

## The Impact of Financial Institutions Intermediation Activities to Economic Growth in Nigeria: 2000 – 2016

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**Abstract.** This study examines the impact of financial institution intermediation activities to economic growth in Nigeria covering the period of 2000 to 2016. The study describe the operation of the Nigeria financial system and also to analyze the role played by financial institution in the economic growth of Nigeria.. Data for this study were basically secondary data collected from CBN statistical bulletin/release of relevant government agencies like national bureau of statistics and national population commission,. Data were analyzed using the ordinary least square (OLS) simple regression and Analysis of variance (ANOVA). The linear regression showed that there is a positive impact of financial institutions intermediation activities to economic growth in Nigeria. The (SPSS) was used to analyze and validate the hypothesis. Findings reveal that financial institution intermediation activities has contributed to economic growth and if in future this intermediation activities continue there must have been a strong and reliable impact of financial institutions intermediation in Nigeria. Therefore more financial institutions should be established in Nigeria to encourage and promote industrialization or the established financial institution should be allocated with more funds.

### 1. Introduction

#### 1.1 Background of the Study

The financial sector of an economy plays a vital

role in the development and growth of the economy. The development of this sector determines how it will be able to effectively and efficiently discharge its major role of mobilizing fund from the surplus unit to the deficit unit of the economy. This sector has helped in facilitating the business transactions and economic development (Aderibigben,2004).A well-developed financial system performs several critical functions, to enhance the efficiency of intimidation by reducing information, transaction and monitoring costs. If a financial system is well developed, it will enhance investment by identifying and funding good business opportunities, mobilizing savings, enables the trading, hedging and diversification of risk and facilitates the exchange of goods and services. All these result in a more efficient allocation of resources, rapid accumulation of physical and human capital and faster technological progress, which in turn results in economic growth (salami & Adedipe, 2013) Development in the real Sector as noted by Ajayi (1995), influences the speed of growth of the financial sector directly, while the growth of the finance, money and financial institutions influence the real economy.

The financial sector consists of a group of related institutions, market instrument and operations that interact within an economy to provide financial services. Example of such institution includes deposit moneys, Discount House, Primary Mortgage institutions, finance companies and Bureau-de-change etc. The

financial sector is linked to the real sector of the economy in the following ways:

- The financial sector generate wealth in the economy and facilitates the exchange of goods and services
- It facilitates the process of resources mobilization
- It mobilizes saving and changes the term structure of savings
- It channels saving into production investment and
- It promote the integration of the domestic economy unto the global financial system
- It enables and enhances the smooth implementation of macroeconomic policies.

Economic growth is a gradual and steady change in the long-run which comes about by a general increase in the rate of saving. it has also been described as a positive change in the level of production of goods and services over a certain period of time. Economic growth is measured by the increase in the amount of goods and services produced in a country. An economy is said to be growing when it increases its productive capacity which later yield more in production of more goods and services (Jhingan, 2003). Economic growth is usually brought about by technological innovation and positive external forces. It is by technological innovation and positive external forces. It is the yardstick for raising the standard of living of the people. (Oluoyemi,1995) .

### 1.2 Statement of Research Problem

The role of financial institutions in economic growth has attracted the attention of researchers and policy makers in the last century. The findings of these studies are not without controversy: while some studies find that financial institutions has been instrumental in accelerating economic growth, others have suggested that it has not been very significant. The Levine (2005) and Beck (2009) argue that the positive effect of financial institutions over economic growth can be explained by mechanisms. According to them financial system provides means of payment that facilitates a greater number of transactions,

makes possible the allocation of resources to their most productive economic use, through the effective evaluation and monitoring of investment project, improves corporate governance and contributes to risk management.

Consequently in the Nigeria context, there has not really been a justifying ground to conclude whether financial development stimulates economic growth or not. The major challenge intermediation process is facing in Nigeria is the informal sector. Large percentage of the citizens are yet to be expose to the intermediation services due to lack of trust, confidence and convenience, for financial intermediation to be efficient and glamorous in Nigeria

Also the Nigerian financial sector, like those of many other less developed countries is highly regulated leading to financial disintermediation which retarded the growth of the economy (Adekunle , 2013). They also argued that the link between the financial and the growth of the economy has been weak. Stressing that the real sector of the economy, most especially the high priority sectors which are also said to be economic growth driver are not effectively and efficiently serviced by the financial sector. As further reveals in Adekunle (2003), the banks are declaring billions of profits but yet the real sector continues to be weak thereby reducing the productivity level of the economy. Most of the operators in the real sector are folding up due to inability to get loan from the financial institutions or the cost of borrowing was too outrageous. It is against these backdrop that the study is undertaken to determine the impact of financial institutions intermediation activities in economic growth in Nigeria from 2000 to 2016

### 1.3 Objective of the Study

The broad object of this study is to determine the impact of financial institutions intermediation activities in economic growth in Nigeria from 2000 to 2016 and the specific objectives are

- To examine the relationship between financial sector development and economy growth in Nigeria.
- To examine the relationship between financial sector development and

- economy growth in Nigeria.
- To examine the relationship between financial sector development and economy growth in Nigeria.

