



## FINANCIAL INTERMEDIATION AND ECONOMIC GROWTH IN NIGERIA

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### Abstract

The study investigated financial intermediation and economic growth in Nigeria for the periods 1970-2018. Banks are essential institutions through the financial services they rendered. Their intermediation role in the savings-investment process has been widely acknowledged as engine that propels economic growth. In an attempt to carry out this study, Autoregressive distributed lag (ARDL) bounds testing approach to co-integration were employed. Variable that causes one another was tested using the Granger causality test. The variables used in the analysis are real gross domestic product (RGDP), credit to private sector ratio real gross domestic product (CPSRGDP), broad money supply ratio real gross domestic product (MSRGDP), trade ratio (TRADER), inflation rate (INFR) and interest rate (INTR). The data were sourced from the central bank of Nigeria statistical bulletin 2019. The results indicated that insignificant positive relationships were found among credit to private sector ratio real gross domestic product, trade ratio and interest rate. While money supply ratio real gross domestic product and inflation rate depict positive and insignificant relationship with the growth of the economy. The causality test showed unidirectional causal link flowing from real gross domestic product to credit to private sector ratio, to money supply ratio, and from inflation rate to real gross domestic product. While no causal link was found among trade ratio and interest rate. In line with this result, the study concluded that the depth of financial system is low and this invariably affects economic growth of Nigeria. Since most financial intermediary variables were not statistically significant, the scope of credit needs to be expanded by the regulatory authorities. This will allow better accessibility to credit and in turn boost investment that can translate to economic growth in the country. For this to be effective, inflation rate and interest charged by the banks should be carefully monitored.

**Keywords:** Economic Growth, Financial Intermediation, Credit to Private Sector, Trade Ratio, Autoregressive Distributed Lag

**JEL Classification:** G21, G29,



## 1. Introduction

Economic growth largely depends on the effective interaction among the economic units. Achieving sustainable growth in the country requires the interplay of resources among different units of the economy. This intermediation function is usually performed by deposit money banks. Deposit money banks therefore facilitate the flow of credit for productive purposes and ensure effective utilization which helps to increase aggregate economic activity thereby raising output, income and employment (Ndubuisi & Uma, 2016).

Every economic policies of countries especially Nigeria is to promote economic growth through intermediation functions performed by banks. This connotes that efficient allocation of savings and implementing innovative products and production processes are tools to accomplish this goal. Growth of an economy is measured in terms of the level of goods and services produced, changes in technology, human capital development, availability of infrastructural facilities, per capital income improvement as well as providing favourable macro and fiscal policy environment suitable for the economy (Alpha, Ding, Abdrahmane & Kargbo, 2016; Ndubuisi & Uma, 2016; & Marshal, Onyinye, Ifechi & Charles, 2016).

Studies such as Chukwuma, Ngozi and Williams (2019) John and Nwekemezie (2019) King and Levine 1993 observed that, financial intermediaries are important in stimulating innovations, managing risk allocating capital and mobilizing savings. The economies that are dominated by more effective financial intermediation grow faster relative to those economic units that suffer from efficient intermediation functions. This connotes that development of a country's financial intermediation fosters economic growth and this is the conclusion of the finance-growth of “supply-leading hypothesis” (Alpha, Ding, Abdrahmane & Kargbo, 2016; John & Nwekemezie, 2019). The main trust of this view is that, a positive causal link flowing from financial intermediation to economic growth exists. This is well acknowledged by the “supply-leading” argument of the finance-growth literature which states that the development of a viable financial intermediation is precursor to economic growth.

Oleka and Maduagwu (2015) noted that economy strength is directly linked with her banking sector. This implies that banking sector performance has a great impact on the economy. This indicates investible funds are created in reviving the economy. Therefore, for any meaningful development in an economy, banking industry roles must not be undermined. This view was also acknowledge by Ndubuisi and Uma (2016) who are of the opinion that the public and private sectors of any economy require credit from the banking sector to enhance their productive activities and



increase nation's overall performance.

