other Essays*. London: Macmillan, pp. 67 – 146.
- Romer, P. M. (1986). "Increasing Returns and Long-Run Growth", *Journal of Political Economy*, Vol. 94, pp. 1002 – 37.
- Schumpeter, J. A. (1934). *The Theory of Economic Development* Cambridge. Mass: Harvard University Press.
- Shan, J. and Jianhong, Q. (2006). "Does Financial Development Lead Economic Growth? The Case of China". *Annals of Economics and Finance*, Vol. 1, pp. 231 – 250.
- Shaw, E. S. (1973). *Financial Deepening in Economic Development*. New York: Oxford University Press.
- Spencer, H. M. (1977). *Contemporary Macroeconomics*, (3rd Ed). New York: Worth Publishers.
- Uche, C. U. (2001). "The Theory of Regulation: A Review Article." *Journal of Financial Regulation and Compliance*, Vol. 9, No. 1, pp. 67 – 80.
- Ujah, N. I. and Amechi, A. E. (2005). *Money, Banking and Finance in a Developing World*. Aba: Cheedal Global Prints.
- Ujah, N. I. (2007). *Banking Operations Simplified*. Aba: Ker Experts Books.
- Ujah, N. I. (2010). "The Impact of Deposit Money Banks' Deposit Mobilization on Nigeria's Economic Growth." *Nigerian Journal of Integrated Financial Sciences*, Vol. 1, Issue 2 pp. 18 – 27.
- Uremadu, S. O. (2000). *Bank Management: Basic Issues in Money, Bank Lending and Credit Administration*. Benin City: Mindex Publishing Company.
- Uzoaga, W. O. (1981), *Money and Banking in Nigeria*. Enugu: Fourth Dimension Publishers.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

According to Amaechi and Amara (2005), research design is a blueprint which guides the researcher in his scientific inquiry, investigation and analysis. Research design is a scheme of attack; a plan and a strategy designed for systematically solving research problems of interest to the researcher within his relevant circumstances (Osuala, 1991). In this study, *ex-post facto* design was adopted in obtaining, analyzing and interpreting data relating to the objectives of the study. The choice of this type of design was to give the researcher the privilege of observing variables over a long period of time. For this reason, both the dependent and independent variables were observed over the period, 1994 to 2013.

Data collected are analyzed and the hypotheses of this study tested using the Ordinary Least Squares (OLS) technique to determine the impact of the independent variables ï bank deposits, bank credits and bank liquid reserves on the dependent variables ï Real Gross Domestic Product (GDP) which is the proxy for economic growth.

3.2 POPULATION AND SAMPLE SIZE

Population according to Onwumere (2009), represents a universe or element with similar characteristics, hence it is a census of all relevant elements and may be finite or infinite while a sample is a group of variables or items derived from a relevant population for the purpose of examination or analysis. Based on this, the population of this study comprises of all financial intermediaries in Nigeria such as banks, insurance companies, finance houses, pension funds, etc. These institutions are involved in financial intermediation in one form or the other. Sequel to the fact that there may be obvious difficulties in studying the entire

population due to the pattern and size of distribution, sufficient knowledge of the entire population was gotten from studying a sample of the population.

The sample of this study is the deposit money banks. The choice of these banks is based on the fact that they are the dominant institutions of financial intermediation in Nigeria which encourage and mobilize savings and channel them into productive investments due to their network of offices; their generally numerous clientele, and the relative ease with which people transact business with them and also based on the availability of data.

3.3 NATURE AND SOURCES OF DATA

The source of data for this work is secondary. Such data were obtained from published materials such as the Central Bank of Nigeria Statistical Bulletin and Publications of the Federal Office of Statistics (Bureau of Statistics).

3.4 DESCRPTION OF RESEARCH VARIABLES

Variables employed in this study are made up of dependent and independent variables.

3.4.1 Dependent Variable

Economic growth constitutes the dependent variable. In line with the works of Ujah (2010), and Levine et al (2000), we adopted the real Gross Domestic Product (RGDP) per capita as a proxy for economic growth. The GDP tells us the value of all output produced in a country valued at the cost of the factor services that went to their production. Ujah and Amaechi (2005) see GDP as the total money value of all goods and services produced within a country at any given period of time.

$$\text{Real GDP per capita} = \frac{\text{GDP}}{\text{Total Population}}$$

3.4.1 Independent Variables

The major explanatory variables in use in this study are bank deposits, bank credits, bank liquid reserves and government expenditure and other random or stochastic variables like government policies, exchange rate and foreign direct investment.

3.4.1.1 Deposit Money Bank Deposits (DMBD)

Generally, banks mobilize deposits from the general public as part of their intermediation role by way of demand deposits, savings deposits and time deposits accounts. To ensure that the variables are in the same state, we divide by the GDP.

$$\text{Thus, DMBD} = \frac{\text{Bank Total Deposits}}{\text{GDP}}$$

3.4.1.2 Deposit Money Bank Credit (DMBC)

Credit cannot be divorced from the banking sector as banks serve as a conduit for funds to be received in the form of deposits from the surplus units of the economy and passed on to the deficit units who need them for productive purposes. This measure equals, bank total credit divided by GDP in line with the work of (Khaled and Samer 2006).

$$\text{DMBC} = \frac{\text{Bank Total Credit}}{\text{GDP}}$$

3.4.2.3 Deposit Money Banks Liquid Reserves (DMBLR)

Banks hold liquid reserve against predictable withdrawal demands. To also ensure that the variables are in the same state, we divide by GDP in line with the work of Khaled and Samer (2006).

$$\text{DMBLR} = \frac{\text{Bank Total Liquid Reserves}}{\text{GDP}}$$

3.4.2.4 Government Expenditure (GE)

This measure equals total government expenditure divided by GDP. It shows the expenses of government in an economy to maintain itself and the economy at large.

$$GE = \frac{\text{Total Government Expenditure}}{\text{GDP}}$$

3.4.2.5 Stochastic Disturbances

The stochastic disturbances are those variables which can also influence economic growth. In this study, they include government policies, exchange rates and foreign direct investment.

3.5 TECHNIQUES FOR ANALYSIS

The researcher used the Ordinary Least Square (OLS) technique to evaluate the relationship between financial intermediation and economic growth. The adoption of this technique was based on the premise that the ordinary least square is assumed to be the best linear unbiased estimator (Uremadu, 2002). It also has minimum variance (Anyanwu, 2000).

$$Y = b_0 + b_1 X + \mu$$

Where:

Y = Dependent Variable

X = Independent / Explanatory Variable

b_0, b_1 = Regression Coefficients

μ = Error term or stochastic term

(Uremadu, 2002)

Using data over the period 1994 – 2013, and in tune with the model/methodology adopted by Ujah (2010), Barro (1991) and Levine et al (2000), the Real Gross Domestic Product, proxy for economic growth is regressed on a variety of independent variables while holding constant other factors that may affect

economic growth such as government policies, foreign direct investment and exchange rate, etc.

3.6 SPECIFICATION OF MODELS

This study applied a model developed by Khaled and Samer (2006). The model was adjusted and two new variables added i bank liquid reserves and government expenditure were added.

$$G_{it} = b_0 + b_1 FD_{it} + b_2 X_{it} + U_t$$

In specifying the models for this study, the following alphabets will be used to denote respective variables.

RGDPP _c	=	Real Gross Domestic Product per capital (Proxy for Growth)
DMBD	=	Deposit Money Bank Deposits
DMBC	=	Deposit Money Bank Credit
DMBLR	=	Deposit Money Bank Liquid Reserve
GE	=	Government Expenditure

HYPOTHESIS 1

There is no positive and significant impact of bank deposits on economic growth in Nigeria.

