Financial Intermediation and Economic Growth in Nigeria: Evidence from 1986- 2010

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ABSTRACT

The paper examined the impact of Financial Intermediation on Economic Growth in Nigeria from 1986-2010. It tries to determine the effects of credits and savings by banks on the Real Gross Domestic Product. Multiple linear regression technique was employed to establish the relationship between credits and savings deposit and the economic growth measured by Real Gross Domestic Product. (RGDP). The empirical results showed that there is a significant relationship between banks' credits and savings deposit and Real Gross Domestic Product. (RGDP). In conclusion, commercial banks as a key financial institution has played a crucial role in its intermediary services which is evident in economic growth in Nigeria for the period covered Thus, we recommend among other things that monetary authorities should engage in a constant reappraisal of the regulations and policies that will continue to encourage credit extension. This will further boost and develop our growing economy to catch -up with the economy of the developed world.

INTRODUCTION

1.1 Overview of the Study

Over the years, financial systems around the world have undergone revolutionary changes. People can now borrow greater amounts at a cheaper rate than ever before, invest in a multitude of instruments catering to every possible profile of risk and return, and share risks with strangers across the globe. Nigeria as a developing nation is not left out of this financial revolution through the agencies of financial intermediation.

The role of financial intermediation has been exemplified in numerous literatures of finance. Besides the performance of specialized tasks, several theoretical models posit that they mitigate the costs associated with information acquisition and the conduct of financial transactions. In addition to this, several studies have revealed that financial intermediation does more than cost mitigation. It makes provision for insurance and risk sharing and stimulates the funding of liquidity needs through credit lines as well as aids the creation of specialized products (Benstom and Smith. Jr; 1975). The concept of financial intermediation is not relatively new. For decades, it has been a subject of study at both the macro-level, and the micro-level. At the macro-level, the significance of financial intermediation cannot be over-emphasized. Recently, the impact of financial intermediation on the growth of economy generated a heated debate. While some studies have opined that financial intermediation drives economic growth, others have argued that economic growth drives financial intermediation.

However, there are studies which have argued that a bi-directional causality exists between financial intermediation and economic growth. Prior to June 2004, there were eighty-nine commercial banks, among other financial intermediaries, with capitalization of less than 10 million USD and 3,330 branches, while the top ten banks accounted for about 50 percent of the industry's total assets/liabilities (Soludo; 2004: 5). Besides the poor capital base of these banks, there are other issues hindering the effective performance of these banks. Some of the issues include inefficiency in management, operational incompetency, poor corporate governance and unhealthy competition. Financial intermediation is a process that occurs when a financial intermediary borrows money from one source to loan to another source for investment, funding or resources. This type of assistance is crucial to economic development and growth. The availability of these profitable savings and

earnings channels has a direct effect on the economic wellbeing of the community. The competition that occurs amongst these channels pushes down the cost of these funds and enables fund availability (Yam, 2003). Therefore, this research work seeks to examine the impact of financial intermediation on economic growth in Nigeria.

1.2 Statement of the Problem

The strength of any economy depends on its ability to develop the financial system. Financial development is usually defined as a process that marks improvement in quality, quantity and efficiency of financial intermediary services. The basic role or function of banks and other financial institutions in an economy is to mobilize the surplus of the income earners with the propensity to save and channel the fund to deficit units. When they reach the banks or other financial institutions, the money from the surplus earners becomes loanable funds. Investors access these funds to fund their businesses and pay interest on loan obtained. Many investors have benefitted from banks' credits; some establish companies while some invest in properties. Therefore, one can conclude that Nigerian financial institutions have performed creditably on its intermediation functions. Nevertheless, Nigeria as a developing nation is still on the process of developing its financial system using monetary and fiscal policies as issued by the regulatory and monetary bodies such as Central bank of Nigeria.

In spite all the policies, the financial system is still faced with some problems as highlighted below;

Most banks and other financial institutions have been accused of not following due process in giving out loans to credible investors and this accounts for huge stock of unpaid loans. There have also been reported cases of high interest rates charged by banks. These interest rates range from 40% to 70%. This level of interest will demotivate many investors who will seek credit from the banks. The pressure of meeting the repayments with high interest rates can also be counterproductive. Investors who pay high interest rates have not been able to grow their business and improve their standard of living. It is therefore imperative to seek ways of curtailing the high interest rate. It is not advocated that interest rates should be regulated, but banks must be continually made aware of the need for responsible lending and the need to ensure interest rates are not excessive. Any reported excessive interest rate must be investigated by the regulatory authorities, and punitive action must be taken against such banks and other lending institutions.

Also, many banks have lost substantial amounts of money borrowed by entrepreneurs who mostly default in repayment plan agreed upon when issuing the loan. This they often attribute to low economic activities and poor implementations of lay-down policies that would have triggered the economy. The entrepreneurs should be exposed to entrepreneurship training before establishing any business. Banks and government should create more awareness and instill public confidence through its activities so that those idle cash can be injected into the economy.

The above-mentioned problems are prevalent in Nigerian banks and other financial institutions and credit lending thrifts.

The study seeks to breach the knowledge gap between the borrowers of funds and lenders in compliance with terms and conditions of loan/ facility agreement and the legal implications of failure by either party to oblige by the contractual terms.

1.3 Objectives of the Study

The major objective of the study is to assess the impact of financial intermediation on economic growth in Nigeria. The research pursues to attain these explicit objectives;

- Examine the relationship between banks' credit to private sector on overall economic performance.
- Determine the impact of bank deposit on economic growth.
- To examine the impact of banks' credits on real gross domestic product.

- Investigate the impact of bank deposit on real gross domestic product.
- To determine the effect of credit to the private sector on economic growth in Nigeria.

1.4 Purpose of the Study

Effective and robust economic growth is necessary for any nation to develop. Financial intermediation is key to achieving strong and efficient economy. Therefore, the purpose of the study is to;

- Examine the relationship between the volume of activity in the deposit money banks (measured by their loans and advances) and the overall economic performance for same period measured by gross domestic product (GDP).
- Measure how much the financial intermediation has impacted on economic growth in Nigeria.
- Examine the extent to which credits from banks accounts to overall economic growth in Nigeria.
- Examine challenges in the financial intermediation process and proffer solution.

1.5 Research Questions

In order to achieve the above stated purpose, the following research questions are advanced;

- Is there any relationship between the value of deposit money bank loans and advances to Gross Domestic Product and Per Capital Income?
- Is there any relationship between economic growth indicators and deposit money bank loans and advances by financial institutions?
- What are the impacts of financial intermediation on depositors and borrowers?

