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CONTRIBUTION OF BANKS' INTERMEDIARY ROLE TO THE GROWTH OF NIGERIAN ECONOMY

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Abstract
This study was carried out to determine the contribution of banks' intermediary role to the growth of the Nigerian economy laying specific emphasis on the intermediary role of the banks to the real sectors of the economy which include: the Production (PDN), General Commerce (GC), Services (SER) and OTHERS. These sectors are picked as they are segmented by the central bank of Nigeria in the CBN statistical bulletin. The banks' intermediary function wasproxied by banks' loans and advances given to the various real sectors while theeconomic growth was measured by Real Gross Domestic Product (RGDP). Regression analysis was used to analyze the obtained dataand found that that the Banks intermediary role significantly contributes positively to the growth of the Nigerian economy. Specifically, banks' loans and advances to the production sector significantly contribute positively to the growth of the Nigerian economy. The intermediary role of the banks to the General commerce and others both contributes positively to the economic growththough insignificant. The intermediary role to the services sector indicates an insignificant negative contribution to the growth of the Nigerianeconomy. We therefore recommends that the banks should advance more loans to the Production sector as the impact on the economy is enormous and the banks should either reduce or stop advancing loans and advances to the firms in the service sector because its effect on the economy is dreadful.

Keywords: Banks, Intermediary Role, Economy, Growth, Nigeria, Real Sector

1.1 Introduction

The financial sector is seen as the engine of the growth in any economy (Elumilade, 2010; Ongore and Kusa, 2013) it consist of institutions like; banks, insurance and stock market to mention a few. In Nigeria the banking sector seems to dominate the financial sector as it accounts for about 90% of the total assets in the sector and about 65% of market capitalization of the Nigerian Stock Exchange (Soludo, 2009; Aliyu& Yusuf, 2014). It is therefore not out of place to lay emphasis on the banking sector in Nigeria because its role in the economy cannot be over emphasized.

The banks generate income by using various financial instruments to mobilize fund/income for the economy. This financial institution obtain surplus funds from those ready to forgo current consumption for the future and channel these same funds to the deficit units for investment purposes continuously (Tonye&Andabai, 2014; Aurangzeb, 2012; Osuji&Chigbu, 2012). This is known as the intermediary role of the banks. Through this financial intermediation the financial institutions make available the bulk of fund needed for investment as well as for the development and growth of the economy. In order to sustain the intermediary role and boost the economy, these banks need to remain profitable. Samaila (2013) posit that no meaningful development can take place in an economy without an efficient and effective banking system. To be more emphatic, the banks should be able to cover operational cost to remain stable in business and be able to make meaningful financial contribution to the profitable sectors in the economy.

This mobilized fund to the various real sectors in the economy is capable of bringing about economic growth. On the contrary, the inability of the banks to perform effectively in fund generation and extension of the funds in form of loans and advances to the real sectors (production sector, general commerce sector, service sector and other sector) of the economy is capable of affecting the growth of the economy adversely.

Economic growth entails positive change in the national income or the level of production of goods and services by a country over a certain period of time (Oluitan, 2009). Economic growth as an improvement in the production capacity of an economy by using available resources to reduce risk, eliminate bottleneck which can heighten cost and hinder investment (Fapetu&Obalade, 2015).   If so, then the stability of the bank is very paramount because only a sound financial system is recognized as a necessary and sufficient condition for rapid growth and development of any economy (Aliyu& Yusuf, 2014).

It is not surprising that the banking sector is upheld as the backbone of any economy and it is prone to variant regulation because it is upheld that sound and profitable banking sector is better able to withstand negative shocks and contribute immensely to the stability and growth of the economy (Aburime, 2010). In support of the above assertion, Aurangzeb (2012) state that a good financial sector has a tendency to develop its economy more quickly.

