Management Studies, Nov.-Dec. 2018, Vol. 6, No. 6, 536-546
doi: 10.17265/2328-2185/2018.06.012

DAVID PUBLISHING

Impact of Financial Intermediation on Economic Growth of Nigeria (1995-2014)

Okoro Okoro E. U., Onodugo Ifeanyi Chris, Benjamin A. Amujiri
University of Nigeria, Nsukka, Nigeria
Chinedu Okeke
Zenith Bank, Abuja, Nigeria

The problems of lack of efficiency and effectiveness of mobilizing resources lead to unemployment, instability, and underdevelopment of the Nigeria economy. Financial intermediation as a financial system aims at the enhancement of mobilization of funds by pooling individuals savings and increasing the proportion of societal resources devoted to interest—yielding assets and long-term investments, which in turn facilitates economic growth. This study is aimed at accessing the impact of financial intermediation on economic development in Nigeria by using the endogenous components of financial intermediation, such as demand deposits (DD), time/savings deposits (T/Sav), and credits (loans and overdraft), our independent variables as explanatory variables to predict the outcome of our dependent variable output (GDP) secondary data from the CBN (Central Bank of Nigeria) Statistical Bulletin of various issues. The study covers an eight-year period (1995-2014). Parametric statistics in forms of analysis of variance (ANOVA), mean, standard deviation, *t*-test, co-efficient of correlation, and simple linear regression were used to analyze the data. The findings suggest that though there exists a positive growth relationship between financial intermediation and output in Nigeria, there also exist elements of negative short-run growth relationship, especially for the periods that suffered financial shocks resulting from the global financial crisis and perhaps numerous bank failures. Recommendation states that this finding may serve to buttress existing research outcomes and will be relevant to regulatory authorities in formulating policies that are capable of positively enhancing financial intermediation and output growth in the economy.

Keywords: financial intermediation, banking, Nigeria

Introduction

Financial intermediation is a process whereby a financial intermediary such is a bank mobilizes and consolidates bank deposits and transforms the mobilized or consolidated deposit money into bank credits, usually loans and overdraft. It is simply the process of taking in money from depositors and then lending same out to

Okoro Okoro E. U., Ph.D., Department of Banking and Finance, University of Nigeria, Nsukka, Nigeria.
Onodugo Ifeanyi Chris, Ph.D., Department of Public Administration and Local Government, University of Nigeria, Nsukka, Nigeria.
Benjamin A. Amujiri, Ph.D., Department of Public Administration and Local Government, University of Nigeria, Nsukka, Nigeria.
Chinedu Okeke, branch manager, Zenith Bank, Central Business District, Abuja, Nigeria.
Correspondence concerning this article should be addressed to Chinedu Okeke, Zenith Bank Plc, Plot 266, Cadstral, FMBN House, Central Business District, Abuja, Nigeria.

borrowers for investment and other economic development purposes. The process allows financial institutions acting as intermediaries channel funds from surplus economic units (individuals and firms having surplus savings) to deficit economic units (firms and businesses in need of funds to carry out desired business activities). Relatively, it involves the conversion of bank largest liabilities (deposit liabilities) to bank largest interest earning assets (bank credits which include majorly loans and overdrafts). What is common and of great interest in these definitions is the determinant of the endogenous components of the process; the deposits mobilized in the form of demand deposit, time deposits and savings deposits, as well as funds application or allocation in the form of loans and overdraft.

Banks promote economic growth through the process of financial intermediation by efficiently allocating funds mobilized from the surplus economic units to deficit units. This function therefore suggests that financial intermediation could serve as a catalyst for economic growth and development. According to Ezirim (2006), institutional funds mobilization and investments are the hallmarks of the financial intermediation operations of any financial institutions. Indeed, there is an ample evidence to show that countries that have enjoyed or are enjoying economic prosperity have been linked with an efficient mechanism for mobilizing financial resources and allocating same for productive investment. Efficiently managed financial intermediation process contributes immensely to a vibrant financial system, higher levels of output, employment, and income and through that enhances the living standards of the citizenry. This no doubt explains why special attention is being focused on financial intermediation by economic players in recent times.