1.6 Hypotheses

The following null hypotheses are proposed and tested in the course of this study

- There is no significant relationship between banks' credit to the economy and Real Gross Domestic Product
- Changes in Banks Credits are not important in explaining changes in Real Gross Domestic Product.
- There is no significant relationship between Banks Savings Deposits and Real Gross Domestic Product.
- Changes in Banks Savings Deposit are not important in explain changes in Real Gross Domestic Product
- There is no significant relationship between Deposit Money Banks financial intermediation role and economic growth in Nigeria

1.7 Significance of the Study

The study will be significant to the business analysts, the government, researchers, investors and regulators. It will also contribute to the existing knowledge of the financial intermediation in Nigeria. The financial analyst will have in-depth knowledge of financial intermediation processes and be well informed to advise their clients. It will most importantly enable them to critically analyze the financial implications of borrowing and lending in an organized sector and the need to be obliged by the contractual agreements.

Again, it will enable investors to align with the direction of government spending and regulations guiding credit policies as government activities impact directly on business environment.

It will also serve as reference material for students of business studies.

The regulators in the financial system would also improve its policies for better and efficient financial system by issuing policies to strength the existing financial system.

1.8 Definition of Terms

Finance is concerned with how investors allocate and manage their resources under certainty and uncertainty.

Financial is the management of finances of a business.

Lending is the process of transferring funds from surplus units to deficit units.

Investors are those who deny themselves present pleasures in other to enjoy in future by putting in their money in interest yielding venture.

Financial intermediation is a process whereby surplus fund is transferred to deficit units.

Banks are institutions that safeguard their customers' funds and give loans.

Interest rate is fee charged for money borrowed.

Loan repayment is an arrangement made to pay back money borrowed.

Economy is activities concerned with production and distribution of goods and services in a particular country.

Growth is an increase in size or volume.

Bank run is when many customers simultaneously withdraw their deposits from a bank or financial institution because they fear the institution will fail or run out of money.

1.9 Limitations of the Study

It was not possible to visit all banks in Nigeria hence the relevant information as obtained from Central Bank of Nigeria and Financial & Economic Journals were used. However, the Central Bank of Nigeria is an apex bank that keeps vital records of banks in Nigeria as its regulator.

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REVIEW OF RELATED LITERATIJRE

2.1 Introduction

For more than two decades after independence, the Nigeria financial system was repressed as evidenced by ceilings on interest rates and credit expansion, selective credit policies, high reserve requirements, and restriction on entry into the banking industry. This situation inhibited the functioning of the financial system

and especially, constrained its ability to mobilize savings and facilitate productive investment (Sylvanus I. & Abayomi A, 2001). Over time, it began to facilitate savings and the efficient allocation of these savings to investment. In the process, it plays an important role in reducing risks and in the transformation of maturities into the saving-investment nexus. Financial institutions lower the cost of investment when they evaluate, monitor and provide financial services to entrepreneurs. They promote productivity and growth through improved efficiency of intermediation, a rise in the marginal product of capital and or an increase in the savings rate.

Over the years, researchers have developed a variety of economic theories to explain soundness in financial markets. While earlier researchers relied on movements in economic fundamentals as the origin of financial distress and crisis, recent studies have highlighted the role of the information available to, and the expectations of, investors in explaining the behavior of financial markets. A substantial body of empirical work in finance and growth assesses the impact of the operations of financial system on economic growth, whether the impact is economically large, and whether on certain components of the financial system, e.g. banks and stock markets, play a particularly important role in fostering growth at certain stages of economic development.

Financial liberalization is one of the key pillars of reforms in most countries of Africa. A lot of work has been done on the relationship between financial deepening and economic performance. Many studies find a close link between financial deepening, productivity and economic growth and conclude that policies affecting the financial sector have substantial effects on the space and pattern of economic development (Goldsmith 1969; King and Levine, 1993). For example, it is estimated that policies that would raise the M2/GDP ratio by 10% would increase the long-term per capita growth rate by 0.2 - 0.4% points (World Bank, 1994). Callier (1991),

maintained that the performance of the financial sector in Sub-Saharan Africa has an important bearing on the overall economic performance because: (i) the region continues to be in economic crisis and the financial system is relatively underdeveloped compared to any other developing region; (ii) structural adjustment programs would require more reliance on the private sector and hence its financing;

(iii) the debt crisis and reduction in external savings translates to the need to increase the mobilization of domestic savings for investment; (iv) reform is needed if the financial system is to overcome and avoid the problems of financial distress and restore confidence; and (v) the need for international competitiveness requires that the financial system be as adaptable and flexible as possible. It is postulated that the financial sectors in many African countries (i) are segmented, fragmented and dualistic; (ii) are mainly bank-based, with few NBFIs; (iii) serve the short end of the market; (iv) are heavily regulated, with much of their services geared towards servicing the public sector deficits, leading to a crowding-out of the private sector; and (v) they face limited competition or innovations, with many of them dominated by oligopolies (Soyibo, 1994).

2.2 General Performance of the Economy

The Nigerian economy has had a truncated history. In the period 1960-70, the Gross Domestic Product (GDP) recorded 3.1 per cent growth annually. During the oil boom era, roughly 1970-78, GDP grew positively by 6.2 per cent annually - a remarkable growth. However, in the 1980s, GDP had negative growth rates. In the period 1988-1997, which constitutes the period of structural adjustment and economic liberalization, the GDP responded to economic adjustment policies and grew at a positive rate of 4.0%. In the years after independence, industry and manufacturing sectors had positive growth rates except for the period 1980-1988 when industry and manufacturing grew negatively by -3.2 per cent and - 2.9 per cent respectively. The growth of agriculture for the periods 1960-70 and 1970-78 was unsatisfactory. In the early 1960s, the agricultural

sector suffered from low commodity prices while the oil boom contributed to the negative growth of agriculture in the 1970s. The boom in the oil sector lured labor away from the rural sector to urban centers.

The contribution of agriculture to GDP, which was 63 percent in 1960, declined to 34 per cent in 1988, not because the industrial sector increased its share but due to neglect of the agricultural sector. It was therefore not surprising that by 1975, the economy had become a net importer of basic food items. The apparent increase in industry and manufacturing from 1978 to 1988 was due to activities in the mining sub-sector, especially petroleum. Capital formation in the economy has not been satisfactory. Gross domestic investment as a percentage of GDP, which was 16.3 per cent and 22.8 per cent in the periods 1965-73 and 1973-80 respectively,

decreased to almost 14 per cent in 1980-88 and increased to 18.2 per cent in 1991 -98. Gross National Saving has been low and consists mostly of public savings especially during the period 1973-80. The current account balances before official transfers are negative for the periods 1965-73, 1980-88 and 1991-98.

The economy never experienced double-digit inflation during the 1960s. By 1976, however, the inflation rate stood at 23 per cent. It decreased to 11.8 per cent in 1979 and jumped to 41 percent and 72.8 per cent in 1989 and 1995, respectively. By 1998, the inflation rate had, however, reduced to 9.5 per cent from 29.0 per cent in 1996. Unemployment rates averaged almost 5 per cent for the period 1976-1998. However, the statistics, especially on unemployment, must be interpreted with caution. Most job seekers do not use the labour exchanges, apart from the inherent distortions in the country's labour market. Based on some basic indicators, it appears that the economy performed well during the years immediately after independence and into the oil boom years. However, in the 1980s the economy was in a recession. The on-going economic reform program is an attempt to put the economy on a recovery path with minimal inflation. The analysis that follows tries to discuss the developments in the economy for different periods.