#### 1.4 Statement of Research Hypothesis

**Ho:** Financial Institutions intermediation activities has no impact in Nigeria's economic growth

**Hi:** Financial Institutions intermediation activities has impact in Nigeria's economic growth

## 2. Review of Related Literature

### 2.1 The Concept of Economic Growth and Bank Performance

Economic growth can be defined as an increase in a nation's output, which is most commonly measured by the gross domestic product (GDP). Cecchetti and Kharroubi (2012) The benefits stemming from economic growth are wide ranging (Harper, 2011). Ekpeyong and Acha (2011) also affirm that expansion of economies with intent to improving the welfare of citizens is a desirable goal and this further explains why economic literature is replete with theories and studies required by economies to achieve sustainable growth.

Amongst other indices, banks' performance is basically evident in their level of efficiency and ability to manage costs and post healthy profit figures, but more importantly money creation.

Performance reflects in several ways, which include, improved lending to various sectors of the economy, due to enhanced capital base; stronger banks with healthier balance sheets; innovation in banking products/service delivery; improvement in technology and globalization of operations in the industry; employment generation especially at the middle and lower levels of the industry in the short and long run; increased branch network, thereby aiding employment of both capital and labor; more challenges on the supervisory authorities especially in terms of capacity and capability thereby aiding better management of the

banking/financial aspect of the economy; adherence to preferential treatment (by policy direction) on certain priority sectors (like agriculture and manufacturing)

The Apex regulatory body has a majority role in ensuring optimal performance by the banks. Developing the real sector of any economy is not a matter that should be left to chance variables of monetary policy are consistently achieved. Defaulting debtors should be pursued through legislation to ensure public funds are not subjected to waste and also to instill discipline in the behavior of borrowers. These will ensure banks perform optimally as more will be increased vibrancy in the money and capital markets, thus enhancing economic growth.

According to Otto (2012), there are four vital components of financial system. These include; financial institutions, financial markets, the regulatory authorities and financial instruments. The study also noted that the system in Nigeria has undergone remarkable changes in terms of ownership structure, the depth and breadth of instruments employed, the number of institutions established, the economic environment and the regulatory framework within which the system operates currently. The Nigerian financial system include banks, capital markets, insurance, pension asset managers and other financial institutions with the central bank as the apex institution.

Ofanson (2010) note that the process of financial intermediation involves the mobilization and allocation of financial resources, through the financial (Money and Capital) markets by financial instruments (savings, securities and loans). They also suggest that the efficiency and effectiveness of financial intermediation in any economy depend critically on the level of development of the country's financial system. Efforts to improve the efficiency and soundness of the financial system are often geared towards supporting macroeconomic and monetary performance. That is because a reasonably sound, competitive conduct of monetary policy and efficiency of the effective conduct of monetary policy and efficiency of the transmission mechanism. In

this regard, the maintenance of financial sector stability is complementary to monetary and price stability. Both go hand in hand and are key ingredients for economic confidence upon which investment, growth and prosperity depends.

According to Harper (2011) the health of our banks and the health of our economy are inseparable. This statement buttresses the fact that the activities of banks impact every area of the economy and that in all economies, the banking industry plays a vital role. In addition to their primary role of providing a range of financial services, the banking industry is a major contributor to the gross domestic product (GDP), employment and information Technology (IT) investment. The banking industry also supports the economy by paying taxes and dividends to shareholders annually.

Lenvine ; (1997) as quoted in Badun (2009) distinguish five basic functions of financial system, and these includes:

- Facilitation of risk management
- Allocation of resources
- Monitoring of managers and control over corporate governance
- Saving mobilization
- Causing the exchange of goods and services

They also assert that financial system differ in how successfully they are performing these functions (Bagun, 2009) the sophistication of the banking industry, is an element of a developed economy, in recent times, series of policy reforms have been experienced in the Nigerian banking system, all in bid to enhance performance and sophistication of the Nigerian banks.

Bencivenga and smith (1991) asserted that economic growth will increase if more saving are channeled into the activity with high productivity while reducing the risk associated with liquidity needs. This will show that banks provide the benefits of eliminating unnecessary liquidations. Studies have shown that countries with developed financial institutions tend to grow faster, particularly the size of the banking system and the liquidity of the stock market tend

to have strong positive impact on economic growth. The financial service Provided by these institutions are essential drivers for innovation and economic growth.

Benciverage and Smith (1991) also underlined the positive effects that financial intermediaries have on the economy by encouraging the re-allocation of saving from liquid investment to longer-term productive investment. It is a matter of moving from speculative financial investments to investments in production and development projects.

