

Financial Intermediation and Economic Growth in Nigeria

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Abstract

The aim of this study is to examine the relationship between financial intermediation and economic growth in Nigeria. The study examined the Central Bank of Nigeria quarterly data from 1981Q1 to 2017Q4 with the E-views software package (version 9.0). The Vector Auto Regression (VAR) methodology was used to analyse the data, while Block Exogeneity Wald test was used to test the hypothesis. The specified models included stationarity tests, reduced form VAR estimate and structural analysis. The Augmented Dickey Fuller Test indicates that the study variables are stationary at first difference or $I(1)$. The VAR roots plot in relation to unit circle indicates that our specified reduced form VAR models are stable. The Lagrange Multiplier (LM) diagnostic tests indicate that our specified VAR models are correctly specified. The results show that financial intermediation measures such as bank deposit, commercial bank loans to rural customers, commercial bank deposits from rural customers and gross national savings jointly have no causal effect on real GDP growth, but individually, only the effect of bank deposit ratio is significant. The study therefore recommends that the Central Bank of Nigeria should persuade deposit money banks to reduce the current interest rate margin by reducing the lending rate and increasing the deposit rates. This would significantly reduce the current high financial exclusion rate as cost of borrowing would decrease while the level of domestic savings would increase.

Keywords: Financial Intermediation, Real Gross National Savings, Commercial Bank Deposit from Rural Customers, Commercial Bank Loan to Rural Customers, Bank Deposit and Economic Growth

1. INTRODUCTION

1.1 Background to the study

The major role of financial intermediation is channelling funds from surplus to deficit units which is facilitated by mobilizing resources and ensuring that there is efficient transformation of these funds into real productive capital, creating adequate liquidity in the economy by mobilizing the funds in the short-term and making them available in the long-term. According to Levine et al (2000), financial intermediaries perform the task of lowering the costs of researching potential investments, exerting corporate controls, managing risks, mobilizing savings and conducting exchanges. Financial intermediaries while rendering these services in the economy, exert influence on savings and allocation decisions in ways that may affect long-run growth rates. Banks play effective roles in the economic growth and development of a country. This role they perform excellently by helping to mobilize idle savings from the Surplus Unit (SUs) for onward

lending to the Deficit Units (DUs), thus helping in the capital formation of a nation (Ujah and Amaechi, 2005). It is in understanding of the importance of bank's role in financial intermediation that consecutive governments in Nigeria have been allotting deliberate roles to them in various national development plans.

In the views of Afolabi, (1998), through the instrumentalities of financial intermediation, the transfer of funds from the surplus sector to the deficit sector becomes very simple. The intermediary acts as a pool, collecting deposits of millions of savers and can create forums, e.g. interest-yielding accounts. The intermediary matches the deposit requirements of the saver with the investment requirements of the borrower. He acts as a pool, collecting savings of different sizes from different categories of savers and meeting the investment needs of the various types of investors. The surplus sector therefore gains by placing his money with the intermediary since the income to be earned does not depend on whether or not the intermediary has in fact lent the money out or whether or not the money was profitably lent. The overall economic effect according to Afolabi, (1988) is that financial intermediation leads to a better aggregation of savings and therefore helps in capital formation and investment in the economy.

Nigeria is the most populous African country with a population of over 160 million people. It is also one of the world's top producers of crude oil and despite this; the country is still among the comity of third world countries with majority of its population living below the poverty line. Banks dominate the financial sector in Nigeria and therefore, given the variegated results of empirical finding as revealed above, it is imperative to examine whether such suppositions hold for the Nigerian economy. Again, there is detailed information about Nigerian banking history, but little information is available on the activities of the financial sector and how they impact the economy where they operate. Similarly, factors which motivate or drive growth within the economy relative to the industry are largely under researched. All these stimulate and motivate the researcher towards carrying out this study to fill this gap.

This therefore forms the major background of this study which aims at exploring based on past trends, the extent of the relationship between financial intermediation and economic growth in Nigeria.

1.2 Statement of the problem

The Nigerian economy has not really experienced impressive performance such as attraction of foreign investment and halting of capital flight. The banking sector seems not to have made a significant effort in addressing the financial gaps in the system. This is evident to the fact that neither domestic savings nor investments in the country have increased appreciably as the sector still remained largely oligopolistic and uncompetitive, with few large banks controlling the greater segment of the market in terms of total assets, total liabilities and total credit in the banking system.

Financial resources are basic ingredients for the growth of an economy provided they are not idle. These resources become active through financial intermediation. Financial intermediation is the process whereby financial resources are mobilized by banks in the form of savings and transformed into credit. It is the root institution in the savings-investment process (Clorton and Winton, 2002).