The financial sector, which is the central nervous system of any economy, is very important for the development of any nation. Globally, the relationship between the financial system and development remains very critical for any economy to realize its potential.

Financial system development depends largely on the flow of funds from the banking system. Economic development on the other hand, experts stressed, is about enhancing the productive capacity of an economy by using available resources to reduce risks, remove impediments which otherwise could lower costs and hinder investments.

The banking system plays an important role of promoting economic growth and development through the process of financial intermediation. Many economists have acknowledged that the financial system, with banks as its major component, provide linkages for the different sectors of the economy and encourages high level of specialization, expertise, economies of scale and a conducive environment for the implementation of various economic policies of government intended to achieve non- inflationary growth, exchange rate stability, balance of payments equilibrium and high levels of employment. Well-functioning financial systems are able to mobilize household savings, allocate resources efficiently, diversify risk, and enhance the flow of liquidity, reduce information asymmetry and transaction cost and provides an alternative to raising funds through individual savings and retained earnings.

Joseph Schmnpeter (1911) highly acknowledged the role of finance in economic development in his book: "The Theory of Economic Development," as he maintained that financial intermediation is crucial for economic development. Schumpeter further 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. The economist noted 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.

2.3 Finance and Growth: Causality Using Purely Cross-Sectional Analyses

To examine whether financial intermediary development exerts a causal impact on economic growth, we need measures of financial intermediary development. We also need instrumental variables to extract the exogenous component of financial development. This section discusses the measures of financial intermediary development and then describes the indicators of national legal system origin, which we use as instrumental variables in the purely cross-sectional analysis. Finally, the section examines the causal relationship between financial intermediary development and growth.

Numerous theoretical models show that economic agents may form financial intermediaries to mitigate the costs of acquiring information and conducting transactions. More specifically, financial intermediaries emerge to lower the costs of researching potential investments, exerting corporate control, managing risk, and mobilizing savings. Theory further suggests that, by providing these services to the economy, financial intermediaries influence savings and allocation decisions in ways that may alter long-run growth rates. Thus, modern economic theory provides an intellectual framework for understanding how, ceteris paribus, countries with "better" financial intermediaries - financial intermediaries that are better at acquiring information, exerting corporate control, managing risk, and mobilizing savings - would grow faster than countries with less developed financial systems.

2.4 Finance and Economic Growth

According to King and Levine (1993), citing Schumpeter (1911), "the services provided by financial intermediaries- mobilizing savings, evaluating projects, managing risk, monitoring managers, and facilitating transactions- are essential for technological innovations and economic development " These aroused their curiosity and were motivated to test, empirically, the logic behind this statement. Their quest for knowledge yielded a result, which became the genesis of empirical argument over the need to justify the relationship between finance and economic growth. Beyond this, quite a number of studies have shown that there is a relationship between finance and economic growth. Some of these works include; Jayaratne and Strahan (1996), Demirgue-kunt and Maksimovic (1998), and Rajan and Zingales (1998). King and Levine (1993) conducted a pooled cross-country time-series survey of eighty countries for the period 1960 -1989 with a view to establishing the relationship between financial development and economic growth.

Four variables were developed and used as proxy for financial development. These include; financial depth, relative importance of specific financial institution, proportion of credit allocated to the private sector, and the ratio of claims on the non-financial private sector. On the other hand, the average long run real per capital GDP, the rate of physical capital accumulation, the ratio of domestic investment to GDP, and residual measure of improvement in the efficiency of physical capital allocation were used as a proxy for economic growth. Using cross-country regression and some other statistical test, this study established that the four indicators of financial development were positively and statistically related to growth and other indicators of economic growth.

Jayaratne and Strathan (1996) affirm that financial development impacts positively on economic growth but with a clause that there is an improvement in the quality of bank lending. Using the bank deregulation reform in the United state of America as a case-study, it was established that the rate of real, per-capita growth in income increased significantly. This impact on the reform in the financial system on economic growth was attributed to the improvement in the quality of bank lending, and not the increase in volume of bank lending. Odedokun (1998), in his study, emphasized that even though financial intermediation promotes economic growth, the growth-promoting effects are more pronounced in the low-income countries. Using a cross-country data analysis of 71 less developed countries (LDCs) for the period 1960 to 1980, the study expanded the neo-classical one-sector aggregate production function with financial development as an input. Two models were derived from economic growth as the dependent variable, while the regressors include; labour force growth, investment-GDP ratio, real export growth, and financial depth.

The models were estimated using the ordinary least squares (OLS) technique, as well as the Generalized Least Squares (GLS) technique. Besides the strong positive relationship that manifested between financial intermediation and economic growth, the study establishes that the impact of financial intermediation is at par

with export growth and capital formation. However, its impact on economic growth is superior to labour force growth.

Rajan and Zingales (1998) seek to establish the impact of financial development on industry-specific growth. This necessitated a cross-country, cross-industry study. The primary hypothesis was, "industries that are more dependent on external financing will have relatively higher growth rates in countries that have more developed financial markets." The study designed a multiple regression model, which specified growth as the dependent variable and the financial development, external finance dependency, country specific factors, and industry-specific factors. The average annual real growth rate of value-added was used as a proxy for growth, while value-added and gross-fixed capital formation for each industry obtained from the Industries Statistics Yearbook (1993). Two finance indicators were used as a proxy.

These are capitalization ratio and accounting standards. The study asserts that financial development enhances growth in indirect ways.

Demirgue-Kunt & Malcsimnvic (1998) carried out a firm level-based study to justify their assertion with respect to the relationship between finance and economic growth. This study shows that a developed financial system and legal system stimulates growth. This was achieved by using cross-sectional data drawn from thirty countries (developed and developing) for the period 1983 to 1991. They are of the view that an active stock market is an indication of a well-developed financial system. While firms in a country with a high rate of compliance with the rules and regulations have access to the capital market, the developed financial system will ensure growth of these firms. Hence, finance stimulates growth. Levine, Loayza, and Beck (2000) changed the face of the argument on the relationship between financial intermediation and economic growth.

This study seeks to establish the impact of the endogenous component of financial intermediation on economic growth. A robust methodology, which comprises two models and two estimation techniques, was employed. The first model, which defines economic growth as function of finance indicators and a vector of economic growth determinants, was estimated using the pure cross-sectional estimation technique. The second model is a dynamic panel model and is estimated using the Generalized Methods of Moments (GMM). Both tests confirm the strong positive impact of the endogenous components of financial intermediation on economic growth.