## 2.2 Theoretcal Review

The key assumption of neoclassical theory, also known as the slow-swan growth is that the long-run rate of economic is dependant only on the rate of technological progress and the rate of labour force growth and that capital is always subject to diminishing returns. Thus, given a fixed stock of labour, the impact on output of the last unit of capital accumulated will always be less than the one before. Assuming for simplicity, no technological progress or labour forced growth, diminishing returns implies that at some point the amount of net capital produced is only just enough to make up for the amount of existing capital lost due to depreciation. With this scenario, it is difficult to contemplate a situation of economic growth without technological progress and growth in labour force

### 2.3.1 Empirical Review.

Financial Institution Performance and Economic Growth – Explanatory variables and Causation. In their study of the impact of financial sector performance and economic growth in Nigeria, Otto (2011) interpret that there is a positive relationship between the financial system and economic growth in Nigeria, especially within the 24 years period (1985-2008) . They conclude that the study aligns well with a priori expectation and confirm the importance if the financial sector to economic growth. In contrast, Ekeyong and Acha (2011) studied the role of banks on economic growth in Nigeria for the period 1980 – 2008 (28 years) and conclude that banks contribution to economic growth within

the period is insignificant. Their findings led to deduction that other factors (human resources, standard of education, political stability, power supply and other social infrastructure) may be playing more important role in growing the Nigeria economy.

The direction of causal relationship between economic growth and the financial institution is one area of contention amongst economists. Harrison (1999) however argue that booking activity and profitability are a function of economic growth. Agreeing with this assertion, Bayraktar and Wang (2006), suggest that financial institution openness had a direct and indirect effect on economic growth through a combination of improvement in access to financial service and the efficiency of financial intermediaries as both of these cause a lowering of cost of financing which in turn stimulates capital accumulation and economic growth.

However, Berglof and Roland (1995) find that soft budget constraints and repeated bank bailouts by governments were a function of poor quality of loan portfolios, the absence of collateral, low bank capitalization and political pressure to refinance unprofitable firms in transitional economies. Economic literature is replete with possible qualitative and quantitative explanatory variables that impact the growth rate of per capita output over time relevant. Tuvli (2002), for examples, uses the ratio of bank's claims on the private sector to GDP, annual consumer price index, and the interest rate margin to analyse the relationship between finance and economic growth.

Afangideh (2008) also asserted that "Several other determinates of economic growth especially in cross-section studies exist in the literature such as the years of schooling (human capital), black market premiums, bureaucratic efficiency, corruption etc. however, data on these variable are usually obtain from periodic surveys and hence consistent time series are unavailable. According to Howitt (2007) sustained economic growth-even if one narrowly defines it as sustained growth in income per person-is everywhere and always a process of continual transformation". He further answers

that the economic progress that rich nations have enjoyed since the industrial revolution would not have been possible had people undergone wrenching changes. Economies that cease to transform themselves are destined to fall off the path of economic growth. Cecchetti and Kharroubi (2012)

### 2.3.3 Analysis of Key Economic Indicators

On the Nigeria economy, the world fact book (2012) report observes that the oil-rich Nigeria has been hobbled by political instability, corruption, inadequate infrastructure, and poor macroeconomic management. However, in 2008 the country began pursuing economic reforms, Nigeria's former military rulers failed to diversify the economy away from its overdependence on the capital intensive oil sector, which provides 95% of foreign exchange earnings and about 80% of budgetary revenues.

Following the signing of an IMF stand-by agreement in august 2000, Nigeria received a debt restructuring deal from the Paris club and a \$1 billion credit from the IMF, both contingent on economic reforms. Nigeria pulled out of its IMF program in April 2002, after failing to meet spending and exchange rate targets, making it ineligible for additional debt forgiveness from the Paris club. In November 2005, Abuja won Paris club approval for a debt-relief deal that eliminates \$18 billion of debt in exchange for \$30 billion of Nigeria's total \$37 billion external debt. Since 2008 the government has begun to show the political will to implement the market-oriented reforms urged by the IMF, such as modernizing the financial system, removing subsidies and resolving regional disputes over the distribution of earning from the oil industry, GDP rose strongly in 2007-2011 because of growth in non-oil sectors and robust globe crude oil prices. President Jonathan has established an economic team that includes experienced and reputable members and has announced plans to increase transparency, diversify economic growth and improve Fiscal management. Lack of infrastructure and slow implementation of reforms are key impediments to growth. The government is working towards developing stronger public-private partnership for roads,

agriculture and power. Nigeria's financial sector was hurt by the global financial and economic crises, but the central bank government has taken measures to restructure and strengthen the sector to include imposing mandatory higher minimum capital requirement (The world fact Book, 2012).

Ensuring that financial sector contributes to the real economy the financial regulators should ensure that financial sector contributes to the real economy. With benefit hindsight, it is evident that rapid financialization in Nigeria did not benefit the real economy as much as has anticipated. Development financial institutions set up for specific purpose such as housing finance, trade finance, urban development have not fulfill their mandates. Many successful emerging markets have seen proactive government actions to ensure that the financial sector contribute to the real economy. Nigeria can learn from countries with successful track records in creating financial accommodation for economic growth through initiatives such as development finance, foreign direct investment, venture capital and private partnerships.