Mostly, banks act as conduit for financial intermediation and they are regarded as financial intermediaries but there are other institutions that perform the activities of financial intermediation such as pension fund scheme, insurance firms, investment banks etc. Onoh (2002) observed that, the Nigerian financial sector comprises various segments including the 'regulatory and. supervisory authorities for banks and non-bank financial institutions, others are the money market and its institution, the capital market and its players. Sulaiman, Migiro and Yeshihareg (2015) opine that financial intermediaries play a significant role within a nation's financial system by mobilizing funds from the surplus economic units and channeling to the deficit economic units of the economy.

It becomes imperative therefore to determine the effectiveness of these reforms by looking at their contribution to economic growth.

1.3 Objectives of the Study

The objectives of this study are as follows: (1) To evaluate the relationship between bank deposit ratio and economic growth in Nigeria. (2) To evaluate the relationship between commercial bank loan to rural customers ratio and economic growth in Nigeria. (3) To evaluate the relationship between commercial bank deposit from rural customers ratio and economic growth in Nigeria. (4) To evaluate the relationship between real gross national savings ratio and economic growth in Nigeria.

1.4 Research Hypotheses

Ho₁: There is no significant relationship between bank deposit ratio and economic growth in Nigeria.

Ho₂: There is no significant relationship between commercial bank loan to rural customers ratio and economic growth in Nigeria.

Ho₃: There is no significant relationship between commercial bank deposit from rural customers ratio and economic growth in Nigeria.

Ho₄: There is no significant relationship between real gross national savings ratio and economic growth in Nigeria.

2. Literature Review

2.1 Conceptual Framework

2.1.1 Financial Intermediation and Economic Growth

Financial intermediation refers to the pooling of financial assets in order to channel such assets from the surplus units to the deficit units. It is a productive activity in which institutional units suffer liability on its own, engaging in financial transactions in the market. Thus, the role of financial intermediaries is to channel funds from lenders to borrowers by intermediating between them.

Since economic growth has a linear relationship with productivity and productivity is propelled by liquidity in the financial system, it can be safely inferred from the face of it that financial intermediation which usually occurs in the financial system will impact economic development. Andrew and Osuji (2013) assert that financial intermediation involves the transformation of mobilized deposits liabilities by banks into banks assets or credits such as loans and overdraft. This means that financial intermediation is the process of taking in money from depositors and lending same to borrowers for investments which in turn support the economy to grow. Efficient financial intermediation causes high level of employment generation and income which invariably enhances the level of economic development. Gorton and Winton (2002) define

financial intermediaries as firms that borrow consumers/savers and lend same to investors that need resources for investment.

2.2. Theoretical Framework

2.2.1 Asymmetric Information Theory

This is one of the theories of financial intermediation. The leading proponent of the theory of asymmetric information was George Akerlof in 1970. This theory was developed as a plausible explanation for common singularities that conventional general symmetry economics couldn't explain. In simple terms, the theory proposes that an imbalance of information between buyers and sellers can lead to unproductive outcomes in certain markets. Two other economists that were also particularly prominent in developing and writing about the theory of asymmetric information were Michael Spence (1973) and Joseph Stiglitz (1980). George Akerlof first argued about information asymmetry in a 1970 paper titled "The Market for Lemons: Quality Uncertainty and the Market Mechanism." In that paper, Akerlof indicated that car buyers see dissimilar information than sellers, thereby giving sellers an inducement to sell used cars that are less than average market quality. He used the idiomatic term "lemons" to refer to bad cars. He puts up a belief that buyers cannot effectively differentiate lemons from good cars, thus sellers of good cars cannot get better than average market prices.

2.2.2 Financial Service Theory

This theory was made popular by Levine in 2002. The financial services view stress the role of banks and markets in research firms, exerting corporate control, creating risk management devices, and mobilizing society's savings for the most productive endeavors. This view minimizes the bank-based versus market-based debate and emphasizes the quality of financial services produced by the entire financial system.

2.3. Empirical Review

Tonye and Andabai (2014) examine the relationship between financial intermediation and economic growth in Nigeria using Vector Error Correction Model. The study found a long run relationship between financial intermediation and economic growth for the period under review and concluded that about 89 per cent of the variations in economic growth in Nigeria are explained by changes in financial intermediation variables.

Basher (2013) examine the relationship between open markets, financial sector development and economic growth to find out if the joint effects of markets and financial sector development affect economic growth in Nigeria using Granger Causality Test, Johansen cointegration test and vector error correction model. The study found a weak and insignificant relationship between open markets, financial sector development and growth in Nigeria and as such, cannot be used to forecast economic growth in Nigeria.

Haruna (2012) investigates the determinants of cost of financial intermediation in Nigeria's Pre-consolidated banking sector using 13 banks quoted on the Nigerian Stock Exchange using panel data regression models. The study found out that operating expense and loan loss provision accounts for greater variation in commercial banks financial intermediation.

Idries (2010) investigated the cost of financial intermediation in Jordan from 2000 to 2008. The study used random effects estimation approach and found out that high and increasing financial intermediation cost are derived from efficiency level complimented by capital adequacy ratio and loan to total asset ratio.