They, however, noted that countries with high priority for creditors' protection, strong will to enforce contracts, and unambiguous accounting standards have the potential for a developed financial intermediation. McCaig and Stengos (2005) introduced more instrumental variables with a view to establishing a more robust empirical relationship between financial intermediation and economic growth. The study uses a cross-country analysis of 71 countries for the period 1960 to 1995. A linear regression model, which defines economic growth as a function of financial intermediation and a set of conditioning variables, was estimated using the Generalized Method of Moments (GMM).

While the instrumental variable introduced included; religious composition, years of independence, latitude, settler mortality, and ethnic fractionalization, three conditioning variables were also used. These include; simple sets (initial GDP, and level of education), the policy set (simple set, government size, inflation, black market premium, and ethnic diversity), and the full set (simple set, policy set, number of revolution/ coups, number of assassinations per 1000 inhabitants, and trade openness).

This study also supports the argument that a positive relationship exists between financial intermediation and economic growth. However, it emphasized that this will be true if financial intermediation is measured by liquid liabilities and private credit ratio of GDP, while it will be weaker if it is measured using the Commercial-Central Bank ratio. Hao (2006) seeks to establish the relationship between financial intermediation and economic growth, using a country-specific data from China.

The study focused on the post-1978 reform period, using provincial data (28 Provinces) over the period 1985 to 1999. The study employed the use of linear model, which expresses economic growth as a function lagged economic growth, financial development. indicators (banks, savings, and loan-budget ratio), as well as a set of traditional growth determinants (population growth, education, and infrastructural development). The study uses the one-step parameter estimates for the Generalized Method of Moments (GMM) estimation and finds

that financial intermediation has a causal effect and positive impact on growth through the Generalized Method of Moments (GMM) estimation and finds that financial intermediation has a causal effect and positive impact on growth through the channels of households' savings mobilization and the substitution of loans for state budget appropriations. However, the study reveals that banks, as an indicator of financial development, are significant but negatively related to growth. This was attributed to the inefficiency in loans distribution and the self-financing ability of the provincial governments. Avila (2007) also confirms the positive impact of finance on growth. He investigated the relationship between finance and growth, with emphasis on the effect of financial deregulation and banking law harmonization on economic growth in the European Union.

The study establishes that financial intermediation impacts positively on economic growth through three channels. The study by Deidda (2006) is quite informative and unique. It is a micro-based study and uses the inter-temporal approach to explain the theoretical rationale of the impact of financial intermediation on economic growth. It assumes a transition from period l (financial autarky) to period 2, which is the period when financial intermediation is attained. Although this study is theoretical in nature, the General Equilibrium Analysis was used, and it concludes that the growth effect of costly financial development is ambiguous when regime switch is associated with the adoption of more capital-intensive technology.

2.5 The Relationship Between Finance And Economic Growth

The study by Odhiambo (2008) proves very useful in this regard. The study prepared a simple table, which summarizes previous empirical studies on the causal relationship between finance and economic growth. Several studies, however, have been conducted since then to further enhance the understanding of the causal relationship between finance and economic growth. While Liang and Teng (2006),

Odhiambo (2008) and Odhiambo (2011) emphasize that economic growth granger causes financial development, others, which include; Abu-Bader and Abu-Qam (2008), Wolde-Rufael (2009), Kar, Nazlioglu and Agir (2011), and Bangake and Eggoh (2011) argue otherwise. Odhiambo (2008) seeks to examine the dynamic causal relationship between financial depth and economic growth in Kenya. The study focuses on the period 1969 to 2005 and included savings as an intermitting variable. To achieve this task, this study adopted two econometric techniques; the dynamic tri-variate granger causality test and the error correction model {ECM Modelling). This study concludes that on-way direction causality, from economic growth to finance, exists in Kenya. In words, finance plays a minor role in the attainment of economic growth in Kenya. Using a different econometric technique, the Quad-variate Vector Autoregressive (VAR) framework and data from 1966 to 2005, it concludes that two-way directional causality exists in Kenya. Abu-Bader and Abu-Qarn (2008) seeks to examine the causal relationship between financial development and economic growth.

The study focuses on Egypt over the period, 1960 to 2001. Using the trivariate VAR model, this study concludes that two-way directional causality exists in Egypt. In other words, finance leads to growth, and economic growth induces financial development. Conversely, Odhiambo (2011) argues that economic growth granger causes financial development in South Africa. This study seeks to examine the dynamic causal relationship between financial development, economic growth, and poverty reduction. Using a trivariate causality model and the ECM modelling to analyze the data collected from 1960 to 2006, it concludes that the hypothesis of finance-led growth does not hold in South Africa. Gries, Kraft, and Meierrieks (2009) seek to test for the causality between financial deepening, trade openness, and economic development. This study focuses on 16 Sub-Saharan African countries, using annual time series observations. For the purpose of establishing causal relationships, the Hsiao-Granger method, the Vector Auto-Regression (VAR), and the Vector Error Correction Model (VECM) were used. This study shows sparse support for the hypothesis of finance-led growth. It, however, suggests that the adoption of a more balanced policy approach may reduce financial system deficiencies among the Sub-Saharan Countries.

Ker, Nazliogu, and Agir (2011) focused on developing countries and also introduced new indicators of financial development with a view to establishing the causal relationship between financial development and economic growth. Using countries which constitute the Middle East and North Africa (MENA) for the period 1980 to 2007, the study uses a simple linear model. This model defines economic growth as a function of financial development. Six new indicators of financial development was introduced and these, however, have

been conducted since then to further enhance the understanding of the causal relationship between finance and economic growth. While Liang and Teng (2006), Odhiambo (2008), Coccorese (2008), and Odhiambo (2011) emphasize that economic growth granger cause financial development, others, which include; Abu-Bader and Abu-Qarn (2008), Wolde-Rufael (2009), Kar, Nazlioglu and Agir (2011), and Bangake and Eggoh (2011) argue otherwise.

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Bangake and Eggoh (2011) also support the view of an existing two-way directional causality between financial development and economic growth among developing countries. This study focuses on seventy-one countries, which included eighteen developing countries, for the period 1960 to 2004. The study carried out its empirical analysis using both the Panel Co Integration Tests and the Panel Co Integration Estimation (i.e. Dynamic OLS and panel VECM approach). It establishes that both financial development and economic growth have influence on one another but suggests that a long-run policy approach may prove beneficial among the developing countries. Hassan, Sanchez and Yu (2011) focused more on the low- and middle-income countries from 1980 to 2007.

This study comprises 168 countries, which are classified by geographic regions, and uses the panel estimation techniques (i.e. the VAR models). The study came up with two important findings. These include; a strong long-run linkage between financial development and economic growth, and two-directional causality exists between financial development end economic growth among the Sub-Saharan African countries, the East Asian countries, and the Pacific.

