Impact of Financial Intermediation on Economic Growth in Nigeria

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Abstract: **This study examined the impact of financial intermediation on economic growth in Nigeria. Secondary data was collected from Central Bank of Nigeria Statistical Bulletin and Financial statement. The specific objectives of the study were to; ascertain the impact of fixed deposit on economic growth in Nigeria, to determine the impact of savings on economic growth in Nigeria, to ascertain the impact of current account on economic growth in Nigeria, to determine the impact of deposit money banks credit on small scale enterprises on economic growth in Nigeria. The research design was ex-post facto research design, and the study used multiple regression analysis. The results revealed that fixed deposits do not have any significant impact on economic growth in Nigeria, Savings significantly impact economic growth in Nigeria, Current accounts has significant impact on economic growth in Nigeria, deposit money banks credit to small scale enterprises does not significantly impact on economic growth in Nigeria. Thus, we conclude that financial intermediation influenced economic growth positively and significantly in Nigeria. Recommendations were that banks should be more efficient in mobilizing and allocating funds to entrepreneurs in the real sector. The regulatory authorities should perpetually take measures to free the banking sectors to avoid any form of shock on the system.**

***Key words*: Financial Intermediation, Economic Growth**

I. INTRODUCION

The significance of economic growth is extremely prominent. Economic growth is one of the key objectives use to determine the state of the economy in terms of whole systems, especially with reference to the general levels of output and income and to the interrelations among sectors of the economy. Nations measure their economic upswing yearly using annual growth rate of the real gross domestic product as an instrument to test this economic objective. Nzotta (2014) posited that, one of the main objectives of sustained economy growth is to reduce poverty and increase the standard of living of its citizens. Economic growth takes place when people take resources and process them in ways that are more desirable.

Kimberly (2019) defined economic growth as an increase in the production of goods and services over a specific period of time. Economic growth creates more returns for businesses; as a result, stock prices rise. This gives companies capital to invest and hire more employees, as more jobs are created, incomes rise. Consumers have more money to buy additional products and services. Purchases increase economic growth. For this reason, all countries want positive economic growth. This makes economic growth the most watched economic indicator. Aquilas (2016) also described the financial intermediation as one of the catalyst and drivers of economic growth. Financial intermediation is the process of channeling resources from lenders (economic surplus unit) to borrowers (economic deficit unit) through financial institutions (Acha, 2011). This indicate that intermediation process is an important activity in the economy because it allows resources to be channeled from people who might otherwise not put them to productive use to people who will ultimately put the funds to productive uses Azege (2004). To this end and given the active involvement of financial intermediaries (especially deposit money banks) on transactions between payment, acceptance of deposits and selling of loans and advances among other services rendered to both the public and private sector and the volumes of empirical evidence in support of the finance economic growth nexus, has made it imperative to thoroughly study the place of financial intermediation on economic growth. Thus, this study seeks to investigate the impact of financial intermediation on economic growth in Nigeria.

In line with the assumption that financial systems play important role in financing the real sector, successive governments in Nigeria have carried out series of institutional innovations in the financial sectors. The overall intention of these reforms had been to ensure financial stability so as to influence the growth of the economy and also enable banks to play a critical role of financial intermediation in Nigeria. Following these position and series of other reforms meant to strengthen financial intermediaries to spur economic growth, one cannot tell exactly how these institutions especially deposit money banks have stimulated economic growth in Nigeria. Based on these, this study is designed to reassess the impact of financial intermediation in influencing and sustaining economic growth in Nigeria. Thus, the primary objective of this study is to ascertain the impact of financial intermediation on economic growth in Nigeria.

1.2 Research Hypothesis

The following null hypotheses were considered in this study;

1. $Ho_{1:}$ Fixed deposits do not have any significant impact on economic growth in Nigeria.
2. $Ho_{2:}$ Savings does not significantly impact economic growth in Nigeria.
3. Ho_3: Current accounts do not have any significant impact on economic growth in Nigeria.
4. Ho_4: Deposit money banks credit to small scale enterprises does not significantly impact on economic growth in Nigeria.