Generally, the model is specified as:

$$\text{Growth} = b_0 + b_1 \text{DBMD} + b_2 \text{GE} + \mu$$

The equation will be re-written thus in line with the objectives of this study.

$$\text{RGDP} = b_0 + b_1 (\text{DMBD}) + b_2 (\text{GE}) + \mu$$

HYPOTHESIS 2

There is no positive and significant impact of bank credit on the growth of the Nigerian economy.

Generally, the model is specified as:

$$\text{Growth} = b_0 + b_1 \text{DMBC} + b_2 \text{GE} + \mu$$

Thus, the equation is written as below in line with the objectives of this study.

$$RGDP = b_0 + b_1 (DMBC) + b_2 (GE) + \mu \quad \dots 2$$

HYPOTHESIS III

There is no positive and significant impact of bank liquid reserves on the economic growth of Nigeria.

Generally, model is specified as:

$$\text{Growth} = b_0 + b_1 \text{DMBLR} + b_2 \text{GE} + \mu$$

The equation is re-written thus, in line with the objectives of the study.

$$RGDP = b_0 + b_1 (DBMLR) + b_2 (GE) + \mu \quad \dots 3$$

REFERENCES

- Amaechi, A. E. and Amara, T. C. (2005). *Manual of Research Methodology and Thesis Writing*. Aba: Ker Experts Book Limited.
- Anyanwu, A. (2000). *Research Methodology in Business and Social Sciences*. Owerri: Canunn Publishers Nigeria Limited.
- Barro, R. J. (1991). ñEconomic Growth in Gross-Section of Countries.ò *Quarterly Journal of Economics*, Vol. 52 (2), pp. 407 ñ 443.
- Khaled, A. and Samer, A. (2006). ñFinancial Development and Economic Growth; A New Empirical Evidence from the Mena Countries, 1989 ñ 2001.ò *Journal of Applied Econometrics and International Development*, Vol. 6, No.3, pp. 137 ñ 158.
- Levine, R., Loayza, N. and Beck, T. (2000). ñFinancial Intermediation and Growth: Causality and Causes.ò *Journal of Monetary Economics*, Vol. 46, pp. 31 ñ 77.
- Onwumere, J. U. J. (2009). *Business and Economic Research Methods*. Enugu: Vougasen Limited.
- Osuala, A. E. (1991). *Introduction to Research Methodology*. Onitsha: Africana-FEP Publishers Ltd.
- Ujah, N. (2010). ñThe Impact of Deposit Money Banksô Deposit Mobilization on Nigeriaôs Economic Growth.ò *Nigerian Journal of Integrated Financial Service*, Vol. 1, No. 2, pp. 18 ñ 27.
- Ujah, N. I. and Amaechi, A. E. (2005). *Money, Banking and Finance in a Developing world*. Aba: Cheedal Global Prints.
- Uremadu, S. O. (2002). *Academic Research Methods: As Applied to Accounting, Banking and Finance, Business Management and Economics*. Benin City: Mindex Publishing Company Limited.

CHAPTER FOUR

DATA PRESENTATION, EMPIRICAL RESULTS AND DISCUSSION OF FINDINGS

4.1 DATA PRESENTATION

Data for the study are presented and analysis made so as to determine how each of the explanatory variables i Deposit Money Banks deposits, Deposit Money Banks credits, Deposit Money Banks liquid reserves and government expenditures i behaved when compared with Real Gross Domestic Product per capita (Proxy for economic growth) in Nigeria in the period, 1994 i 2013.

Table 4.1: Data on RGDPpC, DMBD, DMBC, DMBLR and GE

YEAR	RGDPpC (₦' Million)	DMBD (₦' Million)	DMBC (₦' Million)	DMBLR (₦' Million)	GE (₦' Million)
1994	2.725	0.5113	0.3419	0.1711	0.5841
1995	2.710	0.6097	0.5137	0.1921	0.8840
1996	2.753	0.7104	0.5768	0.2134	1.1487
1997	2.754	0.8752	1.2766	0.2138	1.4178
1998	2.759	0.9807	0.8778	0.2016	1.5668
1999	2.687	1.4135	1.0339	0.3797	3.0357
2000	2.669	2.0172	1.5442	0.5092	2.1297
2001	2.819	2.5210	2.2301	0.7970	2.8516
2002	3.334	2.4194	2.2036	0.7415	2.3503
2003	3.557	2.5437	2.5339	0.7589	2.5673
2004	3.844	2.8222	2.8797	0.6903	2.6233
2005	4.364	3.2879	3.5177	0.9169	3.1022
2006	4.519	4.9390	4.2367	1.1253	3.0925
2007	4.697	7.1377	7.5892	1.0400	3.7029
2008	4.596	10.4672	11.6028	1.3548	4.5790
2009	4.804	10.7479	12.4306	0.9148	4.5815
2010	5.095	10.6744	9.9370	0.6852	5.1492
2011	5.373	11.3756	8.7682	1.4658	5.0754
2012	5.225	11.7056	9.1686	2.0781	4.7250
2013	5.444	10.9096	10.5311	3.3655	5.0495

Source: CBN Statistical Bulletin (Various)

4.1.1 Real GDP Per Capita

Table 4.1 reveals that real GDP per capita (per capita income) ratio in Nigeria stood at ₦2.725 million in 1994. Thereafter, it reached ₦2.753 million in 1996 and continued with these upward movements in all the years culminating to ₦5.444 million in 2013. Overall, the table reveals that Nigeria's per capita income increased consistently in all the years except in 1995 and 2012 when there were slight decreases.

4.1.2 Deposit Money Banks Deposit

The table reveals that the Deposit Money Banks deposit ratio (DMBD/RGDP) recorded an upwards trend in almost all the years under review except in 2002, 2010 and 2013 when there were decreases. For instance, in 1994, the Deposit Money Banks deposit ratio stood at ₦0.5113 million. This progressively grew to ₦0.7104 million in 1996 and continued until 2001 reaching ₦2.5210 million. However, there was a slight decline in 2002 when it reduced to ₦2.4194 million. It regained its upward trend again in 2003 and continued until 2009 and declined again in 2010 and 2013 with ₦10.6744 million and ₦10.9096 million respectively. Perhaps, this may be attributed to the growing confidence of the Nigerian populace in the Nigerian banking sector as a 'safe haven' for their funds.

4.1.3 Deposit Money Banks Credit

Table 4.1 also shows that Deposit Money Banks credit ratio stood at ₦0.3419 million in 1994. There was an upward trend in Deposit Money Banks credit from 1994 to 1997. In 1998, there was a decline to ₦0.8778 million after which the Deposit Money Banks credit ratio regained its upward trend until 2001 at ₦2.2301 million. It went down in 2002 when it reduced slightly to ₦2.2036 million. In 2003, Deposit Money Banks credit ratio continued to grow upward reaching ₦12.4306 million in 2009. However, between 2010 and 2013, Deposit Money Banks credit ratio experienced times of upwards and downward movements.

4.1.4 Deposit Money Banks Liquid Reserves

Deposit Money Banks liquid reserve ratio assumed an upward trend in most of the years under review. For instance Deposit Money Banks liquid reserve ratio stood at ₦0.1711 million in 1994. This increased to ₦0.2134 million and ₦0.2138 million in 1996 and 1997 respectively. There was a decline in 1998 when it dropped to ₦0.2016 million. It further increased to ₦0.3797 million, ₦0.5092 million and ₦0.797 million in 1999, 2000 and 2001 respectively. Afterwards, it went down in 2002, 2003 and 2004 but resumed an upward trend in 2005 reaching ₦1.2702 in 2008. It again slightly declined to ₦0.9148 million in 2009 and ₦0.6852 million in 2010. From 2011 it regained an upward movement with ₦1.4658 million and reached an all-time value of ₦3.3658 million in 2013.