2.6 Nigeria Gross Domestic Product GDP as a Measure of Financial Intermediation

The Gross Domestic Product (GDP) in Nigeria expended 6.48 percent in the third quarter of 2012 over the previous quarter. GDP growth rate in Nigeria is reported by the National Bureau of Statistics. Historically, from 2005 until 2012, Nigeria GDP growth rate averaged 6.8 Percent reaching an all-time high of 8.6 percent in December of 2010 and a record low of 4.5 percent in March of 2009. Nigeria is arguably one of the most developed economies in Africa. The petroleum industry provides 95% of foreign trade earnings and about 80% of budget revenues. Yet, agriculture is the main source of revenue for two-thirds of the population. Still, more than 50% of Nigerians live in abject poverty with corruption and poor infrastructure as the main obstacles for future sustainable development.

The GDP growth rate shows a percentage change in the seasonally adjusted GDP value in the certain quarters, compared to the previous quarter. Because of the climatic conditions and holidays, the intensity of the production varies throughout the year. This makes a direct comparism of two consecutive quarters difficult. In order to adjust for these conditions, many countries calculate GDP using seasonally adjusted methods. The Gross Domestic Product can be determined using three different approaches: the product, the expenditure and the income technique or approach, which should give the same result. The product techniques sum up the outputs of every class of enterprise. The expenditure technique works on the principle that every product must be bought by somebody, therefore the value of the total product must be equal to people's expenditures in buying products and services. The income technique works on the principle that incomes of the productive

factors must be equal to the value of their product and determines GDP by finding the sum of all producers' incomes.

2.7 Current Theories of Financial Intermediation

Current theories of the economic role of financial intermediaries build on the economics of imperfect information that began to emerge during year 2000 with the seminal contributions of Akerlof (2000), Financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders. Financial intermediaries thus assist the efficient functioning of markets, and any factors that affect the amount of credit channeled through financial intermediaries can have significant macroeconomic effects.

There are two strands in the literature that formally explain the existence of financial intermediaries. The first strand emphasizes financial intermediaries' provision of liquidity. The second strand focuses on financial intermediaries' ability to transform the risk characteristics of assets. In both cases, financial intermediation can reduce the cost of channeling funds between borrowers and lenders, leading to a more efficient allocation of resources.

Diamond and Dybvig (1983) analyze the provision of liquidity (the transformation of illiquid assets into liquid liabilities) by banks. In Diamond and Dybvig's model, ex ante identical investors (depositors) are risk averse and uncertain about the timing of their future consumption needs. Without an intermediary, all investors are locked into illiquid long-term investments that yield high payoffs only to those who consume late. Those who must consume early receive low payoffs because early consumption requires premature liquidation of long-term investments. Banks can improve on a competitive market by providing better risk sharing among agents who need to consume at different (random) times. An intermediary promising investor a higher payoff for early consumption and a lower payoff for late consumption relative to the non-intermediated case enhances risk sharing and welfare.

The optimal insurance contract in Diamond and Dybvig's model is a demand deposit contract, but it has an undesirable equilibrium (bank run), in which all depositors panic and withdraw immediately, including even those who would prefer to leave their deposits in the bank if they were not concerned about the bank failing. Bank runs cause real economic problems because even "healthy’ banks can fail, leading to a recall of loans and the termination of productive investment.

In Diamond and Dybvig (1983) the illiquidity of assets provides both the rationale for the existence of banks and for their vulnerability to runs. A bank run is caused by a shift in expectations. When normal volumes of withdrawals are known and not stochastic, suspension of convertibility of deposits will allow banks both to prevent bank runs and to provide optimal risk sharing by converting illiquid assets into liquid liabilities. In the more general case (with stochastic withdrawals), deposit insurance can rule out runs without reducing the ability of banks to transform assets.

Financial intermediaries are able to transform the risk characteristics of assets because they can overcome a market failure and resolve an information asymmetry problem. Information asymmetry in credit markets arises because borrowers generally know more about their investment projects than lenders do. Information asymmetry can occur "ex ante" or "ex post". An ex-ante information asymmetry arises when lenders cannot differentiate between borrowers with different credit risks before providing loans and leads to an adverse selection problem. Adverse selection problems arise when an increase in interest rates leaves a more risky pool of borrowers in the market for funds. Financial intermediaries are then more likely to be lending to high-risk borrowers, because those who are willing to pay high interest rates will, on average, be worse risks.

The information asymmetry problem occurs ex post when only borrowers, but not lenders, can observe actual returns after project completion. This leads to a moral hazard problem. Moral hazard arises when a borrower engages in activities that reduce the likelihood of a loan being repaid. An example of moral hazard is when firms' owners "siphon off' funds (legally or illegally) to themselves or to associates, for example, through loss-making contracts signed with associated firms.

The problem with imperfect information is that information is a "public good". If costly privately produced information can subsequently be used at less cost by other agents, there will be inadequate motivation to invest in the publicly optimal quantity of information. The implication for financial intermediaries is as follows. Once banks obtain information, they must be able to signal their information advantage to lenders without giving away their information advantage. One reason financial intermediaries can obtain information at a lower cost than individual lenders is that financial intermediation avoids duplication of the production of information. Moreover, there are increasing returns to scale to financial intermediation. Financial intermediaries develop special skills in evaluating prospective borrowers and investment projects. They can also exploit cross-sectional (across customers) information and re-use information over time.

Banks can communicate information to investors about potential borrowers at a lower cost than can individual borrowers. They focus on an ex-ante information asymmetry, where entrepreneurs selling shares to the market know the expected returns of their own investment, but other agents find this information costly to observe. This results in a moral hazard problem since firms with low expected returns have an incentive to claim a high expected return so as to increase their market valuation. In Leland and Pyle's model, intermediaries can solve this moral hazard problem by monitoring the actions of firms.

Retained equity can serve as a costly signal of the entrepreneur's information about a project. The value of the firm increases with the share of the firm held by the entrepreneur and in contrast to Modigliani and Miller (1958), the financial structure of a firm is therefore related to project or firm value.

One problem with the Leland and Pyle analysis is that it assumes the existence of an incentive signaling equilibrium. However, if a signaling equilibrium exists, then firms will be properly valued with or without intermediaries or other information producers.

Diamond (1984) argues that diversification within the financial intermediary is the main reason financial intermediaries exist. He also develops a model in which the outcome from firms' investment project is not known, ex post to external agents, unless information is gathered to assess the outcome, i.e. there is "costly state verification" This leads to a moral hazard problem because it provides an incentive for borrowers to default on a loan even when the project is successful.

In Diamond's model, intermediaries are delegated the costly task of monitoring loan contracts. A financial intermediary must choose an incentive contract such that it has incentives to monitor the information, make proper use of it, and make sufficient payments to depositors to attract deposits. Providing these incentives is costly and diversification can reduce these costs.

The optimal contract is a debt contract (an agreement by the borrower to pay the lender a fixed amount) with a non-pecuniary bankruptcy penalty. The intermediary need not be monitored because it bears all penalties for any shortfall in payments. This is because the diversification of the intermediary's portfolio makes the probability of incurring these penalties very small. The optimal size for a financial intermediary is infinite; costs are lowered indefinitely by diversification, as long as the returns to entrepreneurs are not perfectly correlated.