The CBN is in a good position to advocate economic growth in Nigeria (Bahar, 2009). Nigeria can learn from the experience of other economies. In successful emerging markets, many of the successful policy lending programmes share common features. For example, many policy lending programmes were conducted through state-owned/state-controlled banks particularly in East Asian economies such as Japan, Korea, China and Vietnam. Many programmes were funded by state budget or through government saving system (such as postal saving in Japan). The state invariably provided seed funding as equity in specialized development financial institutions (e.g Brazil, China) some funding also came from development agencies such as IFAD, WB and ADB (Bahar, 200

### 3. Research Methodology

#### 3.1 Research Design

This study shall adopt the ex post research

design. According to Asika (2016), ex post facto research is a systematic empirical study in which the researcher does not in any way control or manipulates the independent variable because the situation for the study already exists or has taken place. The study collates historical data for the period from 200 – 2016.

#### 3.2 Sources of Data

Secondary data is used for the study. Data from the real GDP per capital growth and Financial Deepening and other relevant data that is btained from the central bank of Nigeria Statistical Bulletin.

#### 3.3 Population and Sampling Size

The population of this study is the financial institutions operating in Nigeria and all their market and economic indicators of the financial institutions and the Nigerian economy. The sample which was purposefully selected consists of the intermediation activity of the financial institutions, represented by the Broad Money (M2), and the economic growth indices, represented by the GDP, for the years 2000 to 2016.

#### 3.4 Data Analysis Techniques

Data collected in the course of this study will be presented and analyzed using suitable statistical tools. They will be presented in tabular and graphical forms, and analyzed using statistical ratios.

The ordinary least sequin (OLS) simple repression model will be adopted for the validation of the hypothesis.

##### MODEL SPECIFICATION

The general model equation will be represented as state below:

$$Y = b_0 + B_1x_1 + U$$

Where y = Dependent variable (economic growth)

X = Independent Variable (financial Depending)

U = Stochastic disturbance

Therefore the hypothesis test model will be state thus:

$$\text{Growth} = b_0 + b_1 \text{findeep} + u$$

Where is measured by GDP/Population

Findeep measured by M2/GDP

**4. Data Presentation and Analysis**

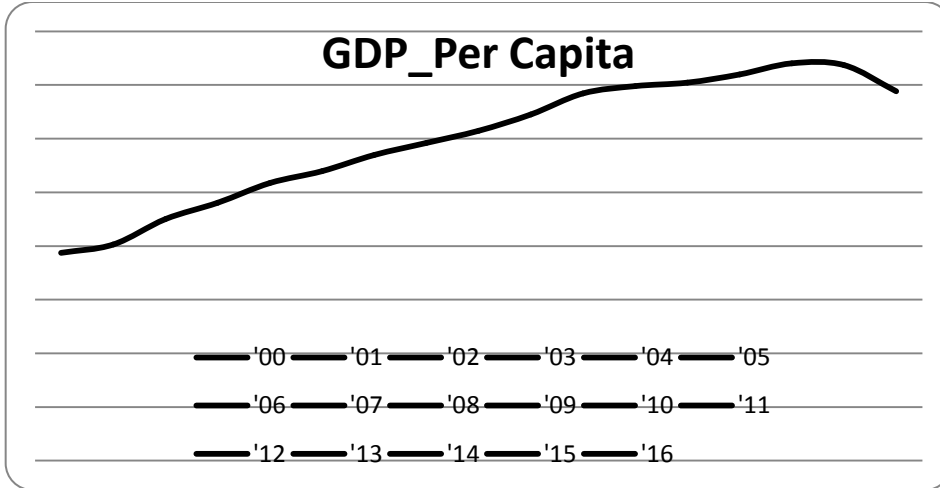
**4.1 Data Presentation**

**Table4.1: Economic Growth at Constant Basic priceN’Bn**

YR	GDP	POPULATION	GDP PER CAPITA
2000	23,688.28	122,352,009	193607.6097
2001	25,267.54	125,463,400	201393.7132
2002	28,957.71	128,666,700	225059.864
2003	31,709.45	131,972,500	240273.163
2004	35,020.55	135,393,600	258657.3516
2005	37,474.95	138,939,478	269721.3962
2006	39,995.50	140,431,790	284803.7471
r2007	42,922.41	144,998,281	296020.1301
2008	46,012.52	149,713,264	307337.6318
2009	49,856.10	154,581,566	322522.9327
2010	54,612.26	159,608,173	342164.5582
2011	57,511.04	164,798,232	348978.5012
2012	59,929.89	170,157,060	352203.3702
2013	63,218.72	175,690,143	359830.7732
2014	67,152.79	181,403,148	370185.3619
2015	69,023.93	187,301,926	368516.926
2016	67,931.24	197,392,515	344142.9377

**Source:** Statistical Bulletin, 2016 for various years

As seen from table 4.1 above, it could be seen that GDP which was 23,688.28Bn in 2000 kept an upward movement during the subsequent year, this GDP continue to increase gradually year in year out. From the above table, it can be seen that the increase was as a result of increase in population year. This means that as the country’s population increase so also the government has to increase GDP so as to be enough to at least cover the population. However, from the researcher observation, from 2003 to 2006 increase in GDP was within 30s i.e. in 2003, 2004,2005 and 2006 we have 31,709.45, 35,020.55, 37,474.95, and 39,995.50 billion naira respectively. It is important to note that there big difference of the figures in the year stated above, but from 2007 to 2016 the GDP was increasing in figure despite there is no much increase in population that period. From the researcher’s observation as seen in statistical bulletin (2017), more money was injected to the professional, scientific and technical service, public administration and where more money was injected apart from the two (2) stated above is Education and this may be due to civilization of Nigerian citizens to the importance of Education.