Numerous studies have acclaimed that significant positive relationship subsist between development of financial system and economic growth in terms of efficient mobilization of resources among the economic agents (King & Levine, 1993; Ali, 2013; Ohwofasa & Aiyedogbon, 2013; Ndubuisi & Uma, 2016; Markjackson, Timinipre, Nelson & Okoyan, 2017; Bayoume & Melander, 2008). These studies submit that reduction in the level of credit injected into the economy particularly private sector could lead to a reduction in the growth by a considerable percentage. This is because economic growth depends on the credit level extended to the private sector. All these studies supported that deposit money banks contribute significantly through their intermediation roles performed.

Alternative explanation is given in the work conducted by Saci, Giorgioni and Holden (2009). They opined that liquid liabilities and credit to the private sector do not have any negative effects on economic growth. This claim was supported by Loayza and Ranciere (2006) and documented that in the short-run, significant negative impact subsists between banks' credit and economic growth. Other studies in this line of thought are Lee (2005), Alpha, Ding, Abdrahmane and Kargbo (2016) and Marshal, Onyinye, Ifechi and Charles (2016) John and Nwekemezie (2019) among others. From all these explanation, making an affirmative statement on the line of relationship between economic growth and financial intermediation is a difficult task. This is because studies have shown that the relationships are inconclusive and therefore opened to further discussion.

Also in a study conducted by Chinweoke, Onydikachi and Elizabeth (2014) Oleka and Maduagwu (2015) adopted Ordinary Least Squares (OLS) regression technique. The strength of this method lies in its ability to account only for short-run dynamic relationship. The technique cannot account for relationship when long-run is to be examined. To circumvent this, this study used Autoregressive distributed lag (ARDL) bounds testing approach to co-integration, as developed by Pesaran and Smith (1995) and Pesaran, Shin, and Smith (2001). With this method, the short and the long-run equilibrium relationship can be indirectly estimated. This method has definite advantages in comparison to other Co-integration procedures since it can be employed regardless of whether the underlying variables are  $I(0)$ ,  $I(1)$  or fractionally integrated.

However, considering the causal links that exist between financial intermediaries and economic growth, studies such as Marshal, Onyinye, Ifechi, and Charles (2016), Lee (2005), have produced conflicting outcomes. Despite advances in the growth



literature, the issue as to whether financial intermediaries variables granger causes economic growth remains mixed and the debate is still ongoing. It is against the unsettled empirical evidence that necessitate this study using vital variables such as credit to private sector ratio to gross domestic product. This ratio measures the extent to which banks extend credit to private sector of the economy. This variable was considered because private sector of any economy serves as the engine that propels economic transformation. Broad money supply ratio to real gross domestic product was also added because it will assist in measuring the depth of financial system in the country. The study included trade ratio to measure the dependency of the economy while inflation rate and interest rate measure the macroeconomic stability of the country. Aside this introduction, this study is sub-divided into literature review, research methods, result, conclusion and recommendations.

## **2. LITERATURE REVIEW**

### **2.1.1 Economic Growth**

Economic growth according to Adan (2017) represents the output level recorded within a given period of time in an economy. In other word, it connotes total output of goods and services sold which arise from the activities of citizen residing in a country. Chukwuma et al., (2019) defined economic growth as the increase in output of goods and services produced within the country over a given period of time. Therefore, economic progress is usually measured using various indices such as per-capital income, level of development, production level, gross domestic product and many more. This study uses the real gross domestic product as it has been widely proofed and documented in literature. One of the major macroeconomic objectives peculiar to nations of the word is the desire to achieve a stable and vibrant growth that can transform the economy.

### **2.1.2 Financial Intermediaries**

Studies both locally and internationally have investigated the determinants of economic growth in Nigeria and abroad (Marshal, et al., 2016); Lee, 2005; Ali, 2013; Ohwofasa & Aiyedogbon, 2013; Ndubuisi & Uma, 2016). The outcomes from these studies (both theoretical and empirical) proved that efficient and effective intermediation functions induced the economy. Financial intermediation according to Agbada and Osuji (2013) is the process whereby the providers of financial service notably banks pull funds together from various units and transform it into loanable funds for investment purposes. In the view of Chukwuma et al., (2019) financial intermediation, as a process connotes the transformation of mobilized funds into



credit in the form of loans and overdraft or bank's assets. Though not a sufficient condition, the attainment of viable and steady economic growth essentially depends on availability of the flow of financial resources. This connotes that banks assist in turning deposit liabilities from surplus economic units to the deficit units of the economy (Markjackson, Timinipre, Nelson & Okoyan, 2017).