2.1 Conceptual Framework

In this section, the concepts of the study are reviewed. These include financial intermediation and economic growth.

Financial Intermediation

Financial intermediation is the act of accumulating deposits into deposit money banks for sale to the public as loans (Siklos, 2001; Milicher & Norton, 2011). It referred to a system of mobilizing deposits from surplus economic agents to deficit units as credit (Gordon Winton, 2002). That is, they mobilize funds from savers or households and transform them into loanable funds and loan them out to government agencies, businesses and households as credit. This intermediation function help bridges the gap between surplus owners of funds and the deficit units (mostly government agencies, businesses and households) that are in need of funds for their investment or other needs. Generally, "the role of the financial system is to produce, trade and settle financial contracts that can be used to pool funds, share risks, transfer resources, produce information and provide incentives" (Thomas, 2011).

Economic Growth

Economic growth is an increase in the production of goods and services over a specific period. To be most accurate, the measurement must remove the effects of inflation (Kimberly 2019). Gross domestic product is the best way to measure economic growth. It takes into account the country's entire economic output. It includes all goods and services that businesses in the country produce for sale. It doesn't matter whether they are sold domestically or overseas. Economic growth is usually measured by gross domestic product (nominal output) and the gross domestic product at constant prices (real gross domestic product). The role of government in credit allocation to some preferred sectors of the economy gives credence to the proponents of finance leading economic growth hypothesis (Oluitan, 2010).

2.2 Theoretical Framework

Joseph Schumpeter's Theory on Economic Growth of 1911.

Schumpeter in 1911 this is one of the theory that stated the role of financial system and it importance to the economic growth. It further explained how financial transaction is at the hub of economic growth. He did not use the modern parlance of financial transactions but he used the bankers as an example. Schumpeter (1911), for example, suggested that bankers, through their selection and funding of entrepreneurs, promote innovative activities and stimulate economic growth. According to Schumpeter financial institutions serve as an intermediary between the lenders and the borrowers which help both the lenders and the borrowers to accomplish their aims. Thus, when a bank issues a loan, it authorizes the implementation of "the new combinations" in the name of the whole society. Banking activity is aimed at stimulating economic growth. According to Schumpeter, an economy has an endogenous locomotors which is innovation. Innovation is generally defined as "the new combinations of existing stock of the factors of production". Those who realize and create these new combinations, and thus promote economic growth, are defined as entrepreneurs. Schumpeter regards credit creation by banks as the main source of finance, once the stationary economy of the circular flow is left behind and the Banks are the co-conductors of economic growth, as they move funds from those who don't put it into productive use to the hands of those who put it into productive use to spur economic growth. They promote innovation by "with drawing the means of production from old combinations and allocating it to new combinations. In conclusion, financial institutions use their intermediary role to spur economic growth.

Allen and Santomero Theory on Financial Institutions of 1998.

The theory according to Allen and Santomero (1998) this theory is layout for financial institutions that receive deposits or give insurance policies and channel the resources to firms and stimulate economic growth. The theory states that the development of intermediaries tends to lead the development of the financial markets; the development of the financial sector leads to the development of the economy. Banks have been in existence for a very long times, receiving deposits from households and making credit facilities available to economic agents requiring funds. The economic agents invest the funds in productive economic activities which yield returns and spur economic growth. The theory of financial intermediation completely disqualifies the traditional Arrow-Debreu model of resource allocation. This model states that firms and households interact through markets and financial intermediaries play no role. According to the model, markets are perfect and complete, the allocation of resources is therefore efficient and there is no room for intermediaries to improve welfare. Moreover, the Modigliani-Miller theorem applies in this context as it asserts that financial structure does not matter as households can construct portfolios which offset any position taken by an intermediary, therefore intermediation cannot create value (Fama, 1980). According to Allen and Santomero (1998), the view that financial markets allow an efficient allocation and intermediaries have no role to play is clearly at odds with what is observed in practice.

