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The Empirical Study of the Impact of Intermediation Roles of Banks on Economic Growth: A Case Study of Nigerian Experience (2003-2013)

[1]*Chioma Dorothy Oleka*, [2]*Eyisi Adanma Sabina and* [3]*Clementine Ngozi Onyeze*

[1]Department of Banking and Finance, Faculty of Management Sciences,
Enugu State University of Science and Technology (ESUT), Enugu Nigeria
[2]Department of Accountancy, Faculty of Business Administration,
University of Nigeria, Enugu Campus, Enugu Nigeria
[3]Cooperative and Rural Development, Faculty of Management Sciences,
Enugu State University of Science and Technology (ESUT), Enugu Nigeria

Abstract: This study is on the impact of intermediation roles of banks on the performance of the real sectors of the Nigerian economy. The main objective is to find out if the banking industry loans and advances have any significant positive effect on the real sector GDP growth rate, using manufacturing component of GDP as the representative of the real sector. The research design adopted in this study was ex-post facto. The paper analyzed published audited accounts of twenty (18) out of twenty-five (25) banks that emerged from the consolidation exercise that took place in 2005 in Nigerian banking industry and data from the CBN Statistical Bulletin of various issues. The study covers an 8 year period (2005-2013).Parametric statistics in forms of analysis of variance-ANOVA, mean, standard deviation, t-test, co-efficient of correlation and simple linear regression were used to analyze the data. The paper found out that banking sector intermediation has significantly improved the GDP component of the manufacturing sector, hence, has contributed marginally to the overall growth of the real sectors for sustainable development. The paper concludes that banking sector is becoming more competitive in their intermediation roles as consolidation reform has created an atmosphere where many banks simply cannot afford to have weak balance sheets and inadequate corporate governance. The study recommends among other things that CBN should continue to collaborate with all the stakeholders in the financial sector to ensure that any bank reform to be introduced in the banking industry must be market driven to allow for efficient intermediation process necessary for improved real sector GDP growth rate.

Key words: GDP · Economic · Growth · Real sector · Manufacturing · Intermediation · Consolidation · Nigeria · Banks

INTRODUCTION

Banking industry and economic growth are inseparable. Banking sector has traditionally been an extremely important channel of financial intermediation in both developed and emerging economies world over. It is common knowledge that the strength of any economy is strongly tied to the strength of her banking sector. This means that the state of the economy is strongly impacted on by the operations and performance of her banking industry. Ajemba, (2005) [1] noted that in the

Corresponding Author: Chioma Dorothy Oleka, Department of Banking and Finance, Faculty of Management Sciences, Enugu State University of Science and Technology (ESUT), Enugu Nigeria.

last two decades the link between financial intermediation (FI) and economic growth has generated a great deal of interest among academics, policy makers and economists around the globe both in developed and emerging economies. The development of any economy is often viewed largely from the perspective of the growth and vibrancy of its banking sector [2]. This shows how important investible funds are to economic growth and development. Therefore, the place of banking industry in economic growth and development of any nation cannot be over-emphasized. Ekundayo, (1994) [3] submitted that banks more effectively play intermediating role in financing industrial expansion than any other forms of financial institutions in developing economies. Obviously, both the public and private sectors of any economy need banking sector credits for more productive activities as prerequisites for enhancing a nation's overall performance. Lucas (1990) [4] noted that the development of any economy is greatly enhanced through a vibrant banking industry which serves the function of mobilizing savings from small and large savers in the economy and channels same to the fund users for investment purposes. Banking industry provides credit facilities to individuals, companies, as well as government for one kind of economic activity or the other. It could be for industrialization purpose, manufacturing, agricultural production, execution of contract and the likes. Onwumere and Suleman (2010) [5] have posited that all national economies comprise the public and private sectors, though, the degree and size of each sector differ among countries. They noted that the development of a country's economy involves in part the development of the different sectors subsumed in these two main sectors. These different sectors may include some or the following; agriculture, industry, mining, commerce, transportation, communication etc. These sectors need funds to remain in operation and contribute to the nation's overall performance. For them to survive and perform effectively there must be investment which is synonymous with funding, hence the banking industry becomes a very relevant funnel. In Nigeria banks are the largest financial intermediaries that transfer funds from surplus sector to the deficit sectors of the economy, [6].