As such, it has undergone series of reforms in order to gain the capacity to support the economy by granting loans and advances to the real sector. The question remains; how well has the financial sector contributes to the growth of the economy? Despite the progress made in ensuring a sound, stable and efficient financial system that can respond to the needs of Nigerian growth and development, has these in any way improved banks intermediary function and its consequential effect on the economy?

Again, with the increase in globalization, technological innovations, competition and continuous increase in sophistication of financial services to consumers; there seem to be a growing demand and pressure on existing resources. To this ends, the financial institutions should be able to channel funds enough to sectors that need them so as to improve productivity and satisfy consumption unit which will resultantly improve economy. However, the worry is, with this pressure for demand of fund, is the bank able to carry out this intermediary function effectively and efficiently in way that can improve the economy's growth?

The ability of the banks to grow over the years through variant reforms and become stable enough to contribute immensely to the growth of the economy and identifying the most profitable sector(s) to advance loans and a desire to empirically have evidences about the Nigerian banking sector intermediary role to its economic growth is the hallmark of this research.

2.1 Concept of Economic Growth

Economic growth is reasonably unambiguous; it is the change in national income over time, usually measured over one year. National income is the amount produced by a country in one year. It can be measured it by the percentage change in the level of national income, often over the period of one year (Anyanwu, 2015). Economic growth is an increase in the national income per capita, and it involves the analysis, especially in quantitative terms, of this process, with a focus on the functional relations between the endogenous variables. In a wider sense, it involves the increase of the GDP, GNP and NI, of the national wealth, including the production capacity, expressed in both absolute and relative size, per capita, encompassing also the structural modifications of economy (Anyanwu, 2015).

Other scholars of economies have similar views on the concept of economic growth. Dewett, (2005) viewed economic growth as an increase in the net national product in a given period of time. He explained that economic growth is generally referred to as a quantitative change in economic variables, normally persisting over successive periods. Olowofeso, Adeleke and Udoji (2015) posit that**,** Economic growth is the endless improvement in the capacity to satisfy the demand for goods and services, resulting from increased production scale, and improve productivity (innovations in products and processes) which is usually measured over a certain period of time. In other words, it is the measurement of annual percentage increase in real GDP over a certain period of time. Todaro and Smith (2006) also defines economic growth as a steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income. Audu&Okumoko (2013) refers to economic growth as an increase in the value of goods and services produced by an economy. Jhingan (2006) viewed economic growth as an increase in output. He explained further that it is related to a quantitative sustained increase in the country's per capita income or output accompanied by expansion in its labour force, consumption, capital and volume of trade.

According to Anyanwu and Kalu (2015), economic growth can be: positive, zero or negative. In their view a positive economic growth is recorded when the annual average rhythms of the macro-indicators are higher than the average rhythms of growth of the population. When the annual average rhythms of growth of the macro-economic indicators, particularly GDP, are equal to those of the population growth, we can speak of zero economic growth and a negative economic growth appears when the rhythms of population growth are higher than those of the macro-economic indicators.

According to Yakubu and Affoi (2014) the main characteristics of economic growth are high rate of growth of per capita income or output, high rate of productivity, high rate of structural transformation, international flows of labour, goods and capital. They further opine that economic growth can be measured in terms of Gross Domestic Product (GDP) and Human Development Index (HDI), which is an index that measures national growth based on measures of life expectancy at birth, education attainment, literacy and adjusted real per capita income.

Anyanwu, (2015) stated that there are three ways of adding up economic growth. These include: production, incomes, and/or expenditure.

GDP = gross domestic product (produced within a country).

GNP = gross national product (includes income coming into or going out of country).

NNP = net national produce (an allowance is made for depreciation of capital).