Adverse selection increases the likelihood that loans will be made to bad credit risks, while moral hazard lowers the probability that a loan will be repaid. As a result, lenders may decide in some circumstances that they would rather not make a loan and credit rationing may occur. There are two forms of credit rationing: (i) some loan applicants may receive a smaller loan than they applied for at the given interest rate, or (ii) they may not receive a loan at all, even if they offered to pay a higher interest rate.

Jaffee and Russell (1976) develop a theoretical model in which imperfect information and uncertainty can lead to rationing in loan markets, where some agents do not receive the loan, they applied for. Their paper analyses the behavior of a loan market in which borrowers have more information than lenders about the likelihood of default. The key feature in the model is the relationship between default proportions and contract sizes. There are some minimum loan sizes at which no default is observed, beyond that, the proportion of individuals who do not default is declining with the contract size.

Since borrowers are identical ex ante, the market interest rate incorporates a premium to take account for the aggregate probability of default. Consequently, borrowers with low default probability pay a premium to support low-quality borrowers and credit rationing in the form of the supply of smaller-sized loans than those demanded by the borrowers at a quoted rate may result. High-quality borrowers will prefer some rationing if the smaller loan sires lower than average market default probability, thus reducing the premium.

Stiglitz and Weiss (1981) developed a model of credit rationing, where some borrowers receive loans and others do not. They assume that the interest rate directly affects the quality of loans because of an adverse selection effect or moral hazard effect. Banks making loans are concerned about the interest rate they receive on a loan, and the riskiness of the loan. For a given loan rate, lenders earn a lower expected return on loans to borrowers with riskier projects than to good quality borrowers. The interest rate a bank charges can affect the riskiness of the loans either by sorting prospective borrowers (the adverse selection effect), or by affecting the actions of borrowers (the moral hazard effect).

When the price (interest rate) affects the transaction, it may not clear the market The adverse selection effect of interest rates is a consequence of different borrowers having different probabilities of repaying their loans. The interest rate an individual is willing to pay may act as a screening device. Those who are willing to pay high interest rates may, on average, be the worst risks. They are willing to borrow at high interest rates because they perceive their probability of repaying the loan to be low. As a result, there exists an interest rate that maximizes the expected return to the bank and beyond which the bank will be unwilling to supply funds, making the supply of loans curve bend backwards.

A change in interest rates can affect the bank's expected return from loans through the moral hazard effect by changing the behavior of borrowers. Higher interest rates induce firms to undertake projects with lower probabilities of success but higher payoffs when successful. Increasing the rate of interest increases the relative attractiveness of riskier projects, for which the return to the bank may be lower. As the interest rate rises, the average riskiness of those who borrow increases and the moral hazard effect reinforces the adverse selection problem. Banks therefore have an incentive, in some circumstances, to ration credit rather than to raise interest rates when there is excess demand for loanable funds.

Williamson (1986) develops a model of credit rationing where borrowers are subject to a moral hazard problem. Borrowers are identical ex ante, but some receive loans and others do not A borrower and lender are asymmetrically informed ex post about the return on the borrower's investment project, and the borrower will have an incentive to falsely default on the loan. Costly monitoring by lenders or borrowers together with large-scale investment projects imply that there exist increasing returns to scale in lending and borrowing which can be exploited by financial intermediaries. The optimal contract between a lender and a borrower is a debt contract and the lender only monitors in the event of default. An increase in the loan interest rate raises the expected return to the lender but also results in an increase in the probability that the borrower will default, thus increasing the expected cost of monitoring to the lender. This, in tum, generates an asymmetry in the borrowers' and lenders' payoff functions, which can lead to credit rationing. Because of the asymmetry in the payoff functions, it may not be possible for the loan interest rate to adjust to clear the market, so that some borrowers do not receive a loan in equilibrium.

In summary, financial intermediaries play an important role in credit markets because they reduce the cost of channeling funds between relatively uninformed depositors to uses that are information-intensive and difficult to evaluate, leading to a more efficient allocation of resources. Intermediaries specialize in collecting information, evaluating projects, monitoring borrowers' performance and risk sharing. Despite this specialization, the existence of financial intermediaries does not replicate the credit market outcomes that would occur in a full information environment. The existence of imperfect asymmetrically held information causes friction in the credit market. Changes to the information structure and to variables which may be used to overcome credit friction (such as firm collateral and equity) will in tum cause the nature and degree of credit imperfections to alter.

Banks and other intermediaries are "special" where they provide credit to borrowers on terms which those borrowers would not otherwise be able to obtain. Because of the existence of economies of scale in loan mark-

ets, small firms in particular may have difficulties obtaining funding from non-bank sources and so are more reliant on bank lending than other firms. Adverse shocks to the information structure, or to these firms' collateral or equity levels, or to banks' ability to lend, may all impact on firms' access to credit and hence to investment and output.

SUMMARY

This chapter reviewed related literature on the impact of financial intermediation on economic growth in Nigeria. Financial intermediation is the process performed by banks taking in funds from depositors and the lending them out to borrowers. The banking business thrives on the financial intermediation abilities of financial institutions to lend out money at relatively high rates of interest while receiving money deposit at relatively low rates of interest.

Many authors have used different models to assess the impact of financial intermediation on the growth of the economy. These theories have opined that financial intermediation is a catalyst to economic growth. In Nigeria, commercial banks which are the major institution financial intermediation as well as other lending institutions have undergone various reforms to enable them to perform the lending function effectively. Though, it is still faced with some challenges such as huge stock of non- performing loans and weak organizational structures.

Nevertheless, the Nigerian financial system has witnessed rapid growth and substantial structural change in the last decades. Commercial banks and other lending institutions are advised to abreast reforms aimed at strengthening and sustaining the financial sector for appropriate channeling of resources for investment and productive purposes.

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RESEARCH METHODOLOGY

3.1 Research Design

According to Ugwn, O (1988), a research design provides the procedural outline on how to conduct a given investigation. It constitutes the blueprint from the collection, measurement and analysis of data.

The study adopted ex-post facto research design. Data were collected from secondary sources. Ex- post facto research design studies existing facts and but not necessarily amassed for research purposes. Baridam, (2005) asserted that one thing that must guide the researcher is the fact that variables in this study like financial intermediation and economic growth cannot be controlled or manipulated by the researcher. Financial intermediation is therefore crucial to economic growth. It encourages investment and good feasibility business plan sees the light of the day through banks credits. Therefore, the study will analyze how financial intermediation impacts on economic growth.

3.2 Sampling Procedure

This research was carried out strictly by the use of secondary data These data were basically obtained from statistical bulletin of Central Bank of Nigeria, Financial & Economic journals and International Financial statistics. The data span over the Sample period 1986 - 2010.

3.3 Data Collection Method

Multiple simple regression techniques was adopted in this study. This model is used because the study has more than one independent and dependent variables.

3.4 Operational Measures of the Variables

In this research on the impact of financial intermediation on economic growth in Nigeria. Financial intermediation will serve as the independent variable while economic growth is the dependent variable.