McCauley (1992) [7] submits that the economic well being of a nation is a function of advancement and development of her banking industry. Banking being described by Schumpeter (1934) [8] as a conductor focal point for economic growth has important role to play in the funds intermediation between surplus and the deficit sector, hence the over-all growth of the economy. Ogunleye (1999) [9] recalls that government has from the formative years of the nation's financial market up to the mid-1980s till date made enough effort to encourage banking sector to extend enough credits to the real sectors. Banks were required to allocate the bulk of their loanable funds to the real sector at concessionary rate of interest, in the belief that a low interest rate structure would promote investments and output growth in the economy. Banking sector as the engine and prime mover of economy is suppose to be playing a leading role in empowering the other sectors of the economy especially the real sector to contribute to economic growth and development through improved GDP.

Statement of Problem: There has been a problem of how to conduct a successful research that can determine the impact of the intermediation roles of banking industry on the performance of the real sectors in an emerging economy like Nigerian. Over the years, one of the major problems facing the banking industry in its intermediation roles is how to ensure that funds reach various sectors of the economy especially the real sectors and significantly impact on them in a positive way. This has not be easy because Nigerian economy is viewed as being monoculture due to the predominant effect of oil sector especially in the resources generation to the government, as such the other real sectors are guised to be lagging behind in respect of the generation of revenues to the government due probably to poor credits extension to them. Hence, this study, after which it will no longer be a guise, the clear picture would be shown.

Objectives of the Study: In line with the problem stated above, the main objective of this study was to determine the effect of bank credits and advances on the GDP of the real sectors of the Nigerian economy. The specific objective is to ascertain the effect of banks credit and advances on the performance of the manufacturing sector of the economy.

Hypothesis of the Study: The null hypothesis of this study is that banks credits and advances to the manufacturing sector have no significant positive effect on the component GDP of the sector.

Theoretical Frame Work: The Role of banking industry to the growth and the development of the real sectors can be traced to the emergence of intermediation theories. In other words, our understanding of the role or roles played by banks as intermediaries both in the financial sector and real sector is found in the many and varied models in the areas known as intermediation theories [10]. These theories of intermediation have built on the models of resource allocation based on perfect and complete markets by stating that banking industry credits are necessary ingredients to the growth and development of the real sectors of any economy.

The proponents of these theories expressed that the banking sector of the economy could impact real sector's economic growth through the catalytic effect of adequate fund injection, regulation, technological innovation and capital accumulation. This view has been variously corroborated by [11], [12], [13], [14] and [15]. Barth and Michael (1990) [16], noted that classical economists of the Nineteenth Century have paid attention to the roles of financial intermediation in running the wheels of economic growth smoothly. For instance, Gorton and George (1990) [17], gave explicit examples of how money market developments in England could make capital flows across the country in search of the highest rate of return. But in ordinary countries this is a slow process and some persons who want to have ocular demonstration of abstract truths have been inclined to doubt it because they could not see it.

Contrary to these models, the traditional Arrow-Debreu model theory of resource allocation stated that firms and households interact through markets and financial intermediaries (banks) play no role. This theory states that when markets are perfect and complete, the allocation of resources is Pareto efficient and there is no scope for intermediaries to improve welfare. Moreover, the Modigliani-Miller theorem applied in this context asserts that financial intermediation does not matter in the growth and development of the real sectors: households can construct portfolios which offset any position taken by an intermediary and intermediation cannot create value [18]. A traditional criticism of this standard market-based theory is that a large number of credit facilities are needed for it to hold except in special cases. However, the development of continuous time techniques for option pricing models and the extension of these ideas to general equilibrium theory have negated this criticism. Okigbo, (1982) [19] in his own contribution noted that dynamic trading strategies allow markets to be effectively complete even though a limited number of facilities exist. Such an extreme view - that financial markets allow an efficient allocation and that intermediaries have no role to play- is clearly at odds with what is observed in practice. Historically, banks as major financial intermediaries have played a central role in the growth and development of the real sectors. This appears to be true in virtually all economies except emerging economies which are at a very early stage. Even here in Nigeria, however, the development of intermediaries tends to lead the development of financial markets themselves, hence the real sector [20]. In short, banks have existed since ancient times, taking deposits from households and making loans to economic agents mainly the real sectors requiring capital.