2.3 Empirical Studies

Similarly, Shittu (2012) in a country specific study investigated the impact of financial intermediation on

economic growth in Nigeria using the ratio of domestic credit to private sector (CPS)/nominal GDP and money supply (M2)/nominal GDP as measures of financial intermediation and real GDP as a proxy for economic growth. Time series data covering the period 1970-2010 were collected and analyzed using Engle-Granger technique of Error Correction Model (ECM). The results show that broad money (M2) was more influential on economic growth than credit to the private sector. Further findings from the study indicates that, the last ten decades of the study saw the highest level of loans to the private sector but yet had the worst annual manufacturing growth rate. The researcher stated the variables of the study, scope and method of data analysis but did not mention the population of the study.

The study by Onodugo (2013) further explored the relationship between financial intermediation and economic growth in Nigeria. In examining this relationship, the author used private investment as a response variable and savings as a ratio of real GDP, loans to private sector, prime lending rate and real GDP as the explanatory variables of the study. The authors calibrated a multiple regression model for the analysis and the results established savings as a ratio of real GDP is statistically inconsequential, while the other variables are statistically correlated and thus related. That is, these variables help in enhancing economic growth in Nigeria. The study fail to mention the scope of the study which is the period covered and sources of data collected.

Ogiriki and Andabai (2014) also examined the relationship between financial development and economic growth in Nigeria. The authors used the endogenous variable of GDP and exogenous variables of aggregate short term, medium term, and long term credits as measures of financial intermediation which covered the period 1988-2013. To achieve this, the authors adopted co-integration and vector error correction (VEC) technique and the results established the existence of a long run relationship in the variables. The explanatory variables explained 89% of changes in the gross domestic product. That is, financial intermediation stimulates economic growth in Nigeria. Method of data collected in the course of the study was not review.

Olowofeso, Adeleke and Udoji (2015) examined the impacts of private sector credit on economic growth in Nigeria using the Gregory and Hansen (1996) co-integration test which accounts for structural breaks and endogeneity problems. The method was applied to quarterly data spanning 2000:Q1 to 2014:Q4, while the fully modified ordinary least squares procedure was employed to estimate the model coefficients. The study found a co-integrating relationship between output and its selected determinants, albeit, with a structural break in 2012Q1. Amongst others, findings from the error correction model confirmed a positive and statistically significant effect of private sector credit on output, while increased prime lending rate was inhibiting growth. In view of the financial intermediation roles of deposit money banks, the paper supports efforts of the Central Bank of Nigeria (CBN) in promoting a sound and real sector-friendly financial system. This study did not mentioned the sources of data collected and population of the study.

Gisanabagabo and Ngalawa (2016) empirically investigated the possible co-integration and causal link between financial intermediation and economic growth in Rwanda, using quarterly data spanning 1966Q1 to 2010Q4. A Structural Vector Autoregressive model was used to analyze the short-run dynamics between the variables used. The findings showed evidence of co-integrating relationship between financial intermediation and economic growth. The researcher did not mentions the variable used in this study and sample size and technique.

Oluwasogo, Princess, Oluwatoyin and Folasade (2017) examined the impact of financial intermediation on economic growth in Nigeria covering the period 1980 to 2014. The study used Johansen co integration test and Error Correction Model. The study showed that financial intermediation has a long-run relationship with economic growth. The researcher did not mentions the variable used in this study and sample size and technique let alone of the population of the study.

Usman, Alimi and Onayemi (2018) evaluated the impact of bank intermediation activities on economic growth in Nigeria using secondary data obtained from Central Bank of Nigeria Statistical Bulletins within the period 1983 and 2014. The OLS regression result showed that loan and advances and money supply have positive effect on economic growth. The co-integration result indicated the existence of a long-run relationship between the variables. The study concluded that financial intermediation by banks has statistically significant impact on economic growth in Nigeria. The researcher stated the method of data collected, scope of the study and techniques of data analysis but fail to mention the variables used and the population of the study.