Beck and Hesse (2006) investigate why financial intermediation cost is high in Uganda. The study made use of a unique bank level data set on the Uganda banking system over the period 1999 to 2005. The study found that bank level characteristics, such as bank size, operating costs and composition of loan portfolio affects financial intermediation cost. The study also found that financial intermediation costs have no robust and economic significant relationship with foreign bank ownership, market structure and bank efficiency in Uganda. This study does not consider effects of financial intermediation on economic development using credit to private sector, lending rate and interest rate margin as independent variables in the country.

3. Research Methods

3.1 Research Design

This research uses the ex-post facto design for the data analysis. It is a combination of theoretical thoughts with the empirical observation and extracts maximum information from the available data. It allows us to observe the effects of descriptive variables on the dependent variables.

3.2 Nature/Sources of Data

In examining the effects of financial intermediation on economic growth in Nigeria, we used secondary data consisting of quarterly time series data covering the period from 1981Q1 to 2017Q4. Thus, the data consisting of a total of 148 observations is considered adequate enough to produce dependable results. The data is obtained from secondary sources from the Central Bank of Nigeria database.

3.3 Method of Data Analysis

The study adopts vector autoregressive (VAR) methodology. VAR models are mostly suitable for establishing the dynamic behaviour of most macroeconomic and financial time series data. It can also be used for prediction according to Ouliaris, Pagan and Restrepo, (2016). The use of VAR as a modelling system of autoregressive time series has several advantages which includes its flexibility nature (Brooks, 2008), forecast generated is highly dependable (Ouliaris, Pagan and Restrepo, 2016), and VAR models provide window for analysing causal effects of policy shocks through impulse response function, variance decomposition and Granger causality. This is consistent with the aim of this study which is to examine the effect of financial intermediation on economic growth.

3.4 Empirical Model Specification

The empirical analysis in this study would be based on the model below:

$$RGDPG = f(BDR, CLR, CDRR, RSAVR) \quad (3.1)$$

Where;

RGDPG = Real Gross Domestic Product

BDR = Bank Deposit Ratio to GDP

CLR = Commercial Bank Loan to Rural Customers ratio to GDP

CDRR = Commercial Bank Deposit from Rural Customers Ratio to GDP

RSAVR = Real Gross National Savings Ratio to GDP

The econometric representations of the above functional models are given by:

$$RGDPG_t = \theta_{01} + \theta_{11}RGDPG_{t-1} + \theta_{21}BDR_{t-1} + \theta_{31}CLRR_{t-1} + \theta_{41}CDRR_{t-1} + \theta_{51}SAVR_{t-1} + \epsilon_{1t} \quad (3.2)$$

$$BDR_t = \theta_{02} + \theta_{12}RGDPG_{t-1} + \theta_{22}BDR_{t-1} + \theta_{32}CLRR_{t-1} + \theta_{42}CDRR_{t-1} + \theta_{52}SVAR_{t-1} + \epsilon_{2t} \quad (3.3)$$

$$CLRR_t = \theta_{03} + \theta_{13}RGDPG_{t-1} + \theta_{23}BDR_{t-1} + \theta_{33}CLRR_{t-1} + \theta_{43}CDRR_{t-1} + \theta_{53}SVAR_{t-1} + \epsilon_{3t} \quad (3.4)$$

$$CDRR_t = \theta_{04} + \theta_{14}RGDPG_{t-1} + \theta_{24}BDR_{t-1} + \theta_{34}CLRR_{t-1} + \theta_{44}CDRR_{t-1} + \theta_{54}RGNS_{t-1} + \epsilon_{4t} \quad (3.5)$$

$$SAVR_t = \theta_{05} + \theta_{15}RGDPG_{t-1} + \theta_{25}BDR_{t-1} + \theta_{35}CLRR_{t-1} + \theta_{45}CDRR_{t-1} + \theta_{55}SAVR_{t-1} + \epsilon_{5t} \quad (3.6)$$

3.5 Apriori Expectations

Apriori, bank deposit ratio to GDP is expected to have positive and significant relationship with real economic growth. Similarly, commercial bank loan to rural customers ratio to GDP is expected *apriori* to have positive relationship with real GDP growth. Further, deposit mobilized from rural sector as a ratio of GDP is also expected *apriori* to have positive relationship with real GDP growth. Real gross national savings ratio to GDP is expected *apriori* to have positive relationship with real GDP growth.

4. Results and Discussion

4.1.1 Descriptive Analysis for Financial Inclusion Variables

Table 4.5 shows the descriptive statistics for Bank Deposit Ratio, Commercial Bank Lending to Rural Customers, Commercial Bank Deposits from Rural Customers and Gross National Savings.