However, this study examines one dimension of financial development in our case of financial intermediation which could be seen as the process performed by banks, taking in funds from depositors (the surplus unit) and lending them out to a borrower (the deficit unit) of the achievement to sustained economic growth based on allocation and mobilization of funds reducing poverty and enhancing the welfare of its citizens. The economic agent that is responsible for such transfer is called financial intermediary according to Umoh (2004). The mobilization of funds from surplus to deficit units of the economy will encourage productivity, innovation, employment, and investment notwithstanding its risky nature. The availability of investible funds is a key factor in the growth process of any economy. Although not a sufficient condition, resource availability is certainly a necessary condition for output and employment growth. Indeed, there is a typical evidence to show that countries that have enjoyed or are enjoying economic prosperity have been linked with an efficient mechanism for mobilizing financial resources and allocating same for productive investment. Efficiently managed financial intermediation process contributes immensely to a vibrant financial system, higher levels of output, employment, and income and through that is enhances the living standards of the citizenry. This no doubt explains why special attention is being focused on financial intermediation by deposit demand, time savings demand and loan overdraft. (Sansi, 2000).

Financial intermediaries serve a most important role in financial market (bank), at the apex of the Central Bank of Nigeria (CBN) which regulates and supervises the activities of financial intermediation adherence to the government's monetary and fiscal policies and constitute a large proportion of the Nigerian financial system. However, CBN (2004) classified the Nigeria financial claim, such as debt market and equity market. Another is by the maturity of the claim for example short-term financial instruments called money market and long-term financial instruments called capital market.

Basically, the relationship between the endogenous component of financial intermediation, particularly the deposit elements and output, can best be explained from the fact that deposit funds are the primary source of

capital accumulation. The magnitude of mobilized deposits available as capital funds influences and determines the level of investments, boosts economic activities, and subsequently causes growth in the level of output. Quijano and Quijano (2003) put it this way; the interactions between output and capital have two important relations in the long run: The amount of capital determines the amount of output being produced and the amount of output determines the amount of saving, investment, and accumulated capital. The other endogenous component of financial intermediation that strongly influences output is banking credits (loans and overdraft). Based on theoretical evidences, they contribute immensely to the productive capacity of an economy in several ways. Despite the series of reforms and restructuring aimed at strengthening the banks' ability to efficient service delivery and fund productive activities, we still experience decline in domestic credit by the banking system to the private sector, liquid mismatch in the Nigeria economy and high concentration of loans to oil and gas and communication sectors of the Nigeria economy to the detriment of other sectors. Looking at the Nigeria economy which is characterized by low savings, low investments, and low growth, financial intermediation becomes imperative to launch the nation's economy on the path of real growth since efficient financial intermediation is the surest vehicle that could transport the economy from the state of poverty to a higher level of output, employment, and income capable of enhancing the standard of living for the citizenry. The basic question which previous studies have not answered is: Does effective financial intermediation function of banks necessarily engender economic growth?

Review of Related Literature

Conceptual Framework

There was an early debate in economics about the relationship between financial development and economic growth; economic growth can be defined as an increase in the economic ability to produce real output of goods and services (Baye & Jansen, 2006).

The relationship between financial development and economic growth has received a great deal of attention throughout the modern history of economics. Its root can be traced to the work of Schumpeter (1959) who argued that financial services are paramount in promoting economic growth. In his view, production requires credit to previously become a debtor.

According to Okoro Okoro E. U. (2009), financial intermediation links transactions in the financial markets, the savings surplus units, and the savings-deficit units so that saving could be allocated into their most productive uses. Banks as major financial intermediaries have played a central role in the growth and development of the real sectors. This appears to be true in virtually all economies except emerging economies which are at a very early stage. Even here in Nigeria, however, the development of intermediaries tends to lead the development of financial markets themselves, hence the real sector. In short, banks have existed since ancient times, taking deposits from households and making loans to economic agents, mainly the real sectors requiring capital. The concept of output is absolutely important in the field of macroeconomics, essentially, as it relates to the economy of nations. Output is defined as the quantity of goods and services produced in a country at a given period of time, whether consumed or used for further productive investments. It may also be defined as the total value of all goods and services produced in a country in a given period of time, usually a year. Officially, gross domestic product (GDP) is the most popular measure of the output of a country. GDP indicates the market value of all officially recognized final goods and services produced within a nation at a specified time period. The relevance of GDP in every economy cannot be overemphasized because it is the major indicator of a country economic

growth and the living standard of its citizens. Indeed, the best index to understand a country's economy is by looking at its output in terms of gross domestic product (GDP). By global standard, it is output that shows how rich and viable a country is economically, thus a country may be said to be in recession if its output (GDP) growth is negative for three consecutive years and when critically assessed, three consecutive quarters.