Emmanuel and Odum (2019) examined the effect of financial intermediation on the development of the economy of Nigeria using data spanning 1986 to 2017. The data were obtained from Central Bank of Nigeria Statistical Bulletin, World Bank (World Development Indicators) and International Monetary Fund (World Economic Outlook). The study considered credit to private sector, lending rate and money supply as independent variables, while real GDP growth rate and unemployment rate were used as dependent variables. Auto-regressive distributed Lag (ARDL) technique was employed and Eviews 9 was used for the analyses. In other to achieve the objective of the study, series of tests were conducted, including normality test, stationarity test, co integration test, ARDL estimation and error correction. The researcher did a good job but fail to state the population and the sample size of the study and even the technique used to arrived at the sample size was not mentioned.

Ibrahim, Aziza and lklim (2020) re-examining the impact of financial intermediation on economic growth in Turkey using annual data spanning 1970–2017. Based on the results of the

augmented Dickey–Fuller and Phillips–Perron unit root tests for stationarity, the authors employ the Autoregressive Distributed Lag (ARDL) bounds testing to co integration to establish the long-run impact of financial intermediation alongside other control factors on economic growth. The study also examines the short-run relationship between financial

intermediation and economic growth by estimating the Error Correction Model (ECM). The researcher did not mentions the variable used in this study and sample size and technique let alone of the population of the study.

Finally, Charles, Johnson, Felicia and Abada (2021) this paper empirically investigated the impact of financial intermediation of economic growth in Nigeria. Quarterly time series data generated from the World Bank Development indicator and the Nigerian Bureau of Statistic for the periods 1994Q1 to2018q4 were used for the analysis, and Ordinary Least Squares (OLS) regression technique was adopted for the estimation of the hypotheses. The researcher captured the details of the work to an extent but the population and sample size of the study was not captured.

III. RESEARCH METHODOLOGY

Research Design	Ex-post facto research design
Population of the Study	20 deposit money banks in Nigeria
Sample size	13 listed deposit money banks on Nigeria stock exchange
Sources of Data	Secondary Data for the period 2012 - 2019
Techniques of Data analysis	Multiple regression
Variables	Dependent variable= Economic Growth Independent variable= fixed deposit, savings, current account and deposit money banks credit to small scale enterprises.

The Model Specification

The functional relationships of the models are expressed as follows:

GDP=f (FXDP, SAVS, CURR, SMES)

The specification of the models is as follows:

$GDPt$=b0 + b_1FXDP$_t$+ b_2SAVS$_t$ +b_3CURR$_t$+ b_4SMES$_t$+e$_t$

Where:

GDP= Gross domestic product in year " t "
FXDP= Fixed deposit in year "t "
SAVS= Savings in year " t "
CURR= Current Account in year " t "
SMES= Small scale enterprises in year " t "
t = time series for dataset
e= the disturbances term.
b_0 = intercept, $b_1 \ldots b_4$ = coefficients of the explanatory variables to be estimated.

IV. DATA PRESENTATION, ANALYSIS AND RESULTS

4.1 Data Presentation

The processed data for this study which is meant for analysis is placed in the appendices section (see appendix 1).

4.2 Data Analysis

This section presents the descriptive statistics of the dependent and independent variables, diagnostic tests and the regression results for model employed in this study.

4.2.1 Descriptive Statistics

The descriptive statistics presented in table 4.1 below show the mean, minimum, maximum, standard deviation and the number of observations of the dependent and independent variables used in this study (see Appendix 2A).