From the forgoing, we estimate that economic growth is the process of increasing the sizes of national economies, the macroeconomic indications, especially the GDP per capita, in an ascendant but not necessarily linear direction, with positive effects on the economic-social sector. Economic growth can as well be viewed as when there is a sustained increase in the actual output of goods and services per head

2.5 Bank Intermediary Role and the Economic Growth

An effective and efficient financial sector can improve the allocation of resources within an economy by improving the mobilization of resources from financial units with surplus funds and facilitating the transfer of those resources from actual savers to those economic units with an investment or use demands that are in excess of their own savings thus, creating wealth in the economy. The importance of this process cannot be underestimated because through this process, the resources of an economy are better utilized, leading to a higher level of real income. The effective functioning of the financial sector leads to a higher average returns on investment resulting in higher savings rate, yielding more liquidity to the financial sector which they can contribute to profitable investments, which ultimately will increase the success rate of the economy (Abdulraheem, Yahaya&Aliu, 2011).

In the view of Yakubu and Affoi (2014) commercial banks render financial services in terms of intermediation. This involves channeling of funds from the surplus spending to the deficient spending units of the economy, therefore, making these banks' deposits available for loans and advances. The banks make these funds available to various economic agents to enable them meet operating expenses. For instance, business firms obtain credit to buy machinery and equipment. Farmers collect loans to buy seeds, fertilizers, erect various kinds of farm buildings. Government bodies also obtain loans and advances to meet various kinds of recurrent and capital expenditures.

These funds advanced helps to create and maintain a reasonable business size as it is used to establish and/or expand the business, to take advantage of economies of scale. It can also be used to improve various economic activities and increase their efficiency. All these jointly create additional wealth in the economy (Nwanyanwu, 2010).

Many scholars are of the view that bank intermediary role affect the economy. According to Fapetu and Obalade (2015), the role of financial intermediation is central to economic growth. The financial intermediation role of the banking system affects the allocation of savings, thereby improving productivity, technical change and the rate of economic growth hence played a pivotal role in economic development.

La Porta et al (2000) is also of the view that well developed financial system promotes the efficient allocation of capital to projects with high rates of return, in turn stimulating savings, investments and economic growth. Kurt and Levine (2001) studies also suggest that economies with more developed financial markets begin to grow earlier, attain higher growth rates, and achieve higher levels of per capita income than economies with less developed financial markets. Supporting the causal relationship between bank loan and economic growth Demetriades and Hussein (1996) opine that bank loans can be a causal factor for economic growth.

Yakubu and Affoi (2014) state that; credit is a vehicle through which savings are channeled into productive investment thereby encouraging economic growth. Thus, the availability of credit allows the role of intermediation to be carried out importantly for the growth of the economy.

The role of the financial institutions, banks in particular in economic growth cannot be over emphasized since no economy can do without finance; and these financial institutions are the embodiment of money/fund in any economy. This present study will further present evidence on the contribution of banks intermediary role to the growth of Nigerian economy.

3.1 Research Methodology

This study adopts an ex-post factor research design. This design is used because of its relevancy in causal research as the one currently under study. The study is making use of the already existing data from the Nigerian central bank annual statistical bulletin and covers the entire Deposit Money Banks (DMB) in Nigeria for a period of 14 years from 2000 to 2013. This study also adopts the following variables. First, the independent variable is the banks sectorial loans and advances. These sectors include; the production, general commerce, services and others.

The total amounts loaned and advanced to the various sectors are used as reported and presented in the Central Bank of Nigeria annual statistical bulletin. Secondly, the proxy for the dependent variable (GDP) adopted is the Real Gross Domestic Product (RGDP). The total amounts reported and presented in the Central Bank of Nigeria annual statistical bulletin are used as presented to establish the contribution of banks' intermediary role to a developing economy like Nigeria.

The obtained the pooled panel data are processed using a regression analysis technique with the help of SPSS version 21, Microsoft Excel and SPSS is usedfor data processing and analysis. T-test is used to ascertain whether the role of the financial institutions have any significant effect on the Nigerian economic growth. The T-test is selected for its suitability for sample sizes less or equal to 30 (Emaikwu, 2010; Agburu, 2001; Azende, 2011; Akpa, 2011).