**Financial deepening determination**

Khan and Senhadji (2000), suggest that monetary aggregate such M1 or M2 are often use as proxy for financial system mainly because these aggregate are widely available. The financial deepening will be measured by dividing the M2 monetary aggregate he GDP. That is M2/G

**Table 4.2: Monetary Survey by GDP Component. N,Bn (2000 to 2016)**

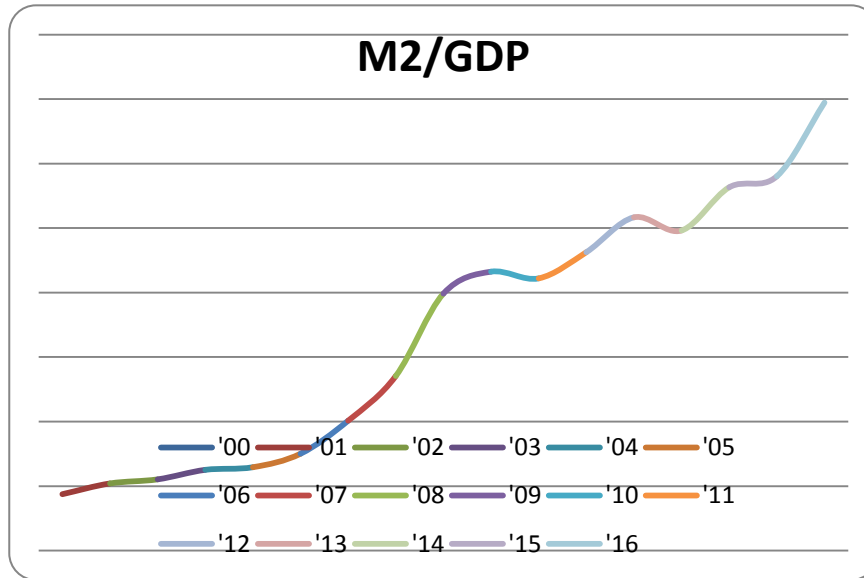
Year	M2	GDP N,Bn	M2/GDP
2000	1,036.1	23,688.28	43738929.12
2001	1,315.9	25,267.54	52078674.85
2002	1,599.5	28,957.71	55235721.33
2003	1,985.2	31,709.45	62605942.39
2004	2,263.6	35,020.55	64636334.95
2005	2,814.8	37,474.95	75111507.82
2006	4,027.9	39,995.50	100708829.7
2007	5,809.8	42,922.41	135355866.6
2008	9,166.8	46,012.52	199224037.3
2009	10,780.6	49,856.10	216234322.4
2010	11,525.5	54,612.26	211042355.7
2011	13,303.5	57,511.04	231320803.8
2012	15,483.8	59,929.89	258365233.1
2013	15,689.0	63,218.72	248170162.3
2014	18,913.0	67,152.79	281641313.8
2015	20,029.8	69,023.93	290186316.5
2016	23,591.7	67,931.24	347287934.1

**Source:** CBN Statistical Bulletin 2017 & Researcher Computation

The reason why the researcher is comparing M2 to GDP is to see how foreign asset (Net) by central bank, by commercial banks, by merchant banks, by Non- interest banks. Domestic credit (Net) claims by central bank, commercial banks, merchant banks and claims by Non- interest banks all in respect to domestic credit are all claims on federal government. There are still claims on private sector, claims on state and local government, claims on Non- financial public enterprises. Which all make up monetary assets/liabilities and how they contribute to the GDP. As already that in any financial statement asset and liabilities side is the same which is also stated in the CBN statistical bulletin under the monetary survey

Excel sheet.

From researcher’s analysis of M2/GDP the researcher observed that from 2000 to 2005 monetary asset did not contribute much to GDP but from 2006 to 2016 the M2 contribution to GDP gradually begin to increase and increase without and decrease and by 2016 M2 contribution to GDP has risen to 347287934.1 which shows a positive contribution to an extent. The meaning of this is that, monetary asset/liabilities contribute to economic growth to an extent.



#### 4.2 Data Analysis

In this section, the various data presented in section 4.1 (Data presentation section) are analyzed. The various objectives of the study will be used as basis for the analysis. This researcher opines will invariably enhance the discussion of the findings. Below therefore are the analyses.