4.2 DATA ANALYSIS

The trend analysis for this study was done to capture pictorially the evidences of the data presented. Moreso, it was done bearing in mind the three hypotheses to be tested in this study. All these became necessary in order to visualize the likely relationship existing between economic growth (dependent variable) and the independent variables (DMBD, DMBC, DMBLR) in the three models specified in the study.

FIG 1: Economic growth, Deposit Money Bank deposit and Government expenditure in Nigeria.

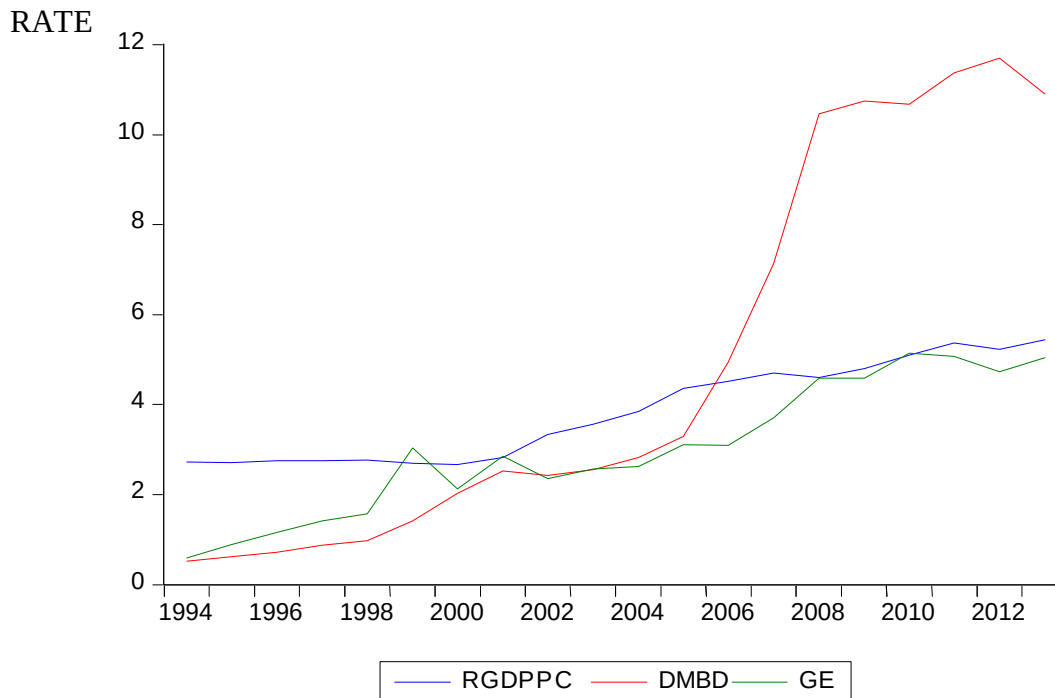


Figure 1, presents trends existing amongst RGDPpC (economic growth); DMBD (Deposit Money Banks Deposit) and GE (government expenditure) from 1992 to 2011. As shown, Deposit Money Banks deposits in Nigeria assumed an upward trend right from 1994 to 2013. It fell only in a few of the periods under consideration, thereby supporting the data presentation. Moreover, Deposit Money Banks Deposit is seen to grow higher than RGDPpC and GE. Perhaps, this may be attributed to the banking awareness or interest amongst the populace which essentially came to its climax in the wake of Central Bank of Nigeria's (CBN) recapitalization policy in 2005. Through this policy, most Nigerians who hitherto lacked interest in depositing their monies in the banks because of fear of banks distress were spurred into doing so.

Furthermore, the growth recorded in the Nigerian economy (represented by the RGDPpC) is seen to trend more closely with DMBD. There seem to be a 'drawing-up' effect of Deposit Money Banks deposit (DMBD) on RGDPpC

(economic growth). This indicates that as the DMBD rises, the economy grows. Perhaps, this implies DMBD has a significant impact on economic growth in Nigeria. This is rather pre-emptive as this study set out to investigate the impact of DMBD on RGDP empirically.

FIG 2: Economic Growth, Deposit Money Bank Credit and Government Expenditure in Nigeria.

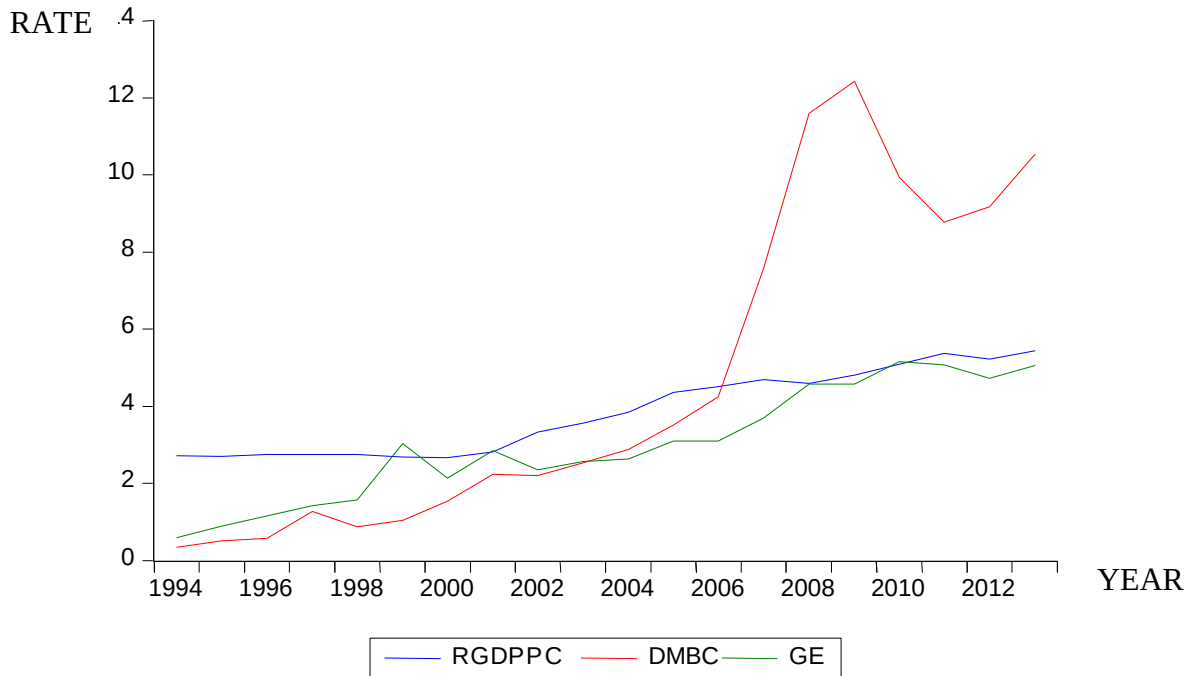


Figure 2, presents the trend existing amongst Real Gross Domestic Product per capita, Deposit Money Banks credit and government expenditure in Nigeria. As evidenced in the graph, the three variables trended one another very closely until after 2008 when Deposit Money Banks credit took a leap and grew more significantly than both RGDPPc and GE respectively. However, RGDPPc still followed but at a lesser rate compared with the rate at which DMBC is growing. Overall, the graph seems to suggest that Deposit Money Banks credit has a significant effect on economic growth in Nigeria. As stated earlier, this impression is pre-emptive as this study is set to provide an empirical investigation.

FIG 3: Economic Growth, Deposit Money Bank Liquid Reserve and Government Expenditure in Nigeria.