In contrast, financial markets have only been important recently and then only in a few countries, primarily the UK and the US. Even over there, banks have played a major role in the transferring of savings from the household sector into investments in the real sectors. As already noted above, our understanding of the role or roles played by banks as intermediaries both in the financial sector and real sector is found in the many and varied models in the areas known as intermediation theories. These theories of intermediation have built on the models of resource allocation based on perfect and complete markets. Knowing this fact would be of great important in understanding intermediation role of banking industry in moving the economy forward. In the 1970s the Nigerian banking sector was faced with the government's introduction of various control measures such as the nationalization of many foreign-owned banks, an entry restriction, a deposit rate floor or an interest rate ceiling [21].

In 1986 Nigeria implemented the Structural Adjustment Program (SAP) in which World Bank and IMF prescriptions comprised a currency devaluation, trade liberalization and privatization of state enterprises among others. In this context, some of the direct control measures from the 1970s were loosened such as entry restrictions or interest rate controls. Before the financial deregulation began in 1986, the banking sector has been described as static for almost 10 years with 29 commercial banks owning 60% of total banking assets and the rest represented by 12 merchant institutions [22]. He notes that the financial liberalization saw the entry of many new banking institutions. For instance, the number of banks increased

from 40 banks in 1985 to over 100 banks in 1990. According to him one of the reasons was the parallel exchange rate regime due to the perceived overvaluation of the domestic currency which allowed banks to quickly make profits from various arbitrage opportunities. Hereby, banks with connections to the political elite often had preferred access to exchange rate auctions and could sell the foreign exchange for a high premium especially in relation to increased trade-related financing after the Structural Adjustment Program (SAP) and the implemented trade liberalization.

Empirical Review of the Literature

Nigerian Financial Sector and Economic Growth: The empirical study of Elumelu (2005) [23] on financial sector and economic growth in Nigeria revealed that the contribution of the financial sector to GDP increased after the financial deregulation and even surpassed the manufacturing share in GDP by 1990. Though, the Nigerian financial sector actually saw a financial disintermediation. The study of Faley (2004) is in total agreement with this finding, he found out that many of the new banks were not interested in intermediating funds from depositors to lenders but rather made quick profits from the arbitrage and other rent-seeking activities. According to table 1, bank assets, private credit or financial system deposits as share of GDP were lower in 1990 than in 1985. In his own study [24], provides a comprehensive empirical overview of financial sector reform in Nigeria and found out that there is a significant relationship between banks reforms and bank performance. Another empirical study carried out by Ezeuduji (2005) [25] reveals that as a consequence of the high fragmentation and low financial intermediation, the Nigerian authorities established some prudential guidelines in 1990-91 and a moratorium on new bank licenses in 1991. And that the financial bubble burst as stock market prices fell sharply and the extent of non-performing loans became evident. For example, during 1992-93, the Nigeria Deposit Insurance Corporation established in 1988 announced that 24 banks were insolvent and 26 in serious trouble; these 50 banks had two-thirds of total banking assets and three-quarters of deposits in Nigeria's financial system. Also Onyeukwu (2005) [26] in his own study revealed that Nigeria faced a systemic banking crisis throughout the 1990s. According to him, Nigeria's financial indicators such as liquid liabilities, bank assets, private credit or financial system deposits remained relatively low throughout the 1990s by historical standards and the 1985 figures and only started to significantly increase after 2000. That in 1998, 26 bank licenses were revoked, reducing the total number of banks from 115 to 89. Even though the macroeconomic environment improved with a new civilian government regime after 1999, the Nigerian financial system was still characterized by very high fragmentation and low financial intermediation. In this context, the CBN decreed on July, 6, 2004 that banks had to increase their minimum capital requirements from N2 billion to N25 billion ($ US 190 million) by the end of 2005. The intention was to increase the average size of banks via merger and acquisitions to materialize economies of scales, create new product development and overall generate a more stable banking system with a higher contribution to financial intermediation. By the beginning of 2006, the number of banks shrank from 89 to 25 banks with 14 banks from the original 89 banks failing to increase their capital or secure merger partners. For many foreign-owned banks, the new capital requirements were achieved by capital injections from the parent company. Also, in the process of the banking consolidation, banks raised over $ US 3 billion on the Nigerian stock market. Banks became flush with excess liquidity and equity [27].