In order words, Bolton and Freixas (2000) defined financial intermediaries as the institutions specialized in the activities of channeling funds from the surplus economic unit to the deficit unit. These institutions mediate between the providers and users of financial capital in an economy (Bolton & Freixas, 2000). Because of their peculiarities, they are hereby noted for the following functions: reduces transaction cost, mitigate against liquidity risk, provision of relevant information, debt renegotiation among agencies.

## **2.2 Theoretical Review**

Several theories abound in literature explaining the interrelationship between economic growth and the intermediation functions performed by banks. This study anchored on two theories which are Finance Led Growth theory and Financial Intermediation Theory. Finance led growth theory initiated by Schumpeter (1911) explained that the development of any nations revolves around financial sector development. This is based on the believed that the pillar to economic growth is founded on the level of financial sector. On the other hand, financial intermediation theory explains the role played by banks in mobilizing financial resources from the surplus units of the economy to the needy units (Adan, 2017).

## **2.3 Empirical Review**

Chukwuma, Ngozi and Williams (2019) employed autoregressive distributed lag(ARDL) to investigate financial intermediation and economic growth in Nigeria from 1985-2016. The result demonstrated that in the long and short-run, financial intermediation significantly influences economic growth. In line with this, recommended that the scope of credit needs to be expanded by the monetary and regulatory authorities. This will in turn increases financial responsiveness that can stimulate economic growth. John and Nwekemezie (2019) conducted their study on intermediation function performed by banks and the Nigerian economy for the period of 1986 to 2017. The study generated its data from statistical bulletin of central bank of Nigeria using Autoregressive distributed Lag (ARDL). The study discovered that credit extended to the private sector does not induce the economy in a positive way due to the prevailing rate of interest charged.



Markjackson, Timinipre, Nelson and Okoyan (2017) used disaggregated data on financial intermediation and economic growth of Nigeria. Co-integration and error correction mechanism was applied. From the findings, loans to agriculture, manufacturing and small scale enterprises influence economic growth of Nigeria positively. Alpha, Ding, Abdrahmane and Kargbo (2016) stress the impact posed by the intermediation role of the financial system in boosting economic growth among West Africa using panel regression analysis from 1985-2013. The findings of the study among others indicate that interest rate spread and inflation are high, in terms of the dynamic panel growth regression, broad money (M2) and the level of financial intermediation (M3) impact positively on growth in the region. Credit supply, inflation, and interest rate spread impact negatively on growth in the West Africa Region.

Ndubuisi and Uma (2016) tested for long-run with the aid of Johansen Co-integration to analyzed finance growth nexus in Nigeria from 1986-2011. The variables for the study are economic growth; private sector credit to GDP; private sector deposit to GDP and broad money to GDP. The empirical results showed that long-run positive relationship exists between economic growth and finance indicators. Ratio of private sector credit to GDP and broad money to GDP indicate significant positive relationship with economic growth while private sector deposit to GDP indicates insignificant relationship.

Marshal, Onyinye, Ifechi, and Charles (2016) examined the intermediation of the financial system in reviving economy using annual data from 1970-2015. VAR approach, Johansen co integration technique and Engle and granger causality test were considered for the analysis. The results confirmed the present of long-run relationship. Also from the VAR result, lag one and two of credit extended to private sector and money supply showed negative and positive relationship respectively with growth of Nigerian economy. The causality result indicates unidirectional causal link flowing from all the variables to real GDP and not vice versa.

Oleka and Maduagwu (2015) examined the intermediation roles performed by banks in enhancing the growth of Nigerian economy. Parametric statistics in forms of analysis of variance-ANOVA, mean, standard deviation, t-test, co-efficient of correlation and simple linear regression were considered in the analysis. The from the study indicated that banking sector intermediation roles performed significantly improved the GDP component of the manufacturing sector, hence, has contributed marginally to the overall growth of the real sector for sustainable development.

Chinweoke, Onydikachi and Elizabeth (2014) examined the extent to which the



intermediation of could affect economic growth between the periods of 1992 – 2011. The study adopted regression analysis of Ordinary Least Squares (OLS). The empirical results showed that the level of banks credit and deposit exert significant positive impact on the growth of Nigerian economy.