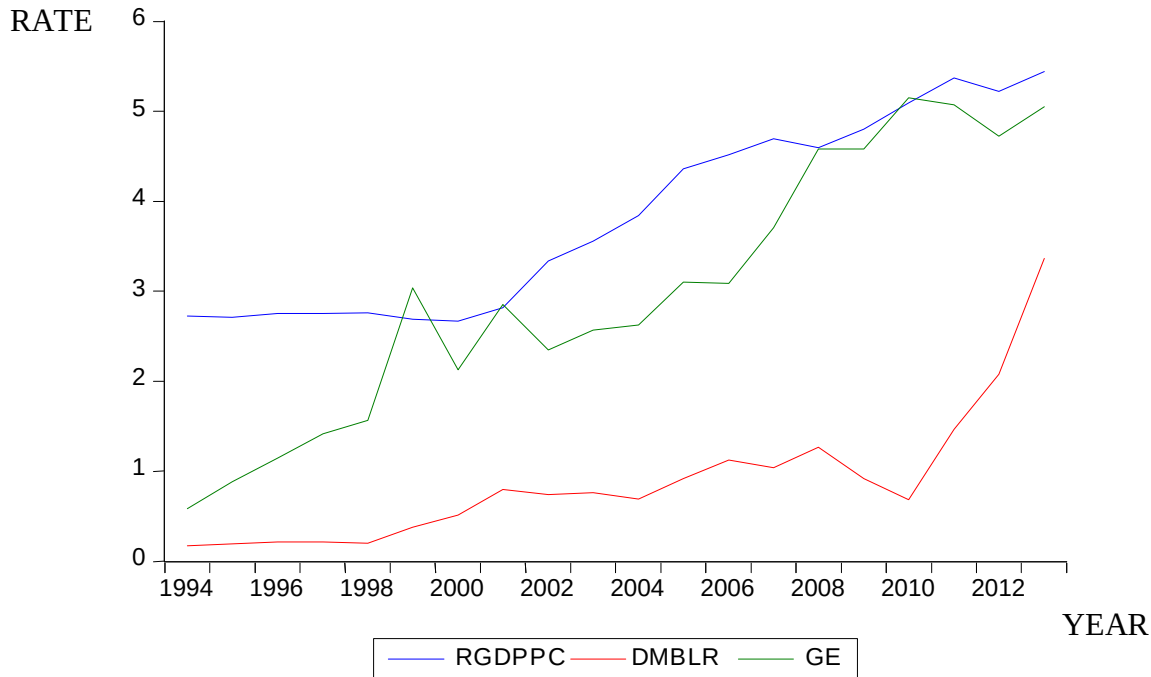


Figure 3, presents trends existing amongst economic growth, Deposit Money Banks liquid reserve and government expenditure in Nigeria. Unlike in the previous two cases in figure 1 and figure 2, Deposit Money Banks liquid reserve grew but at a lesser rate than both economic growth and government expenditure. Except after 2010 when Deposit Money Banks liquid reserve grew at a higher rate, it was below economic growth and government expenditure in all the years under review. Perhaps, this is an indication that commercial bank liquid reserve is not a strong driving force of the Nigerian economic growth. This is against the backdrop that the graph seems to suggest that Deposit Money Banks liquid reserve seemed to be driven by economic growth rather than driving economic growth in Nigeria. Based on this, there is a tendency that Deposit Money Banks liquid reserve may not have significant impact on economic growth in Nigeria. However, this position is pre-emptive until the empirical investigation is done.

4.3 EMPIRICAL RESULTS

Table 4.2

Ordinary Least Squares (OLS) regression result for Hypothesis 1

Variable	Coefficient	Standard error	t-statistic	Prob.
C	2.48	0.30	8.25	0.0000
DMBD	0.18	0.06	2.77	0.0131*
GE	0.17	0.19	0.89	0.3885
R-Squared	=	0.87		
Adjusted R-Squared	=	0.86		
F-statistic	=	57.80		
DW Statistic	=	1.64		

Critical values:

$$(a) \text{ t-statistic, } t_{0.05} = 1.74$$

$$(b) \text{ F-statistic, } F_{0.05} = 3.59$$

Note:*Implies significant at five percent level.

Source: Author's computation using E-view.

Model 1 of this study investigated the impact of Deposit Money Banks's deposit on economic growth in Nigeria. The regression result for Model 1 as shown in Table 4.2 can be specified as:

$$RGDPP_c = 2.48 + 0.18DMBD + 0.17GE$$

$$S.E. = (0.30) \quad (0.06) \quad (0.19)$$

$$t\text{-statistic} = (8.25) \quad (2.77) \quad (0.89)$$

$$R\text{-Squared} = 0.87$$

$$\text{Adjusted R-Squared} = 0.86$$

$$F\text{-Statistic} = 57.80$$

$$DW = 1.64$$

The regression results above were appraised on statistical criteria and economic criteria. First, the study revealed that the constant (intercept) term had a positive sign which is consistent with economic apriori expectations. This implies that every policy of the government is targeted at achieving economic growth. Also, the t-value computed (8.25) is greater than t-value tabulated (1.74) which indicates that the constant terms is statistically significant at five percent level of significance.

Second, coefficient of Deposit Money Banks deposit had a positive sign. This conforms to economic a priori expectations and showed that a unit rise in Deposit Money Banks deposit led to 0.18 percent rise in per capita income (proxy for economic growth) in Nigeria. By economic theory, deposits by individuals, corporate bodies, governments etc. into the banks increases liquidity in the banking sector which motivates these banks to offer loan services to interested investors at a reduced interest rate. Access to capital increases investment which increases the aggregate demand. An increased aggregate demand will ultimately lead to an increase in output (Real GDP) level. From the result, the computed t-value (2.77) is greater than the tabulated t-value (1.74) at five percent level of significance. This implies that Deposit Money Banks deposit has a significant impact on the level of economic growth in Nigeria. As a further confirmation, the probability value (0.0131) is less than (0.05) (i.e. $P < 0.05$) thereby reinforcing the significant impact of Deposit Money Banks deposit on economic growth in Nigeria. This finding is in line with the works of Ujah (2010), Ogege and Shiro (2013) and Acha (2011).

Third, the result revealed that government expenditure and economic growth in Nigeria are positively related. This result conforms to economic theory as an expected increase in government expenditure (barring inflation) induces high liquidity. Availability of funds induces increased investment which increases productivity leading to an improvement in the economy. From this result, one unit

rise in government expenditure leads to 0.17 percent rise in economic growth in Nigeria. However, the computed t-value (0.89) of government expenditure is less than tabulated t-value (1.74) which implies that government expenditure does not have significant impact on economic growth in Nigeria. The adjusted R-Squared which is the coefficient of determination indicates that 86 percent of the variations in economic growth in Nigeria are explained by changes in Deposit Money Banks deposit and government expenditure. Thus, the remaining 14 percent of variations are explained by other factors not included in this model. The result of the adjusted R-squared also indicates that the estimated model has a good fit. The estimated value of F-statistic (57.80) exceeds the critical value (3.59) at five percent level of significance. This means that the estimated model is statistically significant and reliable.

Finally, the estimated Durbin-Watson statistic of 1.64 which exceeded the adjusted R-squared (0.86) indicates that the regression result is not spurious.

Table 4.3

Ordinary Least Square (OLS) regression result for Hypothesis II

Variable	Coefficient	Standard error	t-statistic	Prob.
C	2.24	0.30	7.57	0.0000
DMBC	0.11	0.06	1.93	0.0411*
GE	0.35	0.17	2.07	0.0445*
R-Square	= 0.85			
Adjusted R-Squared	= 0.83			
F-Statistic	= 47.12			
DW	= 1.74			

Critical values:

(a) t-statistic, $t_{0.05}$ = 1.74

(b) F-statistic, $F_{0.05}$ = 3.59

Note: *Implies significant at 5 percent level.

Source: Author's computation using E-view.