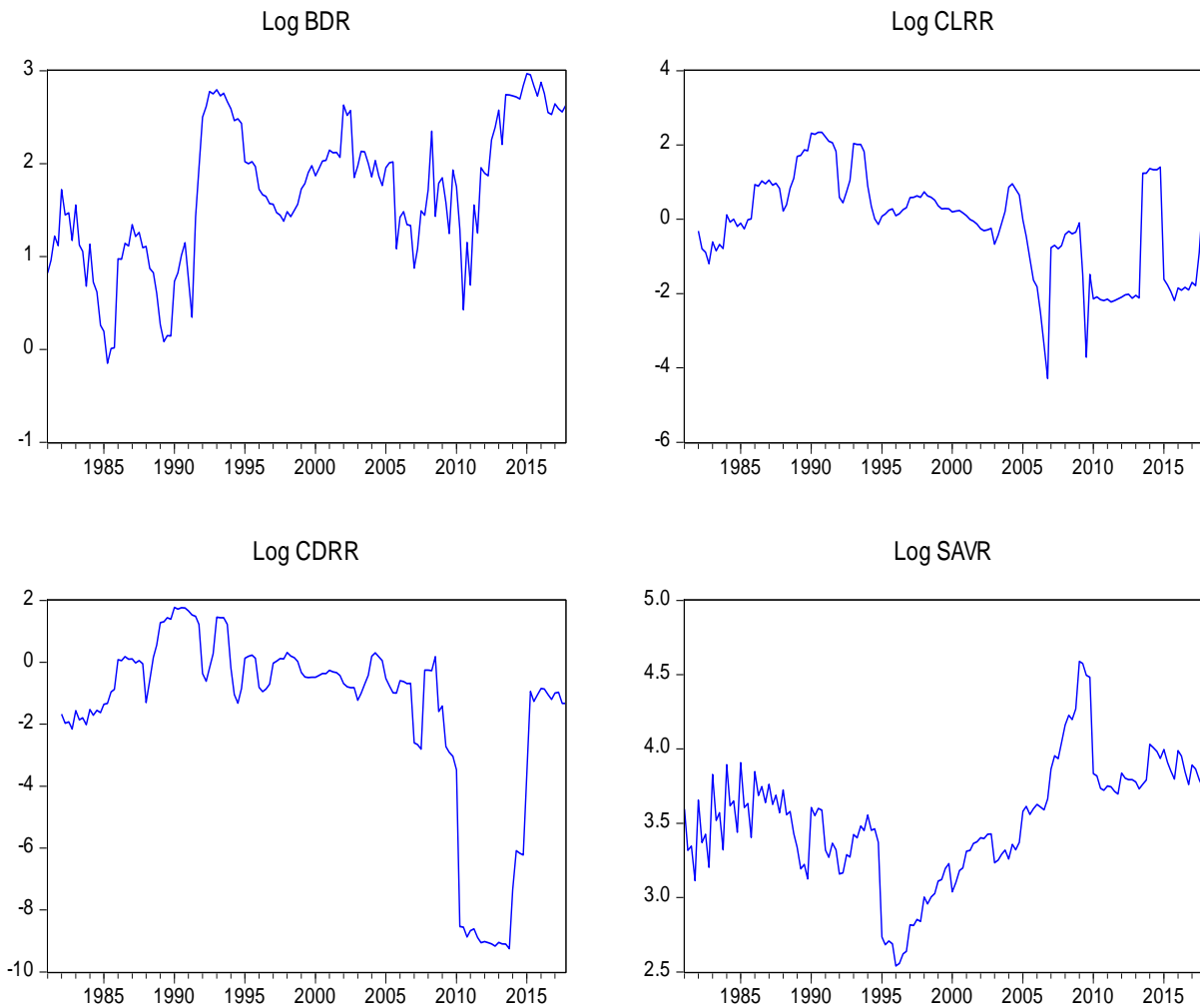


Figure 4.1: The time series plots of the log of BDR, CLRR, CDRR and SAVR (1981Q1 - 2017Q4)

Source: EViews output based on Research Data

From figure 4.1, we can see that all the variables appear to be moving randomly with no clear direction, except Gross National Savings ratio which has trended upward, especially, from 1995.

Table 4.1: Descriptive statistics for BDR, CLRR, CDRR and SVAR (1981Q1 – 2017Q4)

Statistic	BDR	CLRR	CDRR	SVAR
\bar{x}	6.940573	1.884167	0.961871	36.47600
Max	19.43169	10.41906	5.867262	98.40726
Min	-0.185358	0.013808	9.58E-05	12.67794
σ	4.801863	2.366059	1.358909	15.19572
S	0.826602	2.089853	2.290005	1.480628
K	2.579643	6.797468	7.372491	6.686975
JB	17.94367	190.0155	238.9004	137.9041
p-value (JB)	0.000127	0.000000	0.000000	0.000000