**Objective One:** To describe the operation of the Nigeria financial system

Describing the operation of the Nigeria financial system has to do with how the financial institution of financial sectors carryout their operation in Nigeria. The financial system consist of various financial institution, operators and instrument that gives the system its character and uniqueness. According to the Central Bank of Nigeria research series (1993) the Nigeria financial institution refers to a set of rule and regulation and the aggregation of financial arrangement, institutions, agents, that interact with each other and the rest of the world to foster economic growth of a nation. The Nigeria financial system differs from the Global Financial System (GFS). The Global Financial System consists of institutions and regulations that act on the international level, as opposed to those that act on a national or regional level. The main players are the Global institutions, such as International Monetary fund and Bank for International etc.

The financial system is a prime mover of economic growth. It achieve this through the intermediation process, which entails providing a medium of exchange necessary for specialization and mobilization of savings from surplus unit to deficit units. Through this process, there is an enhanced productive activity and thus positive influences aggregate output and economic growth. It means the system ensure the efficient transfer of savings from those who generate them (savers) to those who ultimately use them (investors) for investment or consumption

**Objective Two:** To analyze the role played by financial institution in the growth of Nigeria’s economy.

In achieving this objective, the researcher looks at the loan and advances to customers which will be

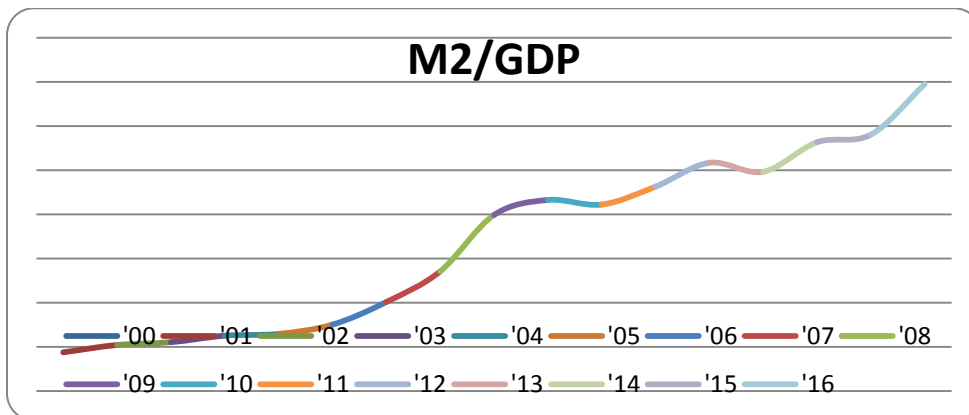
compared to the GDP, customers can be business firm and contractors because this group of individuals are in the country and any investment they make will be in the country. So analyzing financial institution loan and advances to this group of individuals will enable the researcher to know if those loan and advances have any impact in the economy. The researcher carryout this analysis by divide the loans and advances to customers by GDP at constant basic price to know the percentage (%) contribution.

**Table 4.3 Role of Financial Institution to GDP (2000 to 2016)**

Year	Loan and advance to customer N,Bn	GDP N,Bn	% contribution of loans and advance to GDP
2000	429.3	23,688.28	1.812288609
2001	714.5	25,267.54	2.827738672
2002	805.3	28,957.71	2.780951947
2003	1,012.4	31,709.45	3.192739073
2004	1,278.6	35,020.55	3.650999199
2005	1,584.5	37,474.95	4.228157743
2006	2,096.3	39,995.50	5.241339651
2007	3,861.5	42,922.41	8.996465949
2008	6,051.7	46,012.52	13.15228986
2009	7,385.8	49,856.10	14.81423537
2010	6,359.6	54,612.26	11.64500425
2011	6,098.5	57,511.04	10.60405098
2012	7,034.1	59,929.89	11.73721494
2013	8,730.6	63,218.72	13.8101499
2014	11,591.0	67,152.79	17.26063802
2015	11,609.3	69,023.93	16.81923936
2016	14,163.5	67,931.24	20.84975926

*Source:* CBN Statistical Bulletin 2017 & Researcher Computation

From the table 4.3 above, it could be seen that financial institution loans and advances did not contribute much to the economy growth from 2000 to 2007. The contribution grew from 1.81% in 2000 to 8.99% accepting the fact that its contribution within this period had ups and down movement the highest during within this period is was 2007. But as from 2008 to 2016 as financial institution increase their rate of loans and advances to customers, the percentage contribution begin to increase gradually and consistently, by year 2016 the loans and advances to customers has the contribution of 20.85%. this percentage shows a reasonable contribution to the economy to an extent. The meaning of this is that in the future where further research will be carried out on this project work there must have been a strong and reliable contribution of loans and advances to the economy. From the analysis above, financial institution loans and advances contribute to the economy growth to an extent.



**Objective Three:** To Examine the relationship between financial sector development and economy growth in Nigeria.

To achieve this objective the researcher will be looking at the time series movements in the percentage changes in financial sector and total real GDP, for the period under study. This is presented on table 4.3 below. A time series movement along the same direction indicates a positive relationship.