In this study, Model II investigated the impact of Deposit Money Banks credit on economic growth in Nigeria. Based on the regression result, the estimated equation can be specified thus:

$$RGDPP_c = 2.24 + 0.11 DMBC + 0.35GE$$

$$S.E \quad (0.30) \quad (1.00) \quad (0.17)$$

$$t\text{-statistics} \quad (7.57) \quad (1.93) \quad (2.07)$$

$$R\text{-Squared} = 0.85$$

$$\text{Adjusted } R\text{-Squared} = 0.83$$

$$F\text{-statistic} = 47.12$$

$$DW = 1.74$$

From the regression result, this study found that the constant (intercept) term has a positive sign which is in conformity with economic apriori expectations. As stated earlier, this implies that all policy measures undertaken by the government is aimed at achieving economic growth. Moreso, the computed t-value of the constant term (7.57) is greater than its critical value (1.74). Thus, the study concluded that the intercept term has a significant impact on economic growth within Nigeria.

The coefficient of Deposit Money Banks credit appeared with a positive sign. This conforms to economic apriori expectations. Economic theory postulates that the more Deposit Money Banks are capable of lending to individuals, corporate bodies and even the government, the higher the investment and productivity. An improved productivity entails growth of the economy. As evidenced in this study, a unit rise in Deposit Money Banks credit led to 0.11 unit rise in per capita income (proxy for economic growth) in Nigeria. Again, the computed t-value (1.93) is greater than the tabulated t-value (1.74) at five percent level of significance. This implies that Deposit Money Banks credit has a significant impact on the level of economic growth in Nigeria. The probability value is less than 0.05 (i.e. $p < 0.05$). This further confirms the significant impact of Deposit Money Banks credit on

economic growth in Nigeria. This finding collaborates the works of Nwanyanwu (2010), Ogar et al (2014) and Acha (2011).

Finally, the coefficient of government expenditure appeared with a positive sign. This conforms to economic apriori expectations. This result indicates that a unit rise in government expenditure led to Nigeria's economy growing by 0.35 percent. Moreso, the computed t-value of government expenditure (2.07) exceeds the critical value (1.74) thereby indicating that government expenditure has a significant impact on economic growth in Nigeria. As a check, with the probability value (0.04) being less than (0.05), the study concludes that government expenditure has a significant impact on economic growth in Nigeria.

The adjusted R-Squared (which is the co-efficient of determination) was 0.83. This implies that 83 percent of the variations in economic growth in Nigeria were explained by Deposit Money Banks credit and government expenditure. However, the remaining 17 percent of the variations are explained by other factors not included in the model. F-statistic (47.12) exceeds the critical value (3.59), which implies that the entire estimated model is significant and reliable.

Finally, the Durbin-Watson value (1.74) falls within the permissible level and shows that there is no presence of autocorrelation. Since the Durbin-Watson value is greater than the adjusted R-Squared, it showed that the regression result is not spurious.

Table 4.4**Ordinary Least Square (OLS) regression result for Hypothesis III**

Variable	Coefficient	Standard error	t-statistic	Prob.
C	1.96	0.24	8.22	0.0000
DMBLR	0.53	0.20	2.66	0.0159*
GE	0.52	0.10	5.07	0.0001*
R-Squared	= 0.84			
Adjusted R-Squared	= 0.82			
F-Statistic	= 44.53			
DW	= 1.76			

Critical values:

(a) t-statistic, $t_{0.05}$ = 1.74

(b) F-statistic, $F_{0.05}$ = 3.59

Note: *Implies significant at 5 percent level.

Source: Author's computation using E-view.

Model III of this study investigated the impact of Deposit Money Banks liquid reserve on economic growth in Nigeria. The regression equation for this model could be specified thus:

$$RGDPP_c = 1.96 + 0.53 DMBLR + 0.52GE$$

S.E (0.24) (0.20) (0.10)

t-statistics (8.22) (2.20) (5.07)

R-Squared = 0.84

Adjusted R-Squared = 0.82

F-statistic = 44.53

DW = 1.76

First, the study revealed that the constant term has a positive sign and this conforms to economic theory. As stated earlier, the intercept term captures the

autonomous economic growth and implies that every policy measure of government is targeted at achieving growth in the economy.

Second, the study indicated that as Deposit Money Banks liquid reserve against unpredictable withdrawal demands increases, the economy will experience increased growth. As the result shows, a unit rise in Deposit Money Banks liquid reserve leads to 0.53 unit rise in the level of economic growth in Nigeria. According to the computed t-value of Deposit Money Banks liquid reserve which is 2.66, it shows that the computed t-value exceeds the critical value which is 1.74. Thus, Deposit Money Banks liquid reserve has a significant impact on economic growth in Nigeria. To confirm this significant impact, its probability value (0.0159) is less than its critical value (0.05) at five percent level of significance. This is in line with the work of Uremadu (2012).

Third, the coefficient of government expenditure also appeared with a positive. This conforms to economic apriori expectations. This result indicates that a unit rise in government expenditure leads to an increase in economic growth by 0.52 unit. The t-statistics of government expenditure (5.07) is greater than its critical value (1.74) implying that government expenditure, even when combined with an impressive Deposit Money Banks liquid reserve, has a significant impact on economic growth in Nigeria.

The adjusted R-Squared shows that 82 percent of the variations in economic growth are explained by changes in Deposit Money Banks liquid reserve and government expenditure. The remaining 18 percent of the unexplained variations are due to other factors not included in the model. F-statistics (44.53) which is greater than its critical value (3.59) shows that the model is reliable and significant.

Finally, the Durbin-Watson value (1.76) fell within the permissible level and shows that there is no presence of autocorrelation. More so, $DW > R\text{-squared}$ indicating that the result is not spurious.

4.4 TEST OF HYPOTHESES

Three hypotheses were earlier stated for the study and they were tested based on the results of the three models upon which the study was achieved. They include:

4.4.1 Hypothesis One

Ho: There is no positive and significant impact of bank deposits on economic growth in Nigeria.

Decision: The decision rule follows that if computed t-value is greater than the tabulated t-value (i.e. $t^* > t^c$), then we reject the null hypothesis and vice versa. This is where:

$t^* =$ t-value computed, and $t^c =$ t value tabulated.

Based on the result of Hypothesis I, we reject the null hypothesis and accept the alternative hypothesis. Thus, we conclude that Deposit Money Banks deposit has a significant impact on economic growth in Nigeria since the computed t-value exceeded the tabulated t-value. The probability value is less than 0.05 (i.e. $p < 0.05$).

4.4.2 Hypothesis Two

Ho: There is no positive and significant impact of bank credit on the growth of the Nigerian economy.

Decision: The decision rule follows that if the computed t-value is greater than the tabulated t-value (i.e. $t^* > t_c$), then we reject the null hypothesis and accept the alternative hypothesis. The probability value is less than 0.05 (i.e. $p < 0.05$).

Based on the result of Hypothesis II, we reject the null hypothesis that Deposit Money Banks credit does not have significant impact on economic growth in Nigeria. Thus, the study concludes that Deposit Money Banks credit has a significant impact on economic growth in Nigeria.

Hypothesis Three

Ho: There is no positive and significant impact of bank liquid reserves on the economic growth of Nigeria.

Decision: Since the computed t-value (2.66) is greater than the tabulated t-value (1.74) we accept the alternative hypothesis that Deposit Money Banks liquid reserves have a significant impact on economic growth in Nigeria. The probability value is less than 0.05 (i.e. $p < 0.05$). Thus, the study concludes that Deposit Money Banks liquid reserves have a significant impact on economic growth in Nigeria.