Table 4.1: Descriptive Statistics

Variables	N	Mean	S.D	Min	Max
GDP	104	8.232	0.536	6.021	9.165
FXDP	104	8.246	0.490	7.832	8.979
SAVS	104	8.085	0.568	6.164	9.119
CURR	104	8.353	0.685	6.057	9.453
SMES	104	7.450	0.533	7.031	8.501

Source: STATA (Version 14.2) Output

From table 4.1 above, the gross domestic product (GDP) has a mean value of ₦8.232billions among the banks sampled for this study. The standard deviation is high at 53.6% indicating a low variation in GDP among the sampled banks. The maximum and minimum values of GDP among the sampled banks are ₦9.165billions and ₦6.021billions respectively. The mean score for fixed deposits (FXDP) is ₦8.246billions, with a variation of 49% indicating a low variation in FXDP among the sampled banks. The result further reveals that FXDP has maximum and minimum values of ₦8.978billions and ₦7.832billions respectively. For the customer savings (SAVS) the result showed a mean of ₦8.085billions with a standard deviation of 57.78% which is lower than the mean, indicating a low variation in SAVS among the sampled banks used in this study. The result further disclose that SAVS has a maximum value of ₦9.119billions and minimum value of ₦6.164million.The result further reveals that the mean value of current account (CURR) is ₦8.354billionwith a variation of 68.47% among the sampled banks. The maximum and minimum amount of CURR account stands at ₦9.453billions and ₦6.057billions respectively. Finally, the result revealed that on average, ₦7.450billion is released as loan to SMES, with a deviation of 0.5327 indicating a variation of 53.27% in loans to SMES among the sampled banks. The result further revealed that the maximum loan to SMES is ₦8.500billions and the minimum is ₦7.031billions within the study period.

4.3 Correlations

In order to explain the level of relationship existing between the study variables, the correlations statistics is employed. It revealed the correlation coefficient of in the independent variables and the dependent variables. The correlations statistics also revealed the relationships existing among all the study variables.

Table 4.2: Correlations Statistics

	GDP	FXDP	SAVS	CURR	SMES
GDP	1.0000				
FXDP	-0.2079	1.0000			
SAVS	0.5058	0.0850	1.0000		
CURR	0.5656	-0.1486	0.5450	1.0000	
SMES	0.1876	-0.4259	0.1591	0.1412	1.0000

Source: Results from STATA 14.2

Table 4.2 presents the strength and type of relationship existing between the study variables. A correlation coefficient which is 0.90 and above is considered very high, 0.71-0.90 is considered high and could cause problems in the result (Akpa, 2011). From table 4.2, there exist no high correlation among the study variables as there exist no correlation that is above 70%.

4.2.2 Regression Analysis

This section looks at the diagnostic tests performed and the regression results of the independent variables; that is, CURR, SAVS, SMES FXDP.

4.2.2.1 Diagnostic Tests

In order to ensure that this study results are robust, several diagnostic tests such as test for Multicollinearity test, Heteroscedasticity test, Hausman test and Lagrangian Multiplier (LM) test were performed.

*Multicollinearity Test***:** The multicollinearity was conducted to investigate the correlations among independent variable (Current account, savings, deposit money banks on small scale enterprise and fixe deposit) used in the model.

Table 4.3 Variance Inflation Factor (VIF) Statistics

Variable	VIF	1/VIF
CURR	1.44	0.692
SAVS	1.44	0.695
SMES	1.25	0.803
FXDP	1.24	0.809
Mean VIF	1.34	

Source: Results from STATA 14.2

In this study to check whether multicollinearity exists, the Variance Inflation Factor (VIF) and Tolerance Level (1/VIF) were used. The results of the VIF analysis indicate that for the independent variables, the VIF's were below 5 hence there is no multicollinearity problem since the largest VIF is 1.44. The average VIF is 1.34 for all the models. Since the VIF values obtained were between 0 and 5, it was concluded that there were no multicollinearity symptoms. In addition, the tolerance values (TOL) were consistently smaller than one but not close to zero for the model. This clearly indicates the absence of multicollinearity problem in all the study models that might affect the accuracy and reliability of the result and ultimately, the findings and conclusions generated from this study

*Heteroscedasticity Test***:** This test is used to determine if the data have unequal variance/spread. For reliable estimators, heteroscedasticity is a requirement where equal variance is expected in disturbance terms and in dependent values (Ys). The Breusch- Pagan / Cook- Weisberg test for heteroscedasticity test was used for this study. If the test is significant at 5 percent, it suggests that heteroscedasticity is present in the data.