Theoretical Review

Schumpeter (1934) described banking as a conductor of focal point for economic growth has an important role to play in the fund intermediation between the surplus and deficit unit, hence the over growth of the economy. As a consequence, savings is viewed as an important vehicle to increase growth. On the other hand, the efficiency of investments includes not only total productivity growth, but also the accumulation of the other not included in physical capital and therefore not included in standard measures of investment. Currently, the endogenous theory is focused on a broader concept of capital which includes the human capital as a key component. Also, financial development affects economic growth in two ways. First, the development of domestic financial market may enhance the efficiency of capital accumulation and second, financial intermediation may contribute to raising the saving rate and thus the investment rate. Ogunleye (1999) stated that on the interference of the government in encouraging of the commercial banks in giving credit to the real sectors, low interest rate promotes investment and output in the economy. Banking sector as the engine and prime mover of economy is supposed to be playing a leading role in empowering the other sectors to contribute to economic growth and development through improved gross domestic product (GDP).

Lucas (1990). The development of any economy is greatly enhanced through a vibrant banking industry which serves the function of mobilizing savings from small and large savers in the economy and channels same to the fund users for investment purposes. Banking industry provides credit facilities to individuals, companies, as well as government for one kind of economic activity or the other. It could be for industrialization purpose, manufacturing, agricultural production, execution of contract, and the likes. Onwumere and Suleiman (2010) had posited that all national economies comprise the public and private sectors, though the degree and size of each sector differ among countries. They noted that the development of a country's economy involves in part the development of the different sectors subsumed in these two main sectors. These different sectors may include some or the following: agriculture, industry, mining, commerce, transportation, communication, etc. These sectors need funds to remain in operation and contribute to the nation's overall performance. For them to survive and perform effectively there must be an investment which is synonymous with funding; hence, the banking industry becomes a very relevant funnel. In Nigeria, banks are the largest financial intermediaries that transfer funds from surplus sector to the deficit sector of the economy.

Onoh (2002) posited that the adoption of a market-based mechanism, which is now in vogue in both developed and developing countries, has enhanced the efficiency and responsiveness of the monetary authorities in responding to macroeconomic problems. Despite the progress made in ensuring a sound, stable, and efficient financial system that can respond positively to the needs of the Nigeria development, there is still considerable room for improvement. More importantly, Ezirim (2005) posited that the challenges posed by the globalization, liberalization, and technological innovations are enormous, especially in terms of competition and thereby increasing sophistication of consumer financial services which will put a lot of pressure on existing resources. Onyidos (2005) argued that the challenges facing the regulatory authorities in promoting a sound, stable, and efficient financial system are imperative that require the strengthening of each regulatory frame work and

capacity as well as maintaining co-ordination of various regulatory units to avoid conflicts of role and duplication.

In 1986, Nigeria implemented the Structural Adjustment Program (SAP) in which World Bank and IMF (International Monetary Fund) prescriptions comprised a currency devaluation, trade liberalization, and privatization of state enterprises among others. In this context, some of the direct control measures from the 1970s were loosened, such as entry restrictions or interest rate controls. Before the financial deregulation began in 1986, the banking sector has been described as static for almost 10 years with 29 commercial banks owning 60% of total banking assets and the rest represented by 12 merchant institutions. He noted that the financial liberalization saw the entry of many new banking institutions. For instance, the number of banks increased from 40 banks in 1985 to over 100 banks in 1990. According to him, one of the reasons was the parallel exchange rate regime.

Due to the perceived overvaluation of the domestic currency which allowed banks to quickly make profits from various arbitrage opportunities, banks with connections to the political elite often had preferred access to exchange rate auctions and could sell the foreign exchange for a high premium especially in relation to increased trade-related financing after the Structural Adjustment Program (SAP) and the implemented trade liberalization.

Furthermore, the world economic forum has undertaken a research initiative, which is aimed at providing business leaders and policymakers with a common framework to identity and discuss the key factors in the development of global financial systems and markets. The report was made in 2008, 2009, and 2010 and defined financial development as the factors, policies, and institutions that lead to effective financial intermediation and market, as well as deep and broad access to capital and financial services. In accordance with this definition, measures of financial development are captured across seven pillars which are the institutional environment, business environment, financial stability, banking financial service, non-banking financial services, financial market, and financial access.