Going forward as revealed by the study of Umar (2008) [28], it is expected that the previous very high profit margins from non-lending activities of banks would be eroded and many banks are likely to enter the retail lending market or expand their geographical scope into other regions in West Africa.

Macroeconomic of Nigeria and the Banking Sector: Ayo, (2005) [29] carried out empirical study on macroeconomic of Nigerian economy and the banking sector, his finding revealed that the Nigeria's overall economic performance, especially prior to 2003, was low, volatile and disappointing. This was in agreement with the findings from the study carried out by Honohan (2004) [30] which revealed that while the average growth rate per-capita for the 15 fastest growing economies increased by an average of 4.1% per annum, Nigeria's per capita growth was only a disappointing figure of (0.2%) between 1990 and 2000. Based on the parodying of private sector access to domestic credit by share of credit to the private sector

as a share of GDP, the work of Brain, (2000) [31] found out that the fast growing nations transfer four times as much domestic credit to the private sector than does Nigeria and the wealthiest nations even transfer five and half times as much domestic credit to the private sector. Many literatures have revealed that Nigeria has been tagged as one of the most volatile macroeconomics in the world. For instance, the study carried out by [32] shows that Nigeria is one of the ten most volatile countries in a sample of 87 countries covering the period 1960- 2000. A high volatility reflected in another study carried out by [33] for most economics aggregates indicate an underlying structural weakness in the Nigeria economy. In support of this finding, the study of Uchendu (1998) [34] found out that Nigeria being an oil economy, her fortunes of wealth fluctuate with the international price of crude oil for the most part of 2006. Ude (1999) [35] in his own work explains that the components of gross output like consumption and investment grow or dip with the country's performance in oil sales. [36] in his own contribution notes that the periods of high oil prices and therefore high returns are often treated as permanent with the government making irreversible commitment to both labour and capital, while periods of low returns are treated as temporary. However, Rochet (1999) [37] in his own study titled *"Financial Intermediation and the behaviour of commercial banks"* found out that both the low performance and high volatility of the Nigerian economy have influenced adversely the effectiveness of the major macroeconomic policy instruments vis-à-vis fund intermediation. In the monetary sector, major macroeconomic targets are often missed with wide gaps as concentration is mainly on oil and gas sector. As shown in the study carried out by Ngama (2006) [38], the actual values of major macroeconomic policy instruments particularly monetary variables have historically been multiplies of the targets set by the authorities. His finding revealed that on the average, over the six years between 1998 and 2004, broad money (M2) outcomes have been 176 percent of its target values while aggregate credit turned out approximately to 123 percent of its target values. In confirmation of this, the study of [39]) found out that the worst offenders have been from the narrow money and credit to the government due to poor banks' performances. According his findings, for narrow money, the cash-based nature of transactions makes it quite difficult for even the CBN to control the quantity of currency in circulation. On the other hand, credit to government is mainly affected by fiscal indiscipline, which has been a major bane of monetary policy in the country [40]. The empirical study of [41] revealed that the poor growth performance and volatility of the macro-economy affected the entire financial system and financial intermediation process in Nigeria in profound ways. In a more serious note, there was a complete breakdown in the relationship between economic growth and performance of the real sector and that of the financial sector. The study of [42] on "*Merger & Acquisition vis-à-vis Efficiency of Financial Intermediation in Nigerian Banks: An Empirical Analysis", found out* that the risks associated with investment in the real sector grew astronomically relative to the returns. Consequently, such poor returns on investment where none of the core real sectors is thriving, the incentive for channeling mobilized funds into the real sector diminished substantially. To support this finding, [43] states that without a heavy reliance on either moral suasion or incentive for investment of funds in the real sector like agriculture, manufacturing, communication etc., private agents who took control of the banking sector began to search for more rewarding investments elsewhere. The empirical study of [44] revealed that many banks found it more profitable investing in foreign exchange trading, short-term loans for import, purchase of government bonds and other securities than lending to the real sector. To support this, the works of [45] and [46] revealed that several domestic banks have indicated overzealous interest in investing in foreign exchange trading as against banks primary function of fund intermediation. With these, many of them were able to bridge the disconnection between the profit expectations of their shareholders and the poor performance of the larger economy with dwindling profitability in real sector investments. This means that while a number of the banks were growing and declaring jumbo profits, overall economic growth was not impacted. Sequel to this, a unique nature of dualism between banking industry credits and real sector activities developed with the former having real boom while the latter lagged far behind. As a result, Sanusi (2002) [47] stated that the survival in such difficult environment for the banks means a lot of ingenuity in exploring investment opportunities outside of the real sector. He noted that investment in agriculture and manufacturing sector was risky and was accentuated by volatility in the polity. Banks responded to these uncertainties by taking interests rate of the rooftops and committing to very short-term loans even under the extremely high interest rates. Even as at the time of this research, nominal lending rates are still in excess of 20 percent of commercial banks.