4.5 IMPLICATIONS OF THE FINDINGS

4.5.1 Hypothesis 1: Deposit Money Banks Deposit and Economic Growth

The study revealed that Deposit Money Banks deposit has a positive and significant relationship with economic growth (proxied by real gross domestic product per capita) in Nigeria. This finding is similar to those of King and Levine (1993), Ogege and Shiro (2013), Acha (2011) and Ujah (2010). Perhaps, these findings reinforce the argument that banks, as capital mobilizers and accumulators enthrone increased savings which leads to increased investment. The increase in investment brings about increased output level (productivity) which actually is what economic growth is all about. In the Nigerian case, this finding is not surprising because Nigerian banks through the recapitalization programme initiated by Prof. Soludo had become much stronger, with bigger financial base. More so, the banks have entrenched several innovative platforms that have removed fear and built confidence in the minds of the populace which had resulted in more interest among the people as it concerns depositing their monies in the banks. With increased deposits, the banks became more capable of funding investments which has resulted in improved productivity.

In the same vein, the study revealed that Deposit Money Banks deposit was a significant determinant of the level of economic growth in Nigeria. This may also be attributed to the earlier mentioned strength and large capital base of the Nigerian banking sector which had entrenched confidence in the mindsets of both foreign and local investors. The overall impacts of these achievements on Nigeria's economic growth cannot but be significant.

There is a positive and significant relationship between government expenditure and economic growth in Nigeria. This conforms to economic theory because a rise in government expenditure is expected to lead to economic growth. However, emphasis here should be on capital expenditures by government because a high recurrent expenditure leads to inflationary pressure (in the long-run) and may not lead to the desired improvement in the output level which is what improved real gross domestic product is. However, an increased capital expenditure such as expenditures on infrastructure, education etc. will certainly lead to improved (increased) productivity in Nigeria. To that extent, government expenditure will have a significant impact on economic growth in Nigeria. Thus, one might be tempted to conclude that any monetary policy of government which adopts the combined instruments of increasing Deposit Money Banks deposit and increased government capital expenditure would bring about improved economic growth in Nigeria.

4.5.2 Hypothesis II: Deposit Money Banks credit and economic growth

The study revealed that there exist a positive and significant relationship between Deposit Money Banks credit and economic growth in Nigeria. This finding collaborates the works of Nwanyanwu, (2010), Ogar et al (2014) and Acha (2011) and reinforces the fact that credit navigates savings into productive investment thereby encouraging economic growth. With availability of credit as provided by the Deposit Money Banks, economic agents are able to meet their operating expenses and this will increase productivity. In Nigeria, the expansion of the

credit window has no doubt increased investment and productivity which has enhanced the growth of the nation's economy. A look at the result shows that Deposit Money Banks credit elasticity of economic growth is 0.11 (i.e. coefficient of Deposit Money Banks credit). This implies that as Deposit Money Banks credit rose by one percent, the economy grew by 0.11 percent. This is rather a small increment given that Deposit Money Banks credit is a significant determinant of economic growth in Nigeria. Perhaps, the nation might benefit more if the banks would further expand credit-giving capacity.

More so, the result revealed that government expenditure and economic growth in Nigeria are positively related. Both the relationship and impact of government expenditure on economic growth in Nigeria are attributable to the fact that an increased government expenditure increases the earnings of individuals. The monies saved are invested which will lead to improved productivity (increased output).

4.5.3 Deposit Money Banks liquid reserve and economic growth

The result showed that Deposit Money Banks liquid reserve and economic growth in Nigeria are positively related. More so, the result showed that Deposit Money Banks liquid reserve had significant impact on economic growth in Nigeria. Based on the relationship, this study collaborates earlier established views that a bank's sufficiency in terms of cash and other liquid assets enables it to meet up cash and its other financial commitments in a timely manner. When this is done, the banks are in position to meet seasonal and unexpected loan demands and deposit fluctuations. This is key to a stable investment climate. A stable investment induces higher productivity. This finding is encouraging considering the fact that a healthy liquid reserve is one of the key factors that guarantee an expansion in economic activity.

Surprisingly, in this model, government expenditure showed a negative and insignificant relationship with economic growth in Nigeria. This finding or situation may be as a result of the fact that government expenditure over the years is more of recurrent capital.

REFERENCES

- Acha, I. A. (2011). "Financial Intermediation by Banks and Economic Growth in Nigeria, 1990 – 2008". *Journal of Economics and Sustainable Development* Vol. 2 No. 4 pp. 129 – 139.
- Nwanyanwu, O. J. (2010). "An Analysis of Bank Credit on the Nigeria Economic Growth (1992-2008)". *Jos Journal of Economics*, Vol. 4, pp. 43-58.
- Ogar, S. E, Nkamere, S. E. and Effiong, C. (2014). "Commercial Bank Credit and Its Contributions on Manufacturing Sector in Nigeria". *Research Journal of Finance and Accounting*. Vol. 2. No. 22 pp. 79 – 100.
- Ogege, S. and Shiro, A. A. (2013). Does Depositing Money in Bank Impact on Economic Growth? Evidence from Nigeria. *African Journal of Business Management*. Vol. 7, No. 3 pp. 196 – 205.
- Ujah, N. I. (2010). "The Impact of Deposit Money Banks' Deposit Mobilization on Nigeria's Economic Growth". *Nigerian Journal of Integrated Financial Sciences*, Vol. 1, Issue 2 pp. 18 – 27.
- Uremadu, S. O. (2012). "Bank Capital Structure, Liquidity and Profitability, Evidence from the Nigerian Banking System". *International Journal of Academic Research in accounting, Finance and Management Sciences*, Vol. 2, Issue 1, pp. 98 – 113.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

This study revealed that the explanatory variables affected economic growth based on the relationship expressed in the used models. The empirical findings are presented below:

- That banks' deposit has a positive and significant impact on economic growth in Nigeria
- That Deposit Money Banks' credit has a positive and significant impact on economic growth in Nigeria.
- That Deposit Money Banks' liquid reserve has a positive and significant impact on economic growth in Nigeria.

5.2 CONCLUSION

The relevance of financial institutions especially Deposit Money Banks in enhancing economic growth through their intermediation roles cannot be overemphasized. As a confirmation to this, the study investigated the impact of financial intermediation from the Deposit Money Banks on economic growth in Nigeria. The study adopted key intermediation instruments at the disposal of the Deposit Money Banks: deposit, credit and liquid reserve to carry out this investigation. The findings of this study revealed that Deposit Money Banks deposit, Deposit Money Banks credit and Deposit Money Banks liquid reserves had significant impact on Nigeria's economic growth for the period studied.

5.3 RECOMMENDATIONS

Based on the foregoing, the following recommendations are made:

- (1) Deposit Money Banks should adopt or engage in aggressive marketing of their services in order to help increase their deposit base. Moreover, Deposit Money Banks in Nigeria should improve on interest paid to depositors on

their deposits to further broaden the deposit base since the volume of deposit determines to a large extent the level of economic growth in Nigeria. In the same vein, commissions and interests paid by customers on some bank transactions should be reduced. These actions will encourage more people to save money with the banks and at the same time, borrow for investment purposes.

- (2) The monetary authorities, using their credit guidelines, should direct and or mandate Deposit Money Banks to channel their mobilized savings to priority sectors of the economy such as agriculture and manufacturing.
- (3) There is the need for Deposit Money Banks to shore up their liquid reserves to further enhance stability of their operations in terms of meeting up with the unpredictable demands on their operations.
- (4) Deposit Money Banks should ensure simplicity of operations and formalities involved in banking. This will ensure that dealings with the Deposit Money Banks do not require specialized knowledge or certain level of education which had often discouraged certain individuals from banking.
- (5) Deposit Money Banks in Nigeria should as a matter of urgency, open up credit channels that would encourage the small and medium enterprises to access loans from the banks at low interest rates. This will enthrone growth and development in Nigeria.
- (6) There is also the need for government to provide an enabling environment for investment purposes especially in the area of security. Existing infrastructural facilities should be improved. This will go a long way in improving the productivity of the people, their incomes, mobilized savings by Deposit Money Banks as well as funds made available to them for investment purposes.