**Table 4.4 Financial Sector and Total Real GDP Output with their Percentage Growth Rate (2000-2016)**

Year	M2	TOTAL REAL GDP	%CH IN M2	%CH in GDP
2000	1,036.1	23,688.28		
2001	1,315.9	25,267.54	27.00511534	6.666841155
2002	1,599.5	28,957.71	21.55178965	14.60438966
2003	1,985.2	31,709.45	24.11378556	9.502616056
2004	2,263.6	35,020.55	14.02377594	10.44199757
2005	2,814.8	37,474.95	24.35059198	7.008456463
2006	4,027.9	39,995.50	43.09720051	6.725959608
2007	5,809.8	42,922.41	44.23893344	7.318098286
2008	9,166.8	46,012.52	57.78167923	7.199292864
2009	10,780.6	49,856.10	17.60483484	8.353335136
2010	11,525.5	54,612.26	6.909633972	9.539775474
2011	13,303.5	57,511.04	15.42666262	5.307929025
2012	15,483.8	59,929.89	16.38892021	4.205888122
2013	15,689.0	63,218.72	1.325256074	5.487795823
2014	18,913.0	67,152.79	20.54942954	6.22295105
2015	20,029.8	69,023.93	5.904933115	2.786392047
2016	23,591.7	67,931.24	17.78300333	-1.583059672

Source: CBN Statistical Bulletin 2017 & Researcher’s Computation

As could be seen from the above table, the percentage changes of the two variables, GDP and monetary asset/liabilities, appear to be moving in the opposite direction, there is more percentage change in monetary asset/liabilities this may be due to financial institution awareness of the impact of their loans and advances which enables them to give out more loans to their customers in the subsequent years so as to create more impact in the economy excepting for a few years. Therefore in the main, there appears to be a positive relationship between financial institution and economic growth in Nigeria. However, the extent of this relationship will be validated during the test of hypothesis. Below is fig. 4.4 to further elucidate.

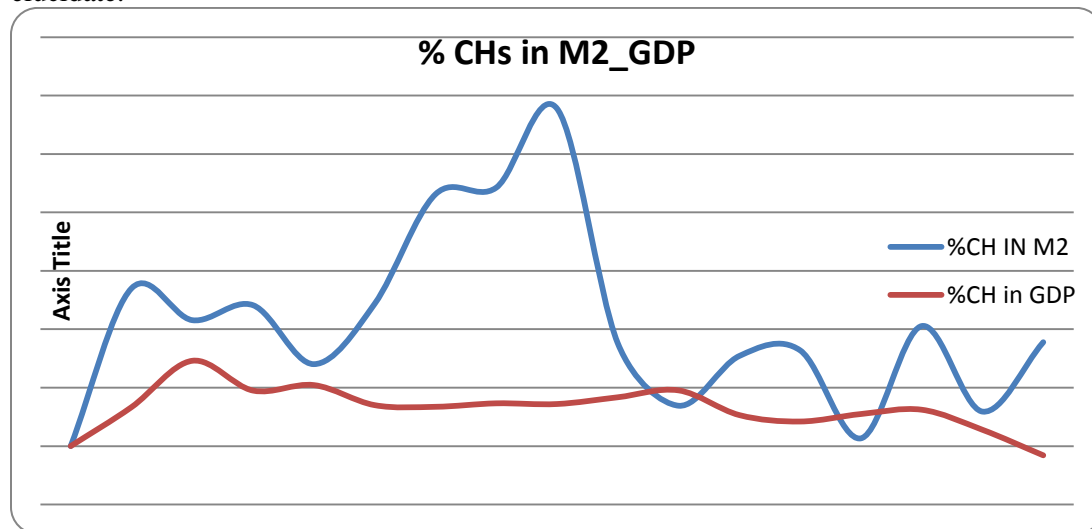


Fig. 4.4: Percentage Growth Rate of M2 Output & GDP (2000-2016)

### 4.3 Hypothesis Testing

The hypothesis postulated for this study is tested, using the simple regression and correlation. An ANOVA test was also conducted to be able to test for the variance. The package used was the statistical package for social sciences (SPSS), which is a MSE statistical package. The decision is as stated in chapter three above.

Below is the hypothesis restated to be validated.

**Ho:** Financial Institutions intermediation activities has no impact in Nigeria's economic growth

**Hi:** Financial Institutions intermediation activities has impact in Nigeria's economic growth

**Result** (see appendix for the printout).

R = 0.972  
 R<sup>2</sup> = 0.944  
 F = 254.250  
 Sig. Value = 0.000

#### Interpretation

From the above results obtained from the test of hypothesis have the following interpretations:

**R:** This is the correlation coefficient between the observed and predicted values of the dependent variable. It ranges in value from 0 to 1. A small value indicates that there is little or no linear relationship between the dependent variable and the independent variables, but in this case it is **0.972** which indicates that there is a strong relationship between financial institution intermediation and economic growth in Nigeria.

**R<sup>2</sup>** shows goodness-of-fit measure of a linear model, sometimes called the coefficient of determination. It is the proportion of variation in the dependent variable explained by the regression model. It ranges in value from 0 to 1. Small values indicate that the model does not fit the data well. Since the value is **0.944**, it implies that economic growth is influenced by financial institution intermediation output to the tune of about 94%.