Source: EViews output based on research data

From table 4.1, BDR, CLRR, CDRR and SVAR averaged 6.94%, 1.88%, 0.96% and 36.47%, respectively over the sample period. The standard deviation statistic shows that while Gross National Savings ($\sigma = 15.19$) is the most volatile, Cash Deposits from Rural Customers ($\sigma = 1.35$) recorded the lowest volatility. All the skewness coefficients are positive ($S > 0$), showing that the variables all have a distribution that is skewed to the right. However, while Bank Deposits from Rural Customers ($K = 2.57$) has a distribution that is slightly flatter than normal distribution, Loans to Rural Customers ($K = 6.79$), Cash Deposits from Rural Customers ($K = 7.37$) and Gross National Savings ($K = 6.68$) all have a distribution that is much taller than normal distribution. The JB statistic (p-value < 0.01) is highly significant for all variables, hence, clearly rejecting the normality hypothesis. Thus, all the measures of financial inclusion would enter our growth model in their logarithmic form for a more meaningful empirical analysis.

4.2.1 Estimation and Analysis of the Empirical Model

4.2.1.1 Stationarity test for the Model

The model seeks to establish whether economic growth in Nigeria can be explained by changes in financial intermediation, measured by total commercial bank deposit, commercial bank loan to rural areas, commercial bank deposit from rural area and gross national savings, all as a ratio of nominal GDP. The results of the ADF test are presented in table 4.2

Table 4.2: ADF tests for the RHS variables in the model

Variable	tau-statistic		Conclusion
	Level	First difference	
BDR	-3.3507 (0.0624)	-15.0326 (0.0000)	Difference Stationary I(1)
CLRR	-3.4427 (0.0499)	–	Level Stationary I(0)
CDRR	-1.6606 (0.7635)	-10.4817 (0.0000)	Difference Stationary I(1)
SAVR	-2.6019 (0.0949)	-17.3618 (0.0000)	Difference Stationary I(1)

Source: EViews output based on research data; parenthesis contains p-values

From table 4.2, the tau-statistic for the test on level data has a probability of 0.0499 for Commercial Bank Lending to Rural Customers, indicating that the test is significant at 5% level. On the contrary, the tau-statistic has a probability of 0.0624 for Bank Deposits ratio, 0.7635 for Commercial Bank Lending to Rural Customers and 0.0949 for Gross National Savings, indicating that the test is not significant. However, the test is significant at 10% level for both Bank Deposits ratio and Gross National Savings. For the first difference unit root test, the tau statistic (p-value = 0.0000) is associated with zero probability for all variables, indicating that the test is highly significant. Therefore, at 5% level of significance, while Commercial Bank Lending to Rural Customers is stationary at level series or I(0), Bank Deposits ratio, Commercial Banks Deposits from Rural Customers and Gross National Savings ratio all are stationary at first difference or I(1). The implication is that both Real Gross Domestic Product and Commercial Banks Lending to Rural Customers would enter our VAR model in their level form while Banks Deposit Ratio, Commercial Banks Deposits from Rural Customers and Gross National Savings

Ratio would be modelled in their first difference form.

4.2.1.3 Reduced Form VAR Estimation for the Model

Tables 4.3 and 4.4 present the VAR lag length selection and the residual diagnostic test for reduced form VAR for the empirical model. Again, the VAR order selection is based on the three commonly used information criteria; AIC, SIC and HQC, and the decision rule is to select the lag order that corresponds to the minimum value of each information criterion. Also, a rebase dummy variable, DUMREBASE, is included in the model to capture the effect of the structural break observed in the first quarter of 2010 real GDP growth plot in figure 2.

Table 4.3: VAR order selection for the model

Lag	AIC	SC	HQ
0	11.57567	11.82694	11.67751
1	9.410331	10.28977*	9.766772*
2	9.627009	11.13462	10.23805
3	9.745619	11.88140	10.61126
4	9.127119	11.89107	10.24736
5	8.576105	11.96822	9.950948
6	8.720824	12.74111	10.35027
7	8.461837	13.11029	10.34588
8	7.867332*	13.14396	10.00598