- (7) There is need to restore confidence in the financial intermediaries. A failure-proof system must be designed and sustained as Deposit Money Banks failure has a contagion effect on the economy.
- (8) Concerted efforts should be made by government to encourage entrepreneurship and small business developments by directing Deposit Money Banks through the Central Bank of Nigeria (CBN) to finance viable projects at no stringent conditions. This will encourage growth and development of the country.
- (9) Rural banking schemes should be encouraged. Deposit Money Banks should be made by law to open branches in the rural areas of the country. This will enable them mop up savings from rural dwellers, extend credit to those who have investment opportunities and above all, help create banking habit among the rural populace.

5.4 RECOMMENDED AREA FOR FURTHER RESEARCH

The findings of this study have exposed other areas of research that will help the understanding of financial intermediation and economic growth in Nigeria. These will include among others:

- An Investigation of the impact of Demand Deposits, Savings Deposits and Time Deposits, on the growth of the Nigerian economy.
- A Comparative study of the contribution of recurrent expenditure and capital expenditure to economic growth.

5.5 CONTRIBUTION TO KNOWLEDGE

As earlier noted in this work, the importance of financial institutions especially Deposit Money Banks in generating growth within the economy has been widely discussed in literature. Several scholars have all supported the above view about the significance of banks to the growth of the economy (Mckinnon, 1973, Shaw

1973, Kings and Levine 1993) etc. Other scholars believe that growth within the economy results to increase in the demand for financial services and this subsequently motivates financial development. In other words, economic growth is a causal factor for financial development (Curley and Shaw, 1967, Muhsin and Eric, 2000).

However, based on the Nigerian experience, the results of this study provided empirical evidence on the impact of financial intermediation on the growth of the Nigerian economy. This study modified and added two new variables i bank liquid reserves and government expenditure to the model adopted from the work of Khaled and Samer (2006). It revealed that Deposit Money Banks' deposits, credits and liquid reserves significantly contributed to the growth of the Nigerian economy for the period studied. Therefore, the results will enhance our understanding and appreciation of the impact or role financial intermediation play in the economic growth of Nigeria.

BIBLIOGRAPHY

- Acha, I. A. (2011). ñFinancial Intermediation by Banks and Economic Growth in Nigeria, 1990 ï 2008.ò *Journal of Economics and Sustainable Development* Vol. 2 No. 4 pp. 129 ï 139.
- Adekanye, F. (1986). *The Elements of Banking in Nigeria*. Lagos: F and A Publishers Limited.
- Ademu, W. A. (2006). The Informal Sector and Employment Generation in Nigeria. The Role of Credit in Employment Generation in Nigeria. Selected Papers for the 2006 Annual Conference of the Nigerian Economic Society, Calabar, August 22nd to 24th.
- Adeniyi, O. M. (2006). *Bank Credit and Economic Development in Nigeria: A Case Study of Deposit Money Banks*. Jos: University of Jos.
- Afolabi, L. (1998). *Monetary Economics*. Lagos: Perry Barr Limited.
- Amaechi, A. E. and Amara, T. C. (2005). *Manual of Research Methodology and Thesis Writing*. Aba: Ker Experts Book Limited.
- Anyanwu, A. (2000). *Research Methodology in Business and Social Sciences*. Owerri: Canunn Publishers Nigeria Limited.
- Arestis, P. and Demetriades, P. O. (1997). ñFinancial Development and Economic Growth: Assessing the Evidence.ò *The Economic Journal*, Vol. 107, No. 442 pp. 783-799.
- Barro, R. J. (1991). ñEconomic Growth in a Gross Section of Countries.ò *The Quarterly Journal of Economics*, Vol. 52, No. 2 pp. 407-443.
- Beck, T. and Levine, R. (2002). ñIndustry Growth and Capital Allocation: Does having a market ï or a bank-based system matter?ò *Journal of Financial Economics*, 64, pp. 147 ï 180.
- Beck, T., Levine, R. and Loayza, N. (2000a). ñFinance and the Sources of Growthò. *Journal of Financial Economics*, 58, pp. 261 ï 300.
- Bekarert, G. (1996). ñMarket Integration and Investment Barriers in Emerging Stock Market.ò *The World Bank Economic Review*, Vol. 9, pp. 75-107.

- Bencivenga, V. R. and Smith B. D. (1991). "Financial Intermediation and Endogenous Growth." *Review of Economic Studies*, Vol. pp. 195 ï 209.
- Demetriades, P. and Andrianova, S. (2004). "Finance and Growth, What We Know and What We Need to Know." University of Leicester.
- Demetriades, P. and Luintel, K. (1996). "Financial Development Economic Growth and Banking Sector Controls: Evidence from India." *The Economic Journal*, Vol. 106, pp. 359 ï 374.
- Dewett, K. K. (2005). *Modern Economic Theory*. New Delhi: Shyan Lal Charitable Trust.
- Diamond, D. (1984). "Financial Intermediation and Delegated Monitoring." *Review of Economic Studies*. Vol. 51, pp. 393-414.
- Diamond, D. and Dybvig, P. (1983). "Bank Runs, Deposit Insurance and Liquidity." *Journal of Political Economy*. Vol. 85, pp. 191-206
- Ekezie, F. S. (1997). *The Elements of Banking*. Onitsha: Africana Fep Publisher Limited
- Fry, M. J. (1988). *Money, Interest and Banking in Economic Development*. London: University Press.
- Greenwood, J. and Jovanovic, B. (1990). "Financial Development, Growth and the Distribution of Income." *Journal of Political Economy*. Vol. 98, pp. 1076-1107.
- Greenwood, J. and Smith, B. (1996). "Financial Market, in Development and the Development of Financial Markets." *Journal of Economic Dynamics and Control*, Vol. 21, pp. 145-181.
- Gurley, J. and Shaw, E. (1967). "Financial Structure and Economic Development." *Economic Development and Cultural Change*, Vol. 15, No. 3, pp. 257-268.
- Jhingan, M. L. (2004). *Money Banking, International Trade and Public Finance*. New Delhi: Vrinda Publications (P) Ltd.
- Jhingan, M. L. (2006). *Economics of Development and Planning*. New Delhi: Vrinda Publications (P) Ltd.

- Khaled, A. and Samer, A. (2006). "Financial Development and Economic Growth: A New Empirical Evidence from the Mena Countries, 1989 – 2001". *Journal of Applied Econometrics and International Development*. Vol. 6, No. 3, pp. 137 – 150.
- King, R. G. and Levine, R. (1993). "Schumpeter Might be Right". *Quarterly Journal of Economics*. Vol. 108 (3): pp. 717 - 737
- King, R. G. and Levine, R. (1993a). "Finance and Growth: Schumpeter Might be Right". *Quarterly Journal of Economics*. Vol. 108, pp. 117 – 738.
- King, R. G. and Levine, R. (1993b). "Finance, Entrepreneurship and Growth: Theory and Evidence". *Journal of Monetary Economics*. Vol. 32, pp. 513 – 542.
- Levine, R. (1991). "Stock Markets, Growth and Tax Policy". *The Journal of Finance*. Vol. 46, No. 4, pp. 1445 – 1465.
- Levine, R. (1997). "Financial Development and Economic Growth: Views and Agenda". *The Journal of Economic Literature*, Vol. 35, No.2, pp. 688 – 726.
- Levine, R. and Zervos, S. (1998). "What we Have Learnt About Policy and Growth from Cross-Country Regressions". *The American Economic Review*. Vol. 83. No. 2, pp. 426 – 440.
- Levine, R., Loayza, N. and Beck, T. (2002). "Financial Intermediation and Economic Growth: Causes and Causality". *Journal of Monetary Economics*, Vol. 46, pp. 31 – 77.
- Lucas, R. E. (1988). "On the Mechanics of Economic Development". *Journal of Monetary Economics*. Vol. 22, pp. 3 – 42.
- McKinnon, R. (1973). *Money and Capital in Economic Development*. Washington: The Brookings Institute.
- Ngwu, T. C. (2006). *Bank Management*. Owerri: Bon Publication.
- Nnanna, O. J. (2004). "Financial Sector Development and Economic Growth in Nigeria: An Empirical Investigation". *Economic and Financial Review* Vol. 42, (3) pp. 1-17.