Empirical Review

Elumelu (2005) financial sector and economic growth in Nigeria revealed that the contribution of the financial sector to GDP increased after the financial deregulation and even surpassed the manufacturing share in GDP by 1990. Though, the Nigerian financial sector actually saw a financial disintermediation. The study of Faly (2004) is in its total agreement with this finding, and he found out that many of the new banks were not interested in intermediating funds from depositors to lenders but rather made quick profits from the arbitrage and other rent-seeking activities. According to Table 1, bank assets, private credit, or financial system deposits as share of GDP were lower in 1990 than in 1985. Another empirical study carried out by Ezeudji (2005) revealed that as a consequence of the high fragmentation and low financial intermediation, the Nigerian authorities established some prudential guidelines in 1990-1991 and a moratorium on new bank licenses in 1991. And that the financial bubble burst as stock market prices fell sharply and the extent of non-performing loans became evident. For example, during 1992-1993, the Nigeria Deposit Insurance Corporation established in 1988 announced that 24 banks were insolvent and 26 in serious trouble; these 50 banks had two-thirds of total banking assets and three-quarters of deposits in Nigeria's financial system. Also Onyeukwu (2005) in his own study revealed that Nigeria faced a systemic banking crisis throughout the 1990s. According to him, Nigeria's financial indicators, such as liquid liabilities, bank assets, private credit, or financial system deposits, remained relatively low throughout the 1990s by historical standards and the 1985 figures and only started to significantly increase after

2000. That in 1998, 26 bank licenses were revoked, reducing the total number of banks from 115 to 89. Even though the macroeconomic environment improved with a new civilian government regime after 1999, the Nigerian financial system was still characterized by very high fragmentation and low financial intermediation. In this context, the CBN decreed on July 6, 2004 that banks had to increase their minimum capital requirements from N2 billion to N25 billion (US$ 190 million) by the end of 2005. The intention was to increase the average size of banks via merger and acquisitions to materialize economies of scales, create new product development, and overall generate a more stable banking system with a higher contribution to financial intermediation.

By the beginning of 2006, the number of banks shrank from 89 to 25 banks with 14 banks from the original 89 banks failing to increase their capital or secure merger partners. For many foreign-owned banks, the new capital requirements were achieved by capital injections from the parent company. Also, in the process of the banking consolidation, banks raised over US$ 3 billion on the Nigerian stock market. Banks became flush with excess liquidity and equity. Going forward as revealed by the study of Umar (2008), it is expected that the previous very high profit margins from non-lending activities of banks would be eroded and many banks are likely to enter the retail lending market or expand their geographical scope into other regions in West Africa. The study of on "Merger & Acquisition vis-à-vis Efficiency of Financial Intermediation in Nigerian Banks: An Empirical Analysis" found out that the risks associated with investment in the real sector grew astronomically relative to the returns. Consequently, such poor returns on investment where none of the core real sectors is thriving, the incentive for channeling mobilized funds into the real sector diminished substantially. To support this finding, stating that without a heavy reliance on either moral suasion or incentive for investment of funds in the real sector like agriculture, manufacturing, communication, etc., private agents who took control of the banking sector began to search for more rewarding investments elsewhere. The empirical study revealed that many banks found it more profitable investing in foreign exchange trading, short-term loans for import, purchase of government bonds, and other securities than lending to the real sector. To support this, the works revealed that several domestic banks have indicated overzealous interest in investing in foreign exchange trading as against banks' primary function of fund intermediation. With these, many of them were able to bridge the disconnection between the profit expectations of their shareholders and the poor performance of the larger economy with dwindling profitability in real sector investments. This means that while a number of the banks were growing and declaring jumbo profits, overall economic growth was not impacted. Sequel to this, a unique nature of dualism between banking industry credits and real sector activities developed with the former having real boom while the latter lagged far behind. As a result, Sanusi (2002) stated that the survival in such difficult environment for the banks means a lot of ingenuity in exploring investment opportunities outside of the real sector. He noted that investment in agriculture and manufacturing sector was risky and was accentuated by volatility in the polity. Banks responded to these uncertainties by taking interests rate of the rooftops and committing to very short-term loans even under the extremely high interest rates. Even as at the time of this research, nominal lending rates are still in excess of 20 percent of commercial banks.