Ohwofasa and Aiyedogbon (2013) examined financial deepening level and the growth of Nigerian economy with the use of Vector autoregressive (VAR) method. From the VAR results, it was discovered that lag one of economic growth, lag one of ratio of gross national saving to GDP and lag one of exchange rate have significant positive impact on current value of economic growth while the lag one value of gross capital formation impacts negatively on the current value of economic growth.

Using ARDL approach, Ali (2013) in Sudan investigated financial intermediation and economic growth from 1970-2011. The result of the long run analysis indicated that liquid liabilities and credit to the private sector have positive effects on economic growth while money supply affects real per capita GDP negatively. The results also indicated that government expenditure, trade openness, inflation and money supply exert negative effects, while investment, private credit and liquidity have positive effect on real per capita GDP.

In a study conducted in Canada, Lee (2005) used Vector Auto Regression method and Granger causality test to investigate how financial intermediation could trigger their economic performance from 1870 to 1926 and from 1948 to 2002. The causality tests indicated strong evidence that development in the financial system triggers economic growth from 1948 to 2002 while from 1870-1926 showed no evidence. The Vector Autoregressive indicated that the only significant variable to growth is the monetary base.

### **3. DATA AND METHODS**

In an attempt to examine how financial intermediary has spur Nigerian economy, the study uses annual time series data from 1970-2018 obtained from Central Bank of Nigeria statistical bulletin 2019. The study covers activities of Nigerian financial system and revolves around the intermediation roles of Nigerian banks. Autoregressive distributed lag (ARDL) bounds testing approach to co-integration, as developed by Pesaran and Smith (1995) and Pesaran, Shin, and Smith (2001) was used. The method produces better result because the short and the long-run equilibrium relationship can be directly estimated. This method has definite advantages in comparison to other Co-integration procedures since it can be employed regardless of whether the underlying variables are  $I(0)$ ,  $I(1)$  or fractionally



integrated.

## Model Specification

The study which is to examine financial intermediation and economic growth in Nigeria formulates its model in line with the work conducted by Chinweoke, Onyedikachi and Elizabeth (2014) on how financial intermediation affects economic growth of Nigeria. The model for their work is stated in equation 3.1

$$RGDP_{pc} = f(CBD, CBC, GE) \dots \dots \dots 3.1$$

Where:

RGDP<sub>pc</sub> = Real Gross Domestic Product per capita (Proxy for Growth)  
CBD = Commercial Bank Deposits  
CBC = Commercial Bank Credits  
GE = Government Expenditure

The study adapted Chinweoke et al., (2014) by removing government expenditure and expresses banks credit as a ratio of real gross domestic product. This is because this ratio expresses the proportion of banks credit to the economy. The study also added vital variables such as broad money supply ratio to real gross domestic product, trade ratio, inflation rate and interest rate. This study is also hinged on two theories which are Finance Led Growth theory and Financial Intermediation Theory.

The model for this study is hereby stated as:

$$RGDP = f(CPSRGDP, MSRGDP, TRADER, INFR, INTR) \dots \dots \dots 3.2$$

Stating equation 3.2 in econometric form, it becomes

$$RGDP = \alpha + \beta_1 CPSRGDP + \beta_2 MSRGDP + \beta_3 TRADER + \beta_4 INFR + \beta_5 INTR + \mu \dots 3.3$$

Where:

RGDP = Real Gross Domestic Product  
CPSRGDP = Credit to the Private Sector to RGDP  
MSRGDP = Broad Money Supply to RGDP  
TRADER = Trade Ratio  
INFR = Inflation Rate  
INTR = Interest Rate  
f = Functional Notation  
 $\mu$  = Error Term  
 $\alpha, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = Constant parameter  
 $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = Coefficients of Estimates





## 4. DATA ANALYSIS AND DISCUSSIONS

### Results of Data Analysis

#### Unit Root Result

In an attempt to know the nature of the variables, the study begins by conducting the unit root test. This test is useful as it guides the study on the appropriate estimation techniques suitable for the study. The result of the unit root is reported in Table 1

**Table 1: Augmented Dickey Fuller (ADF) Unit Root Test**

Variables	Critical values @5%	ADF t- statistics	Prob.	Order of integration
RGDP	-2.945842	-3.395063	0.0177	I(1)
CPSRGDP	-2.945842	-5.514764	0.0001	I(1)
MSRGDP	-2.945842	-5.887399	0.0000	I(1)
TRADER	-2.945842	-7.431000	0.0000	I(1)
INFR	-2.943427	-3.565817	0.0115	I(0)
INTR	-2.943427	-3.546314	0.0121	I(0)