Table 3.1- Operational Measure of Variables

Banks Credit	Aggregate loans and advances issued to borrowers
Savings Deposit	Aggregate money deposit mobilized in banks
Gross Domestic Product	Per capital income index obtained from National Bureau of Statistics (NBS)

The models are specified as follows:

Y = a + b1X1+ bzX2 For our study;

RGDP = ft credits; savings Deposit)

RGDP =a+ b1Ccredits + b2Savings Deposit where;

RGDP= Real Gross Domestic Product

RGDP = ft credits; savings Deposit)

RGDP =a+ b1Ccredits + b2Savings Deposit Y = dependent variable (Economic growth)

a= intercept point of the regression line and the y axis b = slope of the regression line / amount of change in y

x = independent or explanatory variable (Credits and savings)

3.5 Data Analysis Techniques

Statical technique was employed in this study using regression analysis. This was carried out with aid of modem statistical package - Econometric views (E-views). According to Baridam (2005:140), in studies of independent and dependent variables that both are measurable in terms of interval scales, if a sufficiently large number of measurements were obtained, it would be possible to fit an equation, called a regression equation, to the data which would express the relationship between the variables. In general form of multiple linear regression models, the dependent variable Y is assumed to be linear function of an independent variable X. To express the model in equation form:

RGDP =f (credits; savings Deposit)

RGDP =a+ b1 credits + b2Savings Deposit

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PRESENTATION AND ANALYSIS OF DATA

4.0 Introduction

Data analysis is described as the ordering or the breakdown of data into constituent parts in order to obtain answers to the research questions. This chapter thus has the sole purpose of presenting and analyzing the data based on the outcome of the reports. The use of a particular test depends on the type of hypothesis involved.

Solutions found through methods employed provide the basis for conclusion on the findings. Relevant statistical tools such as multiple regression analysis and correlation coefficient were used to test the hypotheses postulated in chapter one.

4.1 Data Presentation

The data presented below shows the annual Real Gross Domestic Product (RGDP) in Nigeria and annual total loans and advances as well as savings deposits of deposit money banks. Thus, for the purpose of our study and to test the proposed hypotheses, we present the annual Real Gross Domestic Product (RGDP), deposit money banks' credit to the private sector and savings deposits mobilized between the periods of1986 and 2010.

Research Data

Yean	Real Gron Domestic	Credits		Savings Deposit
	Product (RGDP)			
1986	205,971.44	15701.5		5223.3
1987	204,806.54	17531.9		8712.6
1988	219,875.63	20044.9		7565.2
1989	236,729.58	22221.2		*4606.4*
1990	267,549.99	26083.9		10067.8
1991	265,379.14	31762.4		7453.5
1992	271,365.52	41810		6767
1993	274,833.29	48056		31192
1994	275,450.56	92624		40444
1995	281,407.40	141146		*22695*
1996	293,745.38	169242		49751
1997	302,022.48	230600		42861.5
1998	310,890.05	272895.5		52993.8
1999	312,183.48	353081.1		193412.9
2000	329,178.74	530373.3		285294.4
2001	356,994.26	764961.52		192731.8
2002	433,203.51	930493.93		435601
2003	477,532.93	1096535.S7		434299
2004	527,576.04	1421664		*677957.4*
2005	561,931.39	1838389.9		701667.3
2006	595,821.61	2290617.8		16818127
2007	634,251.14	3680090.2		873934.1
2008	672,202.55	6941383.4		983842.9
2009	718,977.33	9147417.2		1060314.2
2010	*755,525.70*	10157021		1149976

Source: CBN statistical bulletin (2010)

4.1. Data Analysis

In order to achieve the objective of this study, we adopt the ordinary least square procedure in analyzing our estimated secondary data. The estimated regression result obtained is presented in the form below; it is thereby analyzed critically based on our stated estimation method. It follows.

4.2. Presentation of Empirical Results

The tab1e be1ow presents the resu1ts obtained from our estimated models, based on the ordinary1least squares (OLS) procedure as follows.

TABLE 4.1: RESEARCH RESULT 1

Dependent Variable: RGDP Method: least Squares Date:01/23/13 Time: 10:47 Sample: 19862010 Included oblervationl:25

Variable	Coefficient	Std. Error	t-81atis1ic	Prob.
C	270649.1	12551.64	21.56264	0
CREDITS	0.026646	0.005362	4.969025	0.0001
SAVDEP	219373	0.032765	8.89532	0
R-squared	0.928551	Mean dependent var		3922182
Adjuated R-41q1aed	0.919874	S.O. dependent var		174867.7
S.E. of regression	49499.08	Akaike info criterion		24.56946
Sum squared resid	5.39E+10 Schwarz criterion			24.71573
Log likelihood	-304.1183 Haman-Quinn enter.			24.81003
F-statistics	138.7637 Durbin Watson stat			1.8969
Prob(F-statistic)	0			

4.3 Analysis of Empirical Results

The regression results shown in table 4.1 above are analyzed based on our stated method of analysis.

1. r-squared (r2) the r-squared which is also known as coefficient of determination, measures the percentage by the explanatory variable. From our estimated regression results, the R- squared is 0.926551. This indicates that the regression line has a good fit. In other words, variations in the dependent variable are explained by changes in the explanatory variables. In other words, variations in the dependent variable are explained by about 93% of the changes in the explanatory variables.

2. The t- Test: This test is conducted to verify the validity of the parameter estimate. In other words, it is a test of hypothesis.

The Null Hypothesis 1: There is no statistically significant relationship between Credits extended by Deposit Money Banks and Real Gross Domestic Product (RGDP).

The alternative Hypothesis 1: There is a statistically significant relationship between Credits extended by Deposit Money Banks and Real Gross Domestic Product (RGDP).

The Null Hypothesis 2: Changes in Deposit Money Banks Credits are not important in explaining changes in Real Gross Domestic Product (RGDP).

The Alternative Hypothesis 2: Changes in Deposit Money Banks Credits are important in explaining changes in Real Gross Domestic Product (RGDP).

The Null Hypothesis 3: there is no statistically significant relationship between Deposit Money Banks Savings Deposit and Real Gross Domestic Product (RGDP).

The Alternative Hypothesis 3: there is statistically significant relationship between Deposit Money Banks Savings Deposit and Real Gross Domestic Product (RGDP).

The Null Hypothesis 4: changes in Deposit Money Banks Savings Deposit are not important in explaining changes in Real Gross Domestic Product (RGDP)

The Alternative Hypothesis 4: Changes in Deposit Money Banks Savings Deposit are important in explaining changes in Real Gross Domestic Product (RGDP)

The Null Hypothesis 5: there is no statistically significant relationship between Banks intermediation activities and Real Gross Domestic Product (RGDP)

The Alternative Hypothesis 5: there is no statistically significant relationship between Banks intermediation activities and Real Gross Domestic Product (RGDP)

Decision Rule: if t- calculated is greater than t- Tabulated at 0.05 level of significance, reject the null hypothesis, then accept the alternative hypothesis, otherwise, we do not reject the null hypothesis.