In a related study, Bencivenga and Smith (1991) stressed that through its reduction of liquidity risks, efficient financial intermediation stimulates savers to hold their wealth increasingly in productive assets, contributing to productive investments and growth. Levine (1997) followed the same line of thought, but stressed the importance of stock markets in stimulating the financing of investment in less liquid investment projects as well as the diversification of portfolio risk. Nissanke (1991) also examined the structural impediments to savings mobilization and financial intermediation as including imperfect information and risk. She opined that as polices

are introduced to encourage capital markets in developing countries, the improvement in banking institutions' operation should be given due attention so that the economies could eventually benefit from the advantages of both bank-based and non-bank-based finance. Acha (2011) investigated the role banks play in economic growth. It used bank deposits and bank credit to the private sector as variables for bank intermediation and real gross domestic product (RGDP) to proxy economic growth. The regression of RGDP as dependent variable against bank deposit and credit confirmed that banks through their intermediation function contribute to economic growth in Nigeria.

Methodology

Pearson Correlation Coefficient Matrix

Table 1 presents Pearson correlation coefficient matrix for all the variables. Correlation coefficients serve to measure or attest to the strength of the linear relationship between the variables.

Table 1

Pearson Correlation Coefficient Matrix of Variables

	GDP	DD	TSD	LOD
GDP	1.000			
DD	0.975	1.000		
TSD	0.962	0.988	1.000	
LOD	0.943	0.974	0.980	1.000

Source: Author's computation using IBM SPSS Statistics 20 (2013).

The Correlation Analysis

The correlation coefficients of all the variables are very high, indicating that there exists a strong linear relationship between them. These statistics suggest the existence of a strong linear relationship between output and the independent variables, demand deposit (DD), time/savings deposits (TSD), and loans/overdrafts (LOD) on the one hand and there also exists a strong linear relationship between the independent variables on the other hand. The least of the coefficients is that between loans/overdraft (LOD) and gross domestic product (GDP).

Table 2

Coefficients

Model	Unstandardized Coefficients		Standardized coefficient	*T*	Sig.
	B	Std. error	Beta		
1(constant)	1398.621	522.133		2.679	0.012
DD	8.452	2.199	1.073	3.843	0.001
TSD	0.153	1.771	0.027	0.086	0.932
LOD	-0.506	0.852	-0.128	-0.594	0.557

Source: Regression analysis report using IBM SPSS Statistics 20 dependent variable: GDP.

Table 3

Model Summary (b)

Model	*R*	*R* squared	Adjusted *R* squared	Std error of the estimate	Durbin Watson
1	0.975 a	0.951	0.946	2481.056	0.814

Notes. a. Predictor (constant), LOD, DD, TSD; b. Dependent variable GDP. Source: Regression analysis report using IBM SPSS Statistics 20.

Table 4

ANOVA (a)

Model	Sum of squares	*df*	Mean squares	*F*	Sig.
Regression	3250953790.603	3	1083651263.534	176.042	0.000 b
1 Residual	166202234.171	27	6155638.303		
Total	3417156024.774	30			

Source: Regression analysis report using IBM SPSS Statistics 20.

Discussion of Result

The empirical results obtained from our regression estimation showed overall significance of the model; however, the parameters of some of the explanatory variables appear controversial. The coefficient of demand deposit (DD) at 8.452 is the best in the model but it is in a way controversial in the sense that it is theoretically believed that a large proportion of demand deposit is essentially meant to meet liquidity needs of business firms. The coefficient exhibited a positive sign and it is greater than zero in value. That result coupled with a *t*-test parameter of 3.843 suggests that it could be considered as being very relevant to policies that are formulated to affect output (GDP). Nevertheless, the result has its significance and may be derived from the fact that the management of banks seldom employs the pool-of-funds strategy in allocating available resources to the various classifications of bank assets. The fundamental principle of this strategy is that funds from all available sources are gathered together to form a pool and from the pool, allocations are made to various economic units or asset groups. The implication of this is that since the pool-of-funds strategy emphasizes priorities stated in general terms, the proportion of DD in the pool may have contributed immensely to accumulated capital utilized for investment purposes and this may be significantly huge enough to influence output positively. The coefficient of time/savings deposit and the coefficient of time/savings deposit variable exhibited a positive sign with a positive *t*-test parameter of 0.086, suggesting that time/saving deposit (TSD) can be considered as being relevant to policy formulated to affect output. Indeed, the positive sign conforms to a prior expectation, thus affirming the theoretical assertion that time deposit and domestic savings are the primary source of capital accumulation.