**F:** The ratio of two mean squares. When the F value is large and the significance level is small (typically smaller than 0.05 or 0.01) the null hypothesis can be rejected. In other words, a small significance level indicates that the results probably are not due to random chance. In this

case the value is 254.250 while the significant value is **0.000**, therefore by implication, the Ho is rejected thus accepting the H1 which states that "financial institutions intermediation activities has impact in Nigeria's economic growth

#### Validation of Hypothesis

In validating the hypothesis the ANOVA (F) test is used, with the following decision rule:

Reject H0 if  $F > F_{0.05}$ ; accept H0 or reserve judgment if  $F \leq F_{0.05}$ .

F = 254.250

Df = 1, 15

$F_{0.05} = 101.17$

#### Decision

Since  $F > F_{0.05, (15)}$  we reject the Ho and alternatively accept the H1, which states that **the financial institutions intermediation activities has impact in Nigeria's economic growth**

### 4. Summary of Findings

**Objective One:** To describe the operation of the Nigeria's financial system.

The Nigeria financial system was described as consisting of group of related financial institutions that interact within an economy to provide financial service.

The interact within the economy taking fund offered by lenders and savers who have excess funds and purchased by borrowers and spenders who need those fund in which the financial institution get profit in return.

**Objective Two:** To analyze the role played by financial institution in the growth of Nigeria's economy.

The contribution grew from 1.81% in 2000 to 8.99% accepting the fact that its contribution within this period had ups and down movement the highest during within this period is was 2007. But as from 2008 to 2016 as financial institution increase their rate of loans and advances to customers, the percentage contribution begin to increase gradually and consistently, by year 2016 the loans and advances to customers has the contribution of 20.85%. This percentage shows a reasonable contribution to the economy to an extent. The meaning of this is that in the future where further research will be carried out on this project work there must have been a strong and

reliable contribution of loans and advances to the economy.

**Objective Three:** To Examine the relationship between financial sector development and economy growth in Nigeria.

The percentage changes of the two variables, GDP and monetary asset/liabilities, appear to be moving in the opposite direction, there is more percentage change in monetary asset/liabilities this maybe due to financial institution awareness of the impact of their loans and advances which enables them to give out more loans to their customers in the subsequent years so as to create more impact in the economy excepting for a few years. Like in 2016 the percentage change in GDP indicated negative sign this was because the GDP for the period was low than that of the previous year that is 2015. It was only in 2016 that the percentage change in GDP was negative. However, the extent of this relationship when validated during the hypothesis testing the result shows a positive relationship 94% and that of financial institution intermediation has 97% impact of the economic growth; the result being statistically significant at the 0.05 level of significance.

## 5. Conclusions

It could therefore be concluded that financial institution activities in Nigeria has impacted positively on the country's economic growth as measured by financial deepening and gross domestic product for the period of study 2000 to 2016. This financial institution through various institutional structures, they vigorously seek out and attract the reservoir of idle funds and allocate same to entrepreneurs, businesses, households and governments, for investment and use in various projects and purposes, with the view of return.

## 6. Recommendations

Based on the researcher's work presented and analyzed in the forgoing chapters, the following recommendation were given.

More financial institution should be established in Nigeria to encourage and promote industrialization or the established financial institution should be allocated with more funds

to further boost their intermediation.

The interest rate on loan should be reduced by some percentage, this will make the activities of the institutions more attractive to people.

Financial institution credit should be directed at priority sectors (manufacturing and agriculture) for its impact to be felt in the economy.

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**APPENDIX**

**Descriptive Statistics**

	Mean	Std. Deviation	N
RealGDP	47075.5812	15435.31416	17
M2	9372.7353	7459.63214	17

**Correlations**

		RealGDP	M2
Pearson Correlation	RealGDP	1.000	.972
	M2	.972	1.000
Sig. (1-tailed)	RealGDP	.	.000
	M2	.000	.
N	RealGDP	17	17
	M2	17	17

**Variables Entered/Removed<sup>a</sup>**

Model	Variables Entered	Variables Removed	Method
1	M2 <sup>b</sup>	.	Enter

a. Dependent Variable: RealGDP

b. All requested variables entered.

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.972 <sup>a</sup>	.944	.941	3762.68576	.944	254.250	1	15	.000	.641

a. Predictors: (Constant), M2

b. Dependent Variable: RealGDP

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3599615707.662	1	3599615707.662	254.250	.000 <sup>b</sup>
	Residual	212367061.983	15	14157804.132		
	Total	3811982769.644	16			

a. Dependent Variable: RealGDP

b. Predictors: (Constant), M2

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	28229.675	1493.231		18.905	.000
	M2	2.011	.126	.972	15.945	.000

a. Dependent Variable: RealGDP

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	30312.9785	75665.8750	47075.5812	14999.19937	17
Residual	-7734.63672	3666.86304	.00000	3643.20482	17
Std. Predicted Value	-1.118	1.906	.000	1.000	17
Std. Residual	-2.056	.975	.000	.968	17

a. Dependent Variable: RealGDP