Source: EViews output based on research data; *indicates the selected lag order

Table 4.4: VAR LM serial correlation test for the Model

LM statistic	p-value
16.22564	0.9079

Source: EViews output based on research date

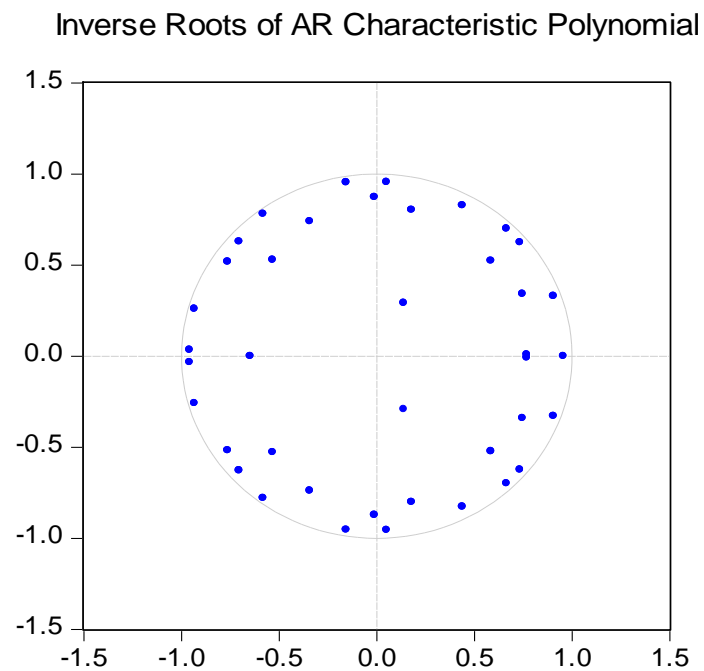


Figure 4.2: VAR roots plot in relation to unit circle

Source: EViews output based on research data

From table 4.3, as indicated by the asterisk (*), while AIC has its maximum value at lag 8, SIC and HQC both are maximized at lag 1. However, we consider 8 lags for our VAR specification for our empirical model because we believe that would be sufficient to make the residuals white noises.

From table 4.4, the serial correlation LM statistic is not significant (p-value = 0.9079) at all conventional levels. Thus, we fail to reject the null hypothesis that the fitted VAR residuals are serially correlated and conclude that the fitted VAR (8) model is correctly specified.

Figure 4.2, which plots the inverted roots of the estimated VAR(8) in relation to unit circle, shows that all the roots lie inside the unit circle. Thus, the estimated coefficients are stable. This therefore implies that a structural analysis can be conducted to meaningfully interpret the fitted VAR results and test the relevant hypotheses.

4.2.1.4 Structural Analysis for the Model

Figures 4.3 and 4.4 show the impulse response function (IRF) and variance decomposition for real GDP growth for the model. The IRF helps to evaluate the impact on the Nigerian economy of unexpected changes in bank deposit, commercial bank credit to rural areas, commercial bank deposit from rural sector and gross savings, all expressed as a ratio of nominal GDP. The variance decomposition shows the contribution of each these factors to the shock in real gross domestic product. Again, six periods (quarters) are considered.

Table 4.5 shows the VAR Granger causality/blocked exogeneity Wald test for joint significance of lags of each endogenous variable in our estimated VAR(8) model.

Response to Cholesky One S.D. Innovations ± 2 S.E.