[48] in his own work notes that in a competitive environment, competition may often imply undercutting activities by players in the industry, hence the need to survive despite the risk led to very risky behaviours on the part of the banks. Conceptually, liberalization produces credit boom. That in the ensuing bid to win favour of client, banks compete stiffly and this drives banks to increase investment and loan. His study equally reveals that less skilled staff is taken on board in an effort to increase market share and outcome is even low quality assets being acquired. [49] in his work found out that in Nigeria, people little or no banking experience occupy senior managerial position in banks and some of them are responsible for important decisions like lending decision and other investment outlets. His findings equally revealed that doubt about the quality of corporate governance is another problem that hinders the intermediation roles of banks. Such doubts affect investors' confidences and the banks' share values. For instance, in Nigeria, experience has shown that the values of some banks' shares remain low because of the caliber of their directors. Some of the directors are weak, apolitical, biased and sentimental in such magnitudes that they can approve loans that are not supposed to be approved and disapprove the ones that should have received approval. Such wrongly approved loans can end up being doubtful or bad debt. [50] in his own study on "*Investment banking and the capital acquisition process"* expresses that there are two other features of Nigeria macroeconomic history that affected and are still affecting developments in the financial sector which are worth noting, the first is oil price shocks and the other is the impact of policy summersaults. To support this, [51] noted that oil price dropped from period as high as of between US$40 and US$42 per barrel in 1981 to as low as ten dollars per barrel in the 1990s. In Nigeria, this had adverse impact on GDP, external and domestic debt service and fall in government revenues and expenditure. Most of the newly licensed banks relied heavily on government deposits which they in turn use to purchase government instruments for survival. Implosion government revenue meant less deposit and therefore less access to liquidity for the banks. [52] in his own study found out that quite a large amount of failures in the early 1990s owed greatly to this issue of banks over reliance on government deposits. [53] in his work on *"Banking Regulation in an Era of Structural Adjustment: The Case of Nigeria",* noted that policy inconsistencies affect the value of assets held by banks as a result, impacts negatively on the performance of banks. In Nigeria, ban on import and sometime on export bans vis-à-vis exchange controls, indigenization, nationalization, commercialization, privatization, credit rationing, placement and withdrawal of public sector deposits from universal banks, have negative effects on banks performance, thereby introducing crisis into the sector, [54]. Such crisis can cause bank panic and bank run in the banking industry, thereby reducing the banks' abilities to carry out their intermediation roles adequately and appropriately as required.