However, the variable failed the test of statistical significance at all significant levels, thus casting doubts on its relevance to policies that are formulated to affect output (GDP).

More controversial is the empirical result exhibited by loan/overdraft (LOD) variable. The coefficient of LOD variable and the *t*-test parameter of -0.594 exhibited negative signs in this regression estimation suggesting that loans and overdraft cannot be relevant to policy that are formulated to affect output. This empirical finding counters a priori expectation absolutely. The result brought to fore the implication of inefficient allocation of bank resources particularly mobilized deposit funds being transformed to loans through the process of financial intermediation. CBN Statistical Bulletin (2007) indicated that the banking system credits granted to only the private sector of the Nigerian economy grew from N76,098.7 million in 1992 to a tremendous sum of

N15,558,801 million in 2007, that is, over 15 trillion naira. This represents the largest proportion of total credits disbursed to the domestic economy in Nigeria. The private sector in Nigeria consists mainly of private companies, small and medium enterprises (SMEs), and households and since private companies and SMEs lack necessary collateral to secure bank loans, it could be deduced that over 15 trillion naira credits were channeled to households who are salary earners for consumption. This portrays the Nigeria economy as consumption-based. From theoretical literatures, a consumption-centered economy negates Cobb-Douglass production function and cannot influence output or economic growth favorably. Viewed from this perspective, there are therefore ample reasons why the LOD variable failed the test of statistical significance at all significant levels. The results may be the subtle reflection of the Nigerian economy and that calls for policy reforms to correct t the trend. With the *t*-statistics of -0.594 in this regression estimation, LOD cannot be considered as being relevant to policies that are formulated to affect output (GDP). However, we found solace in the empirical results exhibited by the coefficient of determination, the *R* square (R2). The R2 coefficient of the model stood at 0.951 and that indicates that the explanatory variables accounted for 95.10% of systematic variations in output (GDP). In other words, 95% of the dependent variable, GDP was explained by the independent variables, namely, demand deposit (DD), time/savings deposits, and loan/overdraft (LOD). This outstanding result is complemented by an equally good *F*-statistics result. The *F*-statistics shows the overall significance of the estimated model and for this study, the *F*-statistics of the model stood at 176.042, the magnitude of which is considered huge enough to reject the null hypothesis of no relationship and accept the alternate hypothesis of a relationship. Based on the *R* square (R2) and *F*-statistics results, we conclude that the estimated model passed the test of overall significance at all significant levels.

This research study is an empirical analysis of the trends in financial intermediation and output in Nigeria from the banking crises period beginning from 1995 to 2014. As an economic phenomenon, the process of financial intermediation involves the transformation of mobilized deposits by financial intermediaries, such as banks into credit facilities such as loans and overdraft for productive purposes. Thus, the study explained the impact of financial intermediation on output (GDP) using the endogenous components of financial intermediation, such as demand deposits (DD), time/savings deposits (TSD), and credits (loans and overdraft) as explanatory variables. Data for the empirical estimation were sourced from CBN Statistical Bulletin in 2014, presented first in a tabular form and subsequently patterned graphically to visibly showcase the trends in the variables and the regression estimation was carried out using IBM SPSS statistics 20. Generally, the findings from both the graphic representation and the empirical analysis were quite robust; however, some parameters of our explanatory variables, especially LOD, counter prior expectation, which appears to cast doubts as to LOD relevance in formulating policy that could affect output (GDP). However, viewed from another angle, LOD variable though failed the test of statistical significance at all significant levels, it may be the subtle reflection of the Nigerian economy which calls for policy reform. That notwithstanding, the R2 coefficient of the model stood at 0.951 and that indicates that the explanatory variables accounted for 95.10% of systematic variations in output (GDP) and the *F*-statistics which shows the overall significance of the estimated model stood at 176.042, the magnitude of which is considered huge enough to reject the null hypothesis of no relationship and accept the alternate hypothesis of a relationship.

Conclusion

In conclusion, these empirical findings clearly indicate that there is a significant relationship between

financial intermediation and output (GDP) in Nigeria but whatever strategy that is being adopted for the allocation of resources in the form of credit facilities must be reviewed. The implication of the lopsided distribution of banking system credit to favor households in the Nigerian economy negates the principle of Cobb-Douglass production function because credits targeted at consumption do not impact or influence output or GDP growth as other factors of production, the favorable productive-based economy and viable growth of GDP. Such policies must include ways and means of effective implementation, monitoring, and sanction on erring operators particularly with respect to credit allocation. The need for government to ensure the existence of a vibrant and an efficient financial system that promote financial intermediation process cannot be overemphasized. Besides, with the advent of modern technologies in businesses, the workforce must consistently be trained and retrained to brace up with new and innovative ideas on modalities and methodology of allocating available recourses for productive purposes.