The study applies a 5% level of significance for a two tailed test, the critical value is $\pm 0.05/2 = \pm\ 1.96$. Hence, the decision rule for testing the hypothesis is to accept or reject the null hypothesis if the critical value is greater or less than calculated value, respectively. Hence, hypotheses for the study are stated as follows:

Ho_1: Bank loans and advances to the production sector have no role in the growth of the Nigerian economy;

Ho_2: Bank loans and advances to general commerce sector do not affect the Nigerian economic growth;

Ho_3: Bank loans and advances to service sector do not have any role to play in the growth of Nigerian economy;

Ho_4: The funds channeled by banks to other sector other than production, general commerce and services have no role in the growth of the economy.

The model used is presented as follows:

EG= *f (*BSLA*)*

EG= RGDP

BSLA= LAP, LAGC, LAS and LAO

RGDP= *f* (LAP, LAGC, LAS, LAO)

Where;

EG=Economic Growth

f= function

RGDP =Real Gross Domestic Product

BSLA = Bank Sectorial Loans and Advances

LAP = Loan and Advances to Production Sector

LAGC = Loan and Advances to General Commerce Sector

LAS = Loan and Advances to service Sector

LAO = Loan and Advances to other sectors

Using the multiple regression analysis technique, the following model is constructed for the study.

$$RGDP = \beta_0 + \beta_1 \text{LAP} + \beta_2 \text{LAGC} + \beta_3 LAS + \beta_4 LAO + e$$

Where;

β_0 = the constant

$\beta_1, \beta_2 \ldots \beta_4 =$ the regression coefficients

e= the error term

4.2 Data Analysis

This section analyzes the data obtained from Microsoft Excel with the help of SPSS. Multiple regression method was applied to produce the results of the study the analysis of these data is presented in the following sections.

4.2.1 Descriptive statistics

Table 4.1 Descriptive statistics

Variables	Minimum	Maximum	Mean	Standard Deviation
PDN	214612.30	4406171.75	1708357.89	1478511.69
GC	25307.40	1245078.67	358678.78	437391.49
SER	0.00	2081966.47	752026.73	919311.67
OTHERS	268382.50	3619069.90	1769447.28	1099412.62
RGDP	329178.74	950114.03	625500.69	193202.46

The results on table4.1 shows that the Real GDP over the period of study was as low as ₦329178.74 and maximum at ₦950114.03 with mean of ₦625500 and a function of ₦193202.

A proper view of the table shows that sectorial loans and advances to the sectors under study was as low as zero naira and was highest at ₦4406171.75. This fluctuation is seen to be reflecting in the RGDP as well. Therefore, it can be inferred that banks contributes via loans and advances to the economy.

4.2.3.1 Validity test

To test whether the result obtained through the regression are reliable and valid test were carried out using the Durbin Watson statistic in the table 4.2. This table presents the result of this statistic which ensures that the residuals of the proceeding and succeeding set of data do not affect each other to cause the problem of autocorrelation. From the results, Durbin Watson statistics for the model is less than 2 therefore; it shows the absence of autocorrelation.

Table 4.2: model summery for RGDP

model	R	R. square	Adjusted R square	Standard error of the estimate	Change Statistics			Durbin Watson
					R. square change	F change	Sig. F Change	
1	**0.967**	**0.936**	**0.907**	**58885.467**	**0.936**	**32.74**	**0.000**	**1.029**

a. Praetors: (constant), PDN, GC, SEC, OTHERS.
(Source) SPSS version 21

Table 4.2 Presents the summary result between bank loans and advances to the various sectors of the economy and the Real Gross Domestic Product (RGDP)

The result shows that there is a strong relationship of about 97% between the sectorial loans and advances and the economic growth (RGDP). It further shows that about 94% of the variations in RGDP are accounted by PDN, GC, SER and OTHERS while about 6% is accounted by other factors outside the study. It also shows an adjusted r^2 of about 91% given a difference of 3% suggesting that this result has a 3% deviation from that which makes use of the entire population. This shows a strong relationship between Banks contribution and the economic growth.