Interpretation: - From our result table above, the probability coefficient for the explanatory variables (amount of credits extended by Deposit Money Banks and Savings Mobilization 0.0001 and 0.0000) are less than the preferred level of significance (0.05). This shows a highly significant relationship between the dependent variable (Real Gross Domestic Product) and amount of credits extended by Deposit Money Banks and Savings Mobilization. Again, there is also positive relationship between the explanatory variables and the Criterion Variable. Thus, for every One Naira increase in the number of Credits extended by the Deposit Money Banks, the Real Gross Domestic Product will increase by about Three Kobo. Also, for every One Naira increase in the amount of Savings Mobilized by the Deposit Money Banks, the Real Gross Domestic Product will increase by about Twenty-One Kobo. Therefore, we reject all the Null Hypotheses, and we accept the alternative hypotheses. Thus, we can conclude that there is a statistically significant relationship credits by the Deposit Money Banks and Real Gross Domestic Product. There is also a statistically significant relationship between amount of mobilized savings and Real Gross Domestic Product.

The F-Test: This is also carried out using the 5 percent level of significance, which is identified as a fair level. The null hypo1hesis of this test states that the estimated model is not statistically significant the decision rule follows that we accept the null hypothesis of the tabulated F-value, if the tabulated F-value is greater 1han the computed F-value. Thus, the computed F-value for regression result is 138.7637, while the tabulated F-value is 2.27. Thus, we can reject the null hypothesis and conclude that the overall parameter estimated is significant.

The Durbin-Watson Test: The Durbin Watson is conducted to ascertain the existence of autocorrelation. This implies the relationship between error terms of various observations. However, the computed Durbin Watson value for the regression results is 1.896960. It is given that the tabulated Durbin-Watson value for the regression results are dl=0.710, Du=2.060, since tabulated du is less than computed Durbin-Watson values, we do not reject the null hypothesis of no autocorrelation, whether positive or negative. Hence, autocorrelation is not significantly found in the estimated linear model

4.3 Summary of Findings

In conclusion, based on the statistical test and analysis of data collected for the research study, the results revealed thus;

- There is a statistically significant relationship between Credits extended by

Deposit Money Banks and Real Gross Domestic Product (RODP).

- Changes in Deposit Money Banks Credits are important in explaining changes in Real Gross Domestic Product (RGDP).
- There is statistically significant relationship between Deposit Money Banks Savings Deposit and Real Gross Domestic Product (RGDP).
- Changes in Deposit Money Banks Savings Deposit are important in explaining changes in Real Gross Domestic Product (RGDP)
- There is statistically significant relationship between Banks intermediation activities and Real Gross Domestic Product (RGDP)

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Discussion of Findings

The study made an assessment of banks contribution to economic growth in Nigeria. It approached banks' contribution from the financial intermediation role the institutions play. From this perspective it related the savings mobilization and lending functions of banks to the growth rate of the gross domestic product, which was adopted as proxy for economic growth. As observed, there exists a significant relationship between deposit money banks intermediation roles and economic growth in Nigeria This implies that activities of deposit money banks have really enhanced economic growth in the country during the period of l986 and 2010.

5.2 Conclusion

Economic growth has been a major objective of successive Nigerian governments. During the colonial period, the focus was on the provision of physical infrastructure in line with the prevailing economic ideas, that the facilities would induce the private investments that would produce the desired growth. After independence the government became more directly involved in promoting economic growth through various means. This thinking was to nurture private entrepreneurs and mobilize needed domestic resources for investment in some preferred sectors. This brought banks and their intermediation functions into prominence in the economic history of Nigeria.

A major policy thrust of interest rate reform was a boost on domestic savings and a consequent increase and availability of loanable funds in the banking sector. The ultimate goal is to ensure that funds are available to the productive sector of the economy to ensure sustainable economic growth and development. The paper examined the intermediation process of commercial banks on economic growth in Nigeria. The implication is that banks in Nigeria have played their intermediation role significantly during the period of study.

5.3 Recommendation

Following the discussion and conclusion above, we therefore make the following recommendations;

- There should be a strong collaboration on the enlightenment of borrowers on the legal and trust implications of defaulting on loan repayments.
- The monetary authority should engage in a constant reappraisal of the regulations and policies that will continue to encourage credit extension.
- Banking habit should be improved among Nigerians. This could be achieved through massive enli-

  ghtenment campaign to educate the public. This will cause them to embrace proper banking habits and thereby increase financial inclusion in the country.

- The monetary authority should pursue partial deregulation of the interest rates, where there is concessionary interest rate for genuine entrepreneurs in the economy. This will ensure investment-friendly environment and guarantee profitability to genuine investors and ultimately enhance economic growth in Nigeria.

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APPENDIX ONE

Research Data

Year	Real Gross Domestic Product (RGDP)	Credits	Saving, Deposits
1986	205,971.44	15701.5	5223.3
1987	204,806.54	17531.9	8712.6
1988	219,875.63	20044.9	7565.2
1989	236,729.58	222212	4606.4
1990	267,549.99	26083.9	10067.8
1991	265,379.14	31762.4	7453.5
1992	271,365.52	41810	6767
1993	274,833.29	48056.0	31192
1994	275,450.56	92624	40444
1995	281,407.40	141146	22695
1996	293,745.38	169242	49751
1997	302,022.48	230600	42861.5
1998	310,890.05	*272895.5*	*52993.8*
1999	312,183.48	353081.1	193412.9
2000	329,178.74	530373.3	285294.4
2001	356,994.26	764961.52	192731.8
2002	433,203.51	930493.93	435601
2003	477,532.93	1096535.57	434299
2004	527,576.04	1421664.03	677957.4
2005	561,931.39	1838389.93	701667.3
2006	595,821.61	2290617.76	1681812.7
2007	634,251.14	3680090.19	873934.1
2008	672,202.55	6941383.41	9838429
2009	718,977.33	9147417.17	10603142
2010	775,525.70	10157021.18	1149976

Source: CBN Statistical Bllldi11 (2010)

APPENDIX TWO

RESEARCH RESULT 1

Dépendent Variable:

RGDP Method: Lest Squares Date

01/23/13Time:10:47

Semple: 19882010

Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	270849.1	12551.8'	21.58284	0
CREDITS	0.026648	0.005382	4.969025	0.0001
SAVDEP	0.219373	0.032785	8.69532	0
R-squared	0.926551	Mean Dependent Var		3922162
Adjusted R-squared	0.919874	S.D Dependent Var		174887.7
S.E. of regression	49499.08	Akaike info criterion		24.56948
Sum Squared resid	5.39E+10	Schwarz criterion		24.71573
Log likelihood	-304.118	Hannan-Quinn critter.		24.81003
F-statistic	138.7837	Durbin-Watson stat		1.89698
Prob(F-statistic)	0			

Source: Author's Computation using E-views software.