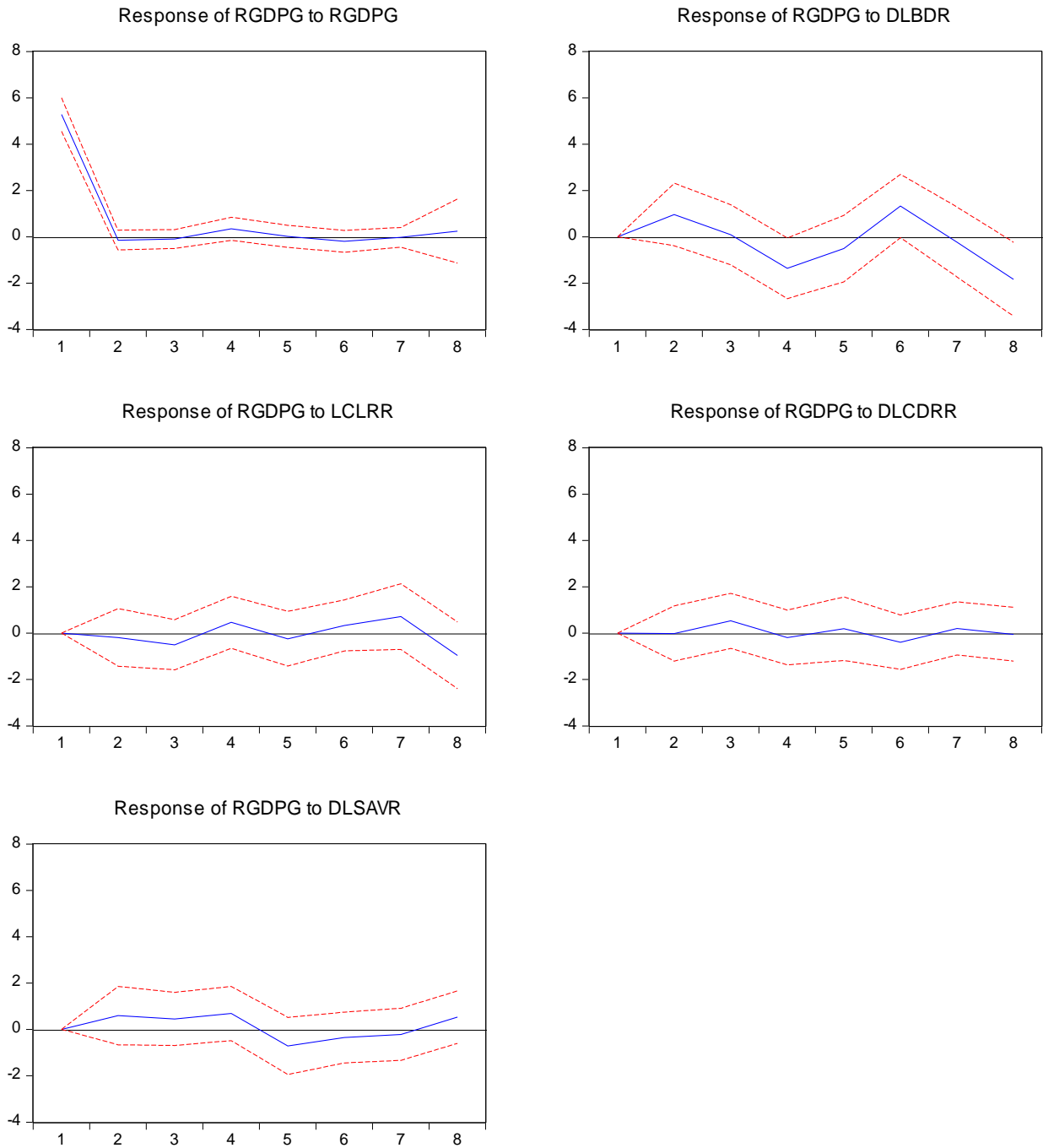


Figure 4.3: IRF for RGDPG for the model
Source: EViews output based on research data