Research Method: The research design adopted in this study was ex-post facto design and this represents a realistic and feasible process of investigations aimed at achieving a systematic application of scientific method of examinations of research objectives and hypotheses. In this case, the researcher simply analyzed reported statement of account of the study variables extracted from Central Bank of Nigeria (CBN) and Nigerian Deposit Insurance Corporation (NDIC) publications.

Scope of the Study: The study is on the evaluation of the impact of intermediation role of banking industry on the performance of the real sectors of the Nigerian economy from 2005 to 2013. It examines the impacts of banking sector credits on the sampled real sectors of the economy- manufacturing. We restricted our discussion to the mainstream banks operating in Nigeria from 2005 to 2013, eight years after consolidation saga and focused on the impact of credits extended to the real sectors of the economy. In this study, banks credits excluded those of non-deposit banks/financial institutions, specialized banks and development banks. However, for all intents and purposes, the deposit money banks constitute the hub of the banking industry and in fact, the financial services industry. The size of the banking market can be proxy by the size and volume of loans and advances extended by the banks to the real sectors. Hence, deposit money banks simply referred to in this study as banks formed our main focus in this study.

Specification of Models: In specifying the models of our relationship the following alphabets are used to denote their respective variables:

GDP = Y

$$GDP - Y = X (CR) \quad (1)$$

$$Y = X_0 + X_1CR + \mu \quad (2)$$

where: Y is Gross Domestic Product (GDP) of the economy
CR is the deposit money banks credits and advances to the economy
μ is the error or disturbance term

$$Y_m = M_0 + M_1CR_m + \mu \quad (3)$$

where: Y_m is the manufacturing component of the GDP
CR_m is the banks credits and advances to the manufacturing sector
μ is the error or disturbance term.

Techniques of Data Analysis: Parametric statistics in forms of analysis of variance-ANOVA, t-test, co-efficient of correlation and simple linear regression were used to analyze the hypothesis.

RESULTS

Table 1: Regression Descriptive Statistics of the Hypothesis of the Study

	Mean	Std. Deviation	N
Manufacturing Component of GDP	362078.200	152577.480	8
Banks credits and advances to the manufacturing sector	1216609.52	765303.989	8

Table 2: Correlations (a)

		Manufactng component of GDP	Bank credits & advances to the sector
Pearson correlation	Manufacturing component of GDP	1.000	0.741
	Banks credits and advances to the manufacturing sector	0.741	1.000
Sig. (1-tailed)	Manufacturing component of GDP	.	0.011
	Banks credits and advances to the manufacturing sector	0.011	.
N		8	8

Table 3: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.741(a)	0.549	0.484	109601.15791	0.915

** Predictors: (Constant), Banks credits and advances to the manufacturing sector
* Dependent Variable: Manufacturing component of GDP

Table 4: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10215220415.3	1	10215220415.3	8.504	.02(a)
	Residual	84086896703.2	7	12012413814.7		
	Total	94302117118.5	8			

** Predictors: (Constant), Banks credits and advances to the manufacturing sector
* Dependent Variable: Manufacturing Component of GDP

Table 5: Coefficients (a)

Model		Un-standardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	182441.7	71619.754		2.547	.04
	Banks Cr to the sector	0.148	0.051	0.741	2.916	.02

a Dependent Variable: Manufacturing Component of GDP

$Y = 182441.069 + 0.148CR_m$

(t= 2.916)

Using the computed results as shown above, the resultant equation is:

$Y = 182441.069 + 0.148CR_m$ and (t = 2.916)

where:

Y = Manufacturing Component of GDP

Cr_m = Banks credits and advances to the manufacturing sector

R = 0.741

R^2 = 0.549 = 55%

$\bar{R}^2$ = 0.484

F = 8.504

DW = 0.915

From the above model, manufacturing component of GDP is influenced by the summation of the constant (182441.7) with the product of (0.148) and banks credits and advances to the manufacturing sector. With a regression sum of squares (10215220415.3) that is greater than the residual sums of squares (84086896703.2), more of the variation in manufacturing component of GDP is explained by the model. Furthermore, the significance value of the F statistic (0.02), which is lesser than (0.05), indicates that the variation explained by the model is not due to chance.