Table 4.3: Regression Results for RGDP

	Unstandardized coefficients		Standardized coefficient		
Model	B	Std. Error	Beta	T	Sig
1 (constant)	363687.146	32500.102		11.190	0.000
OTHERS	0.037	0.022	0.208	1.1654	0.133
SER	-0.087	0.049	-0.415	-1.787	0.108
GC	0.010	0.092	0.022	0.107	0.917
PDN	0.152	0.034	1.161	4.473	0.002

Table 4.3 Present the regression result to determine the contribution of banks to the growth of the economy at large. The result indicates that if there is no bank loans and advances the economy will still grow to the tune of ₦363687.146 (million) occasioned by factors outside this study.

The result further indicate that an increase in loans and advances to PDN by one Naira will increase RGDP by 116.1% , an increase in banks contribution via loans and advances to GC by one Naira will also increase the RGDP by 2.2% and an increase in loans and advances by one naira will also increase the RGDP by 20.8% .

The result shows that a one naira increase in the loans and advances to service sector of the economy will cause a reduction in the RGDP by 41.5%. It follows from the above that if maximum growth is desired in the economy then more fund should be made available to PDN, OTHERS and GC. While funds advanced to SER via loans and advances discontinued.

It is also noticed that though a Naira increase in loans and advances to PDN, GC, and OTHERS will increase the RGDP but all these increase are not significant at 5% except for loans and advances to PDN that impacted greatly on the economic growth by over a 100%

4.3 Test of Hypotheses.

The stated hypotheses in chapter one is tested using the T. Statistics. Table 4.3 presents the results of the analysis and the following also presents the researchers decision on the hypothesis.

Hypothesis 1

Hypothesis one states that “banks’ loans and advances to the production sector have no role in the growth of the economy”. The decision rule also states that the null hypothesis should be accepted if the critical value ± 1.96 is greater than the calculated value but reject the Ho if the critical value is less than the calculated value.From Table 4.3 the calculated value is 4.473 which is greater than the critical value therefore the null hypothesis is rejected and we accept the alternative that banks’ loans and advances to the production sector have a significant role in the growth of the economy.

Hypothesis 2

Hypothesis two states that “banks’ loans and advances to general commerce sector do not affect the Nigerian economic growth”.Based on the decision rule that null hypothesis should be accepted if critical value is greater or equal to the calculated value. We hereby accept Ho since the T. calculated value for GC is 0.107 and is less than ± 1.96.

Hypothesis 3

Hypothesis three that states that “banks’ loans and advances to service sector do not have any role to play in the growth of Nigerian economy” is hereby accepted since the T. calculated is less than the critical value (i.e -1.787 < = 1.96).

Hypothesis 4

Hypothesis four also states that “the funds channeled by banks to other sectors other than production, general commerce and services have no role in the growth of the economy”. This assertion is hereby accepted since the critical value of ± 1.96 is greater than the calculated T. value of 1.654

5.1 Summary and Conclusion

Banks’ role in the economy is enormous. Banks contribution to the economy via loans and advances to the production sector of the economy is positive and significant.

The study also finds that the banks' intermediary role via loans and advances to General commerce and others are both positive but not significant on the economic growth.

Again, it finds out that the impact of banks' loans and advances to the services sector is negative yet, not significant. We therefore conclude that since banks loans and advances to all sectors studied except for services sector presents a positive impact on the economy it is pertinent to conclude that banks' intermediary role contributes to the growth of the Nigerian economy.

5.2 Recommendation

The impact on the economy from the production sector is highest so, we recommend that the banks should advance more loans to this sector as the impact on the economy is enormous. We also recommend that the banks should either reduce or stop advancing loans and advances to the firms in the service sector because its effect on the economy is dreadful.

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