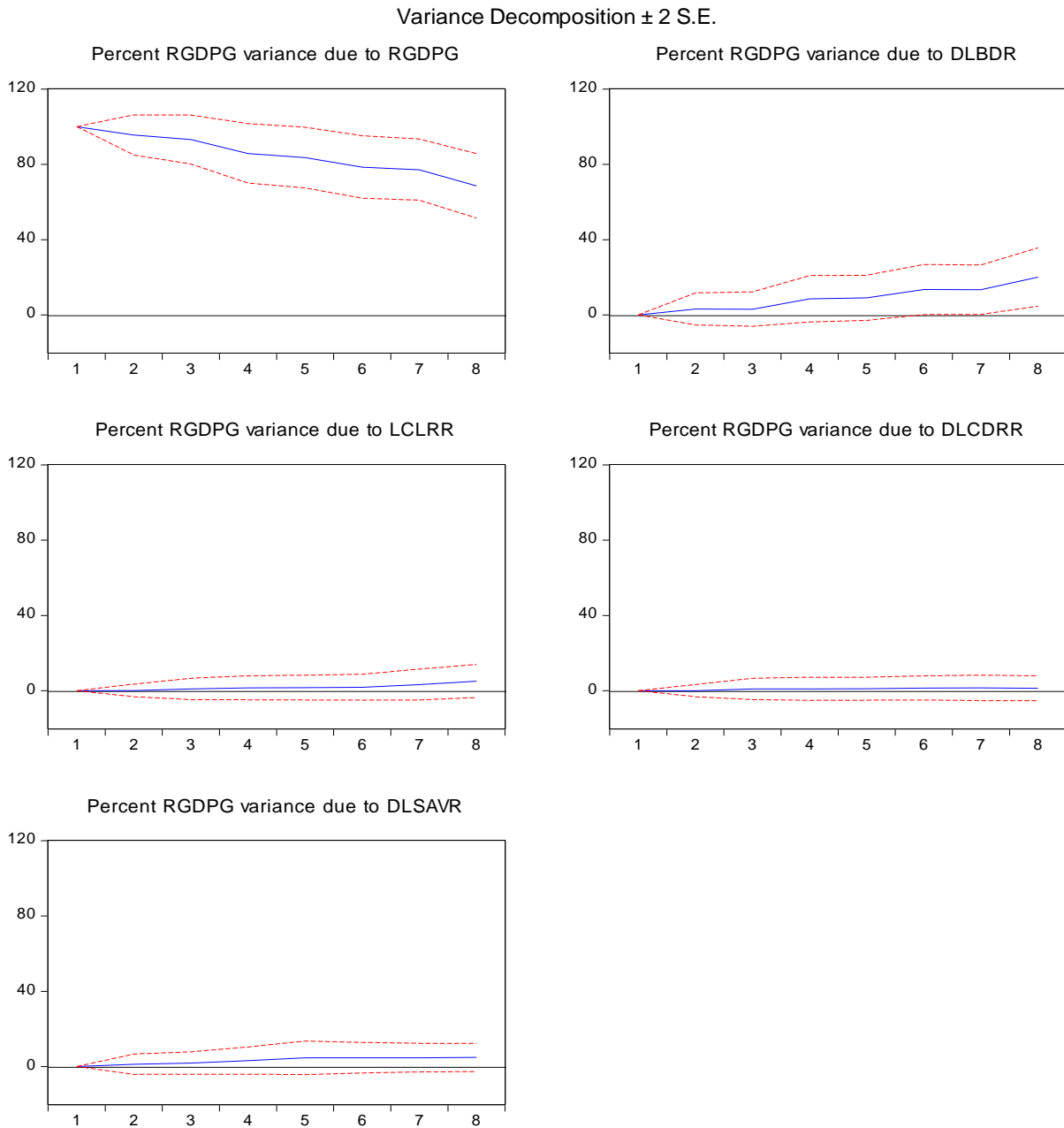


Figure 4.4: Variance decomposition of RGDPG for the model

Source: EViews output based on research data

Table 4.5: VAR Granger causality Wald test for the model

Excluded	Chi-sq.	p-value
BDR	19.75971	0.0113
CLRR	3.150882	0.9245
CDRR	7.591683	0.4743
SAVR	9.490387	0.3026
All	30.85214	0.5245

Source: EViews output based on research data

As we can see, the impulse responses in figure 4.3 have a large positive effect in the first period

and almost zero effect in the subsequent periods. Also, there seems to be a cyclical effect on real GDP growth rate of a one standard deviation shock to each of the other endogenous variables in our model. However, while the initial effects of both Bank Deposit Ratio and Gross National Savings Ratio are positive, the initial effect of Commercial Bank Lending to Rural Customers is positive. The effect of Commercial Banks Deposits from Rural Customers is initially zero but becomes positive after the second period.

From figure 4.4, own shock is the main source of error variance in real GDP growth rate, contributing approximately 96% in the second period, approximately 86% in the fourth period and approximately 79% and 77% in the sixth and seventh periods.

4.2 Test of Hypothesis

Ho₁: There is no significant relationship between financial intermediation and economic growth in Nigeria

From table 4.5, the Wald test statistic is significant at 5% level for Bank Deposit Ratio (p-value = 0.0113), suggesting evidence of a causal effect from bank deposit to real GDP growth rate. In contrast, the Wald statistic is not significant for the rest of the variables (p-values > 0.05, 0.1), suggesting that there is no causal impact on real GDP growth rate of Commercial Banks Lending to Rural Customers, Commercial Banks Deposits from Rural Customers and Gross National Savings. The variable “All” is also not significant at conventional levels (p-value = 0.5245), suggesting that jointly, the four financial intermediation variables have no causal impact on the real GDP growth rate.

4.3 Discussion of Findings

The results show that financial intermediation measures such as bank deposit, commercial bank loans to rural customers, commercial bank deposits from rural customers and gross national savings (all as ratio of nominal GDP), as parameterized in our empirical model, jointly have no causal effect on real GDP growth, but individually, only the effect of bank deposit ratio is significant. The evidence of the positive causal effect of bank deposit ratio further suggests that it is liquidity that drives economic growth in Nigeria as bank or demand deposits is a liquid component of broad money supply. Thus, narrow money supply, which comprises currency outside banks and demand deposits, is a causal factor for economic growth. However, unlike currency outside banks which shows a negative causal effect, the impulse response function shows that the effect of demand deposits is positive up to the third period. An increase in bank deposits would lead to an increase in the rate of economic growth in the next first, second and third quarters.

Further, the effects of both currency outside banks and demand deposits are also not contemporaneous, as it takes some lags for changes in these variables to fully transmit to the real economy. For currency outside the banking system, the Akaike information criterion elects 4 four periods or quarters for its maximum effect while for bank deposits ratio, it elects 8 periods. Here, the longer time lag for the effect of bank deposits ratio can be explained in the context of the intermediating role of commercial banks in the economic growth process.

Nevertheless, the case is different for commercial bank loans to rural customers, commercial bank deposits from rural customers and gross national savings, as the insignificance of their effects, reinforces the widely held view that the exclusion rate in Nigeria is still alarming. Thus, the provision of affordable financial services, especially in the rural areas, is still inadequate, despite the several attempts by successive governments to include more rural adult population in the formal banking system. This also accounts for the poor saving habit in the rural sector that

leads to the insignificance of gross national savings on economic growth. This finding however supports the Financial Repression Theory which states that financial deregulation in a financially repressed economy would induce higher savings, increase credit supply, encourage investment and subsequently lead to economic growth.

5. Summary and Conclusion

The results of the study show that although, bank deposit ratio to GDP enters the economic growth model positively and significantly, its joint effect with commercial bank loans to rural sector, commercial banks deposits from rural sector and gross national savings is statistically insignificant. Thus, while currency outside the banking system hinders economic growth, demand or bank deposits promotes economic growth. Our conclusion, therefore, is that it is the narrow money component of money supply, which consists of currency outside the banking system and demand deposits that affects economic growth, therefore the study recommends that the Central Bank of Nigeria should persuade deposit money banks to reduce the current interest rate margin by reducing the lending rate and increasing the deposit rates. This would significantly reduce the current high financial exclusion rate as cost of borrowing would decrease while the level of domestic savings would increase.

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