The regression coefficient of (0.741) indicates a strong positive relationship between manufacturing component of GDP and banks credits and advances to the manufacturing sector. The *R Square* value (0.549), which is the coefficient of determination, shows that only 55% of the variation in manufacturing component of GDP is explained by the model.

The Durbin-Watson statistic of (0.915) which does not tend to 2 indicates there is an autocorrelation. The sign of the coefficient of credits from deposit money banks to manufacturing sector is positive, satisfying a priori expectation and the impact is significant (as the calculated t-value of 2.916 is more than 2. We can however reject the null hypothesis and accept the alternative hypothesis which posits that banks credits and advances to the manufacturing sector have positive significant effect on the component GDP of the sector.

DISCUSSION

The main finding suggests that banks credits and advances have significant positive impact on the component of GDP of the manufacturing sector vis-à-vis economic growth. This is an indication that the CBN's determination to encourage banks to mobilize and deploy enough funds to the real sectors as means of promoting economic growth and development is well appreciated by the sector. The result of the study equally revealed that a huge amount of loans and advances have been made available to the sectors but the issue is the extent to which these funds actually go for what they are meant for. The leakages in the sector, as is the case with nearly all government expenditures, could be very alarming if not properly controlled and monitored, hence accounting for the low response of the sector's contribution to increased GDP. In line with these findings, the works of [55] and [56] hold the same view that the banking industry plays a crucial role in the

mobilization of capital for industrialization and investment but with minimal impact on the GDP growth due mainly to loan diversion. They have argued that intermediaries overcome real sector finance problems by acting as "suppliers of loan-able funds to them" but in most cases the funds are not properly channel to what they really meant for, hence, low impact on the GDP. Other works that are in total agreement with our findings include the works of [56], [57], [58], [59] and [60]. Their findings are in agreement with the findings of our work which revealed that the volume of credits and advances to the real sector of the economy is positively but not significantly related to the GDP growth rate of the economy. The paper posits further that intermediation roles of banks are inevitable funnels and are necessarily sufficient tools for financial stability for sustainable real sector growth and development and this confirms [60] and [61] postulations. They affirmed that for the real sectors to survive and perform effectively there must be investment which is synonymous with funding; hence the banking industry becomes a very relevant funnel to actualize economic growth, if their loanable funds and the end-use of such loans are properly monitored.

CONCLUSION

However, there are plausible indications that the performance of the real sector and the volume of banks credits and advances to the sector have positive significant relationships with the overall economic growth and development of the Nigerian economy. Therefore, in order to maximize the benefits of these intermediations, CBN should consider the option of encouraging healthy competition in the industry via comprehensive banks- public-friendly reforms. The paper concludes that banking sector is becoming more competitive in their intermediation roles as consolidation reform has created an atmosphere where many banks simply cannot afford to have weak balance sheets and inadequate corporate governance, hence well positioned to carry out their intermediation roles effectively and efficiently.

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

Policy Implication: This result has implications for central bankers with respect to the monetary policy formulation, implementation, adjustment and changes for the development of deeper and more accurate up to date policy framework that will catch up with the global financial intermediation drives. Going through this work will enable the authority concern to see the need of formulating policy that would empower the banking sector to extend more credits at affordable interest rate to the real sectors of the economy so as to achieve high and sustainable economic growth.

Suggestion for Further Study: The paper posits that researchers should carry out further study on this to develop a new intermediation framework for banking industry stability as needed for the empowerment of the entire sectors of the economy. Equally, similar econometric research should be carried out on agricultural sector to find out the extent to which intermediation roles of banks impact on that sector vis-à-vis economic growth.

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