Recommendation

The study strongly recommends that CBN should continue to collaborate with all the stakeholders and monetary and regulatory authorities in the financial sector towards repositioning the banking industry to adequately contribute its quota to the country's real sectors performance and GDP growth. They should work like a team to ensure that any bank reform to be introduced in the banking industry must be market-driven to allow for healthy competition and efficient intermediation process necessary for improving real sector GDP growth rate. Still on the part of the regulatory authorities, efforts should be sustained at sanitizing the financial sector to retain the tempo of fund injection to other sectors to ensure the desirable economic growth and stability. On the part of the banks, banks should ensure that their intermediation roles in the financial market must be market-driven to allow for wide scope of coverage, affordability, and accessibility especially by the bank-less rural dwellers. However, the Nigerian banking sector credits have recorded a considerable growth over the years especially in the manufacturing and mining industry. Still, there is need for closer and more adequate monitoring of the extended loans and advances to ensure proper utilization of such packages for maximum result. This will go a long way to move the entire economy forward.

References

Andrew, O. A., & Osuji, C. C. (2013). An empirical analysis of trends in financial intermediation and output in Nigeria. *Global Journal of Management and Business Research Finance, 13*(9), 19-29.

Baye, M. R., & Jansen, D. W. (2006). *Money, banking and financial markets: An economic approach*. India: AITBS Publishers and Distribution.

Central Bank of Nigeria Statistical Bulletin. (2007).

Cuza, A. L. (2009). Theories regarding financial intermediation and financial intermediaries. *Fascicle of the Faculty of Economics and Public Administration, 2*(10), 254-261.

Dima, B., & Opris, P. E. (2013). Financial intermediation and economic growth. *The journal of Economic and Business, 6*(20), 127-138.

Elumelu, T. O. (2005). Investment, finance and banking in Nigeria: Evolution and new opportunities. Paper presented at *The 2005 US-Africa Summit of the Corporate Council on Africa*, Baltimore, USA.

Ezirim, B. C. (2005). *Finance dynamics: Principles, applications and techniques*. Port Harcourt: Markowitz Centre for Research and Development.

Greenwood, J., & Jovanovie, B. (1990). Financial growth and the distribution of income. *The Journal of Political Economy, 98*(5), 1076-1107.

Levine, R. (1997). Financial development and economic growth: Views and agenda. *Journal of Economic Literature, 35*(2), 688-726.

Levine, R. (1991). Stock markets, growth and tax policy. *The Journal of Finance, 46*(4), 1445-1465.

Lucas. (1990). *Financial intermediation and economic growth in Southern Africa*. Working Paper Series 1998-004, the Federal Reserve Bank of ST. Louis.

McGraw-Hill, R. (2006). *The role of financial intermediation and financial markets in Canada* (pp. 1-8). Ryerson Limited.

Nwude Chuke, E. (2004). *Basic principles of financial management* (2nd ed.). Enugu: Nwabude Publishers.

Onwumere, J. U. J. (2005). *Business and economic research methods*. Lagos: Don Vinton Limited.

Okoro Okoro, E. U. (2009). *Introduction to banking and finance* (2nd ed.). .

Ogunleye, G. A. (1999). A review of banking activities and its regulatory framework in Nigeria: The past, present and future. *NDIC Quarterly, 9*(4), 25-40.

Onyeukwu, T. (2005). Effects of capital on commercial banks' risk and profitability. *CBN Economic and Financial Review, 55*(10).

Schumpeter, J. A. (1959). *The theory of economic development*. Cambridge, MA: Harvard University Press.

Sanusi, J. O. (2002). *The importance of financial intermediation in sustaining economic growth and development: The banking sector review*. A key note address delivered at the banking seminar organized by the Institute of Directors on Thursday, (June), at the Le, Meridian Hotel, Victoria Island Lagos.

Umoh, P. N. (2004). *The effects of capital restructuring of banks on the financial market: Conceptual frame work* (pp. 10-12). Financial Guardian, Lagos: Guardian Newspaper Publishers Ltd.