Table 4.4Heteroscedasticity Test

Model	$Chi^2(1)$	Prob>chi2	Decision
GDP	0.04	0.8465	No Heteroscedasticity

Source: STATA (Version 14.2) Output

From the model used in this study, the result is statistically insignificant at 5 percent with P-value of 0.8465 greater than 0.05. This indicates that there is no problem of heteroscedasticity or unequal variance/spread in the models

*Hausman Test***:** To be able to decide the best model between the fixed effect (FE) and random effect (RE), the Hausman test was conducted. It basically tests whether the unique errors (ui) are correlated with the regressors, the null hypothesis is that they are not. The result is presented below;

Table 4.5Hausman Fixed Random Test

Model	$Chi^2(4)$	Prob>chi2	Decision
GDP	1.65	0.8005	RE Model favoured

Source: STATA (Version 14.2) Output

The result of Hausman testrevealed that Prob>chi2 value for GDP is 1.65, less than threshold of 10 and P-Value of 0.8005 greater than 0.05 which suggest the use of RE model is most appropriate for this study.

*Lagrangian Multiplier (LM) Test***:** To decide between a RE regression and a pooled ordinary least square (OLS) regression, the LM test was conducted as shown in the table below;

Table 4.6Hausman Fixed Random Test

Model	$Chi^2(01)$	Prob>chi2	Decision
GDP	6.35	0.0059	RE Model favoured

Source: STATA (Version 14.2) Output

The null hypothesis is that variances across entities are zero. That is, there is no significant difference across units (i.e. no panel effect). If the LM result reveals that the P-values are greater than 0.05 (i.e. insignificant), it means we failed to reject the null and conclude that random effect is not appropriate. That is, there is no evidence of significant differences across variables, therefore you can run a pooled OLS regression. The results showed a P-value of 0.0059which is less than 0.05, suggesting that the RE result is most appropriate to adopt in this study.

4.2.3 Regression Result

This section presents the regression results of dependent and independent variables. The results would be used among others to determine whether the models are fit (Goodness of Fit Test) for explanation (see appendix).

Table 4.7: Regression Result for GDP(Random Effect)

Variables	**Coefficient**	**T-Values**	**P-Values**
FXDP	-0.2506	-1.42	0.154
SAVS	0.3017	2.95	0.003
CURR	0.2554	3.13	0.002
SMES	0.0421	0.52	0.604
-cons	4.3773	3.38	0.001
R^2	0.5285		
F-Statistics	54.67		
Prob>F	0.0000		
Obs	104		

Source: STATA (Version 14.2) Output

The result presented above in Table 4.7 shows result on the impact of financial intermediation on economic growth in Nigeria. The total number of observations for the analysis was 104 (that is 13 banks for 8 years).The value of the R-Square for the study model is 0.5285 indicating that the variations in GDP is explained by the variables employed in this study up to 52.85%, while the other variation in the dependent variable GDP of 47.15% is caused by other variables not included in this study. The F-statistics (54.67) signifies that the overall equation is significant at 0.0000 (below 1%) level, indicating that the model is fit to be used for interpretation.