- Nnanna, O. J., Englama, A., and Odoko, F. O. (2004). *Financial Markets in Nigeria*. Abuja: Kas Arts Service.
- Nwankwo, G. O. (1991). *Bank Management: Principles and Practice*. Lagos: Malthouse Press Limited.
- Nwanyanwu, O. J. (2010). ñAn Analysis of Bank Credit on the Nigeria Economic Growth (1992-2008).ò *Jos Journal of Economics*, Vol. 4, pp. 43-58.
- Nwude, E. C. (2004). *Basic Principles of Financial Management: A First Course*. Enugu: Chuke Nwabude Nigeria.
- Nzotta, S. M. (1999). *Money, Banking and Finance*. Owerri: International Educational Books and Publishers.
- Ochejele, J. J. (2007). *Economic Analysis*. Jos: Ichejum Press.
- Ogar, S. E, Nkamere, S. E. and Effiong, C. (2014). ñCommercial Bank Credit and Its Contributions on Manufacturing Sector in Nigeria.ò *Research Journal of Finance and Accounting*. Vol. 2. No. 22 pp. 79 ì 100.
- Ogege, S. and Shiro, A. A. (2013). Does Depositing Money in Bank Impact on Economic Growth?ò Evidence from Nigeria. *African Journal of Business Management*. Vol. 7, No. 3 pp. 196 ì 205.
- Olson, O. J. (1996). ñBig Bills Left on the Sidewalks: Why Small Nations are Rich and Others Poor.ò *The Journal of Economic Perspectives*, Vol. 10, No. 2, pp. 1 ì 24.
- Oluitan, R. (2010). ñBank Credit and Economic Growth: The Nigerian Experience.ò A Presentation at the 7th AFE Conference in Greece, July.
- Onwumere, J. U. (2009). *Business and Economic Research Methods*. Enugu: Vougasen Limited.
- Osuala, A. E. (1991). *Introduction to Research Methodology*. Onitsha: Africana-FEP Publishers Ltd.
- Orji, J. (1996). *Elements of Banking*. Enugu: Rock Communications Limited.
- Patrick, H. T. (1966).ñFinancial Development and Economic Growth in Underdeveloped Countries.ò *Economic Development and Cultural Change*, Vol. 14, pp. 174 ì 189.

- Robbinson, J. (1952). "The Generalization of the General Theory", in the *Rate of Interest and Other Essays*. London: Macmillan, pp. 67 ï 146.
- Romer, P. M. (1986). "Increasing Returns and Long-Run Growth." *Journal of Political Economy*, Vol. 94, pp. 1002 ï 37.
- Schumpeter, J. A. (1934). *The Theory of Economic Development* Cambridge. Mass: Harvard University Press.
- Shan, J. and Jianhong, Q. (2006). "Does Financial Development Lead Economic Growth? The Case of China." *Annals of Economics and Finance*, Vol. 1, pp. 231 ï 250.
- Shaw, E. S. (1973). *Financial Deepening in Economic Development*. New York: Oxford University Press.
- Spencer, H. M. (1977). *Contemporary Macroeconomics*, (3rd Ed. New York Worth Publishers.
- Uche, C. U. (2001). "The Theory of Regulation: A Review Article." *Journal of Financial Regulation and Compliance*. Vol. 9, No. 1, pp. 67 ï 80.
- Ujah, N. I. and Amechi, A. E. (2005). *Money, Banking and Finance in a Developing World*. Aba: Cheedal Global Prints.
- Ujah, N. I. (2007). *Banking Operations Simplified*. Aba: Ker Experts Books.
- Ujah, N. I. (2010). "The Impact of Deposit Money Banks's Deposit Mobilization on Nigeria's Economic Growth." *Nigerian Journal of Integrated Financial Sciences*, Vol. 1, Issue 2 pp. 18 ï 27.
- Uremadu, S. O. (2000). *Bank Management: Basic Issues in Money, Bank Lending and Credit Administration*. Benin City: Mindex Publishing Company.
- Uremadu, S. O. (2002). *Academic Research Methods: As Applied to Accounting, Banking and Finance, Business Management and Economics*. Benin City: Mindex Publishing Company Limited.

- Uremadu, S. O. (2012). ñBank Capital Structure, Liquidity and Profitability, Evidence from the Nigerian Banking System.ò *International Journal of Academic Research in accounting, Finance and Management Sciences*, Vol. 2, Issue 1, pp. 98 ñ 113.
- Uzoaga, W. O. (1981), Money and Banking in Nigeria. Enugu: Fourth Dimension Publishers.
- Zakaria, Z. (2008). ñThe Level of Economic Development and the Impact of Financial Structure on Economic Growth: Evidence from Dynamic Panel Analyses.ò *Asian Academy of Management Journal of Accounting and Finance*, Vol. 3, pp. 21-42.

APPENDIX I

Ordinary Least Squares (OLS) result for Hypothesis 1

Dependent Variable: RGDPPC

Method: Least Squares

Date: 11/09/14 Time: 18:03

Sample: 1994 2013

Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.477263	0.300267	8.250197	0.0000
DMBD	0.175042	0.063149	2.771909	0.0131
GE	0.164597	0.185978	0.885037	0.3885
R-squared	0.871795	Mean dependent var	3.836400	
Adjusted R-squared	0.856712	S.D. dependent var	1.064145	
S.E. of regression	0.402815	Akaike info criterion	1.156803	
Sum squared resid	2.758421	Schwarz criterion	1.306163	
Log likelihood	-8.568031	Hannan-Quinn criter.	1.185960	
F-statistic	57.79999	Durbin-Watson stat	1.640574	
Prob(F-statistic)	0.000000			

APPENDIX II

Ordinary Least Squares (OLS) result for Hypothesis 11

Dependent Variable: RGDPPC

Method: Least Squares

Date: 11/09/14 Time: 18:05

Sample: 1994 2013

Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.244335	0.296563	7.567826	0.0000
DMBC	0.114344	0.059389	1.925335	0.0411
GE	0.350677	0.169841	2.064739	0.0445
R-squared	0.847174	Mean dependent var	3.836400	
Adjusted R-squared	0.829195	S.D. dependent var	1.064145	
S.E. of regression	0.439796	Akaike info criterion	1.332470	
Sum squared resid	3.288149	Schwarz criterion	1.481829	
Log likelihood	-10.32470	Hannan-Quinn criter.	1.361626	
F-statistic	47.11891	Durbin-Watson stat	1.736178	
Prob(F-statistic)	0.000000			

APPENDIX III

Ordinary Least Squares (OLS) result for Hypothesis 111

Dependent Variable: RGDPPC

Method: Least Squares

Date: 11/09/14 Time: 18:06

Sample: 1994 2013

Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.964199	0.239063	8.216254	0.0000
DMBLR	0.531867	0.200333	2.656580	0.0159
GE	0.524107	0.103322	5.072536	0.0001
R-squared	0.839723	Mean dependent var	3.836400	
Adjusted R-squared	0.820867	S.D. dependent var	1.064145	
S.E. of regression	0.450390	Akaike info criterion	1.380075	
Sum squared resid	3.448467	Schwarz criterion	1.529435	
Log likelihood	-10.80075	Hannan-Quinn criter.	1.409231	
F-statistic	44.53320	Durbin-Watson stat	1.761759	
Prob(F-statistic)	0.000000			