The result showed a negative relationship between fixed deposit (FXDP) and GDP. The result presented in the table above revealed the coefficient of 12.51%. This implies that any increase in FXDP among the sampled banks, there will be a significant decrease in GDP in the country. This is because too much cash is tied down by virtue of fixed deposit. A unit increase in savings will increase GDP by 30.17%. Also a unit increase in current account will lead to a corresponding increase in GDP by 25.54%. Finally, the results disclose that a unit increase in loans to SMEs will lead to increase in GDP by 4.21%. Other things being equal, if all the variables used in this study are held constant, a unit increase in financial intermediation of the sampled banks will lead to a significant increase in economic growth (GDP) by 4.3772.

4.4 Test of Hypotheses

In this section, the hypotheses formulated earlier in chapter one are tested based on the panel regression results presented in Table 4.7. The level of significance for this study was 5% and the decision rule for testing the hypotheses was to accept (or reject) the null hypotheses based on the P- value. If the p-value is significant at 5%, accept that the variable is significant else it is not significant.

Ho_1: Fixed deposits do not have any significant impact on economic growth in Nigeria.

Table 4.7 shows the *t*-values and the associated *p*-values for the test of this hypothesis. The critical value of *t*-statistics is ±1.96 at 95% confidence level. Given that the calculated t-value of -1.42 which is below ±1.96, and *p-value* = 0.154 which is above 5%, this result accepts the null hypothesis and concludes that Fixed deposits do not have any significant impact on economic growth in Nigeria.

Ho_2: Savings does not significantly impact on economic growth in Nigeria.

Table 4.7 also shows the *t*-values and the associated *p*-values for the test of this hypothesis. The critical value of *t*-statistics is ±1.96 at 95% confidence level. Given that the calculated value of *t*-value is 2.95 which is above ±1.96, and *p-value* = 0.003, below 5%, this study rejects the null hypothesis and concludes that Savings significantly impact economic growth in Nigeria.

Ho_3: Current accounts do not have any significant impact on economic growth in Nigeria.

Table 4.7 shows the *t*-values and the associated *p*-values for the test of this hypothesis. The critical value of *t*-statistics is ±1.96 at 95% confidence level. Given that the calculated value of *t*-value= 3.13 which is greater than the threshold of ±1.96, with *p-value* = 0.002, lesser than 5% level of significant this study rejects the null hypothesis and concludes that Current accounts has significant impact on economic growth in Nigeria.

Ho_4: Deposit money banks credit to small scale enterprises does not significantly impact on economic growth in Nigeria.

Table 4.7finally shows the *t*-values and the associated *p*-values for the test of this hypothesis. The critical value of *t*-statistics is ±1.96 at 95% confidence level. Given that the calculated value of *t*-value of 0.52 which is less than the threshold of ±1.96, and *p-value* of 0.604, greater than 5% level of significance, this result accepts the null hypothesis

and concludes that deposit money banks credit to small scale enterprises does not significantly impact on economic growth in Nigeria.

4.4 Discussion of Findings

This section discusses the findings from the data analyzed and inferences from the hypotheses tested in this study. The discussion of the findings would be based on the impact of fixed deposit on economic growth (GDP) in Nigeria, the impact of customer savings on economic growth (GDP) in Nigeria. It would also examine the impact of Current account (CURR) on economic growth (GDP) in Nigeria, and finally examine the impact of impact of loans to SMEs on economic growth (GDP) in Nigeria.

4.4.1 Impact of fixed deposit on GDP in Nigeria.

The test of hypothesis one showed that statistically, fixed deposit has insignificant positive effect on GDP with the value of 0.154. This means that increasing in fixed deposit will increase the GDP but not significant. This is because the amount on fixed deposit account is a form of investment which has a fixed rate of return on investment (interest), which in turn will add to the economic growth, however not to a great magnitude. The finding of this study agrees with the works of Onodugo (2013) findings showed that fixed deposit /savings has a positive but not significant effect on real GDP growth rate. This implies that if savings rate increases banks rate of income will increase too. Also, fixed deposit has a significant effect on real GDP growth rate, implying that high fixed deposit is detrimental to the growth of the economy. while it is not in harmony with the work of Nwanne (2015) who found that fixed deposit rate has a significant positive effect on economic growth in Nigeria.

4.4.2 Impact of savings on GDP in Nigeria.

The result for the test of hypothesis two revealed that customer saving has a positive and significant impact on GDP. The result is positively significant at 0.003. This indicates that an increase in customer savings account wills positive and significantly impact on the GDP. This is because increase in savings increases the volume of funds available with the banks which will be channeled into other profitable venture and made available for borrowers. This finding is in line with that of Yusifzada and Mammadova (2015) who examined financial intermediation and economic growth. They found that financial depth does not fully reflect how well the financial intermediaries serve to economic agents in stimulating economic growth. According to the study additional aspects of financial system such as access, efficiency and stability should be taken into account in order to shed light into the relationship between finance and economic growth. who found, however, contrast with the finding of Badun (2006) reviewed empirical research on the link between financial intermediation by banks and economic growth. Special attention was paid to the issues of causality, non-linearity, time perspective, financial intermediation proxies, and interaction terms. The review showed that there are still quite a few unresolved issues in empirical research, which causes skepticism towards prioritizing financial sector policies in order to cause economic growth.

4.4.3 Impact of current account on GDP in Nigeria.

Result of the test of hypothesis three in this study showed that there is positive and significant influence of current account on GDP. From the findings, GDP is positive and significant at 0.002. This implies that increase in current account will increase significantly GDP in Nigeria. The reason may be that increase in current account will also increase the volume of fund available for investment and borrowers in the bank, thus enhancing positively on economic growth (GDP). This finding is in with that of Mishra et al (2009) who examined the direction of causality that runs between current account of deposit money banks and the economic growth in India for the period 1980 to 2008. In the VAR framework the application of Granger Causality Test provided the evidence in support of the fact that current account of deposit money banks spurs economic growth, but contradicts the findings of Muhsin and Eric (2000) who found that when current account of deposit money banks, private sector credit or domestic credit ratios are alternatively used as proxies for economic growth; causality runs from economic growth to financial development. Their conclusion was that growth seems to lead financial sector development but not financial intermediation that leads economic growth.

4.4.4 Impact of deposit money banks credit to small scale enterprises on GDP

Hypothesis four test results showed that statistically, financial intermediation proxied by credits to SMEs has positive insignificant impact on GDP. From the table 4.7, GDP is positive and significant at 0.604. This means that increases in loan to SMEs will increase the GDP but not significantly. This could be due to lack or poor management expertise of the loan by SMEs beneficiaries or unfavorable government policies working contrary to the SMEs growth in the country. This result is in tune with that of Olowofeso, Adeleke and Udoji (2015) findings also indicated that credit to private sector has a negative and significant effect on real gross domestic products' growth rate. This means that the credit facilities granted to the private sector of the economy by banks do not add value probably due to high interest charged. But contradicts with that of Nwite (2014) who found a positive and statistically significant effect of private sector credit on economic growth. The result is contrary to a prior expectation of a significant positive effect of credit to private sector on real GDP growth rate.

V. CONCLUSIONS

In Conclusion, the volume of credit to private sector do not really contribute positively to the development of the economy of Nigeria in terms of enhancing economic growth. Although banks are still deeply challenged on many levels,

their ability to stimulate growth is not in question in Nigeria. This study strongly affirms that for there to be significant growth, financial intermediaries are needed to effectively bridge the gap between savers and borrowers that is inherent in direct financing or self-financing and by extension accumulate huge funds and efficiently allocate them to the real sector for their capital expenditure and production needs

VI. RECOMMENDATIONS

The study recommended that the regulatory authorities of financial intermediaries such as the Central Bank of Nigeria (CBN), having obtained knowledge from this research work on the impact of financial intermediation on economic growth should encourage and enhance the activities of financial intermediaries. This could be done by reducing the level of the cash-reserve ratio in order to make more funds available for credits to the private sector of the economy.

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