**Source: Authors' Computation, 2019**

Reported in Table 1 is the unit root result on financial intermediation and economic growth in Nigeria. The table shows clearly that inflation and interest rate were integrated at level while real gross domestic product, ratio of credit to private sector to gross domestic product, ratio of money supply to gross domestic product and trade ratio were all converted into first difference before they could be stationary. By implication real gross domestic product, ratio of credit to private sector to gross domestic product, ratio of money supply to gross domestic product and trade ratio exhibit some random walk which can only let go in the short periods as they were all stationary at order one. Following this order of integration in the unit root result, the study proceeds to short and long run model using autoregressive distribution lag technique.

#### Lag Length Selection

After the unit root test, another pre-condition for ARDL co-integration and granger causality is lag length selection. This type of test is sensitive to the lag length and the choice lag is determined by using one or more of Likelihood Ratio test (LR), Final Prediction Error criteria (FPE), Akaike Information Criteria (AIC), Schwarz information Criteria (SC) and Hannan-Quinn Information Criteria (HQIC). The criterion suggestion is presented in Table 2



**Table 2: Selection of Optimal Lag Length**

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-18.53340	NA	1.57e-07	1.362966	1.626886	1.455082
1	138.7051	253.3287*	1.93e-10*	-5.372508*	-3.525069*	-4.727702*
2	181.9169	55.21498	1.54e-10	-5.773159	-2.342201	-4.575663

**Sources: Author's Computation, (2019)**

The result indicated that Final Prediction Error criteria (FPE), Akaike Information Criteria (AIC), Schwarz information Criteria (SC) and Hannan-Quinn Information Criteria (HQIC) take lag 2 while Likelihood Ratio test (LR) takes lag 1. As it is manifest in the VAR model, in Table 2, the maximum number of lags that the ARDL model must have, in order for the model to be feasible, is 1.

#### 4.4 Test for Co-integration

**Table 3 Unrestricted ARDL Model**

Variables	Co-efficient	Std. Error	T-statistics	Prob.
C	-0.106448	0.321154	-0.331455	0.7430
RGDP(-1)	0.960525	0.036787	26.11065	0.0000
CPSRGDP	-0.018708	0.054042	-0.346168	0.7320
CPSRGDP(-1)	-0.067176	0.052755	-1.273379	0.2142
MSRGDP	-0.035704	0.071909	-0.496510	0.6237
MSRGDP(-1)	0.259417	0.074772	3.469432	0.0018
TRADER	-0.020491	0.025883	-0.791663	0.4357
TRADER(-1)	0.028854	0.021719	1.328514	0.1956
INFR	-0.032579	0.009025	-3.609892	0.0013
INTR	0.029655	0.032722	0.906271	0.3731
INTR(-1)	0.063413	0.031047	2.042452	0.0514

**R<sup>2</sup> = 0.997576; Adjusted = 0.996643; F-statistic = 1069.807; Prob (F-statistic) = 0.000000**

**Source: Authors' Computation, (2019)**

Table 3 explained financial intermediation and economic growth in Nigeria. The idea behind the test is to examine if long-run relationship can be found in the estimated model.



**Table 4: ARDL Bound Test**

Model	F-statistic	No. of Regressors (K)
f (EIS, EDS, DCN, EXGR, INFR, INTR)	7.690440	5
Critical value bounds		
Significance	I(0) Bound	I(1) Bound
10%	2.08	3
5%	2.39	3.38
2.50%	2.7	3.73
1%	3.06	4.15

**Source: Author's Computation, (2019)**

The result of bounds test in Table 4 shows that the F-statistic is greater than both the upper and the lower critical bound at 5% level of significance. This shows the presence of long-run relationship among the variables is upheld.

**Table 5 ARDL Long-run (a) and short-run relationships (b)**

(a)

**Long-Run Coefficients**

Variable	Coefficient	t-Statistic	Prob.
CPSRGDP	2.175683	0.719670	0.4781
MSRGDP	-0.784785	1.089312	0.2860
TRADER	0.211862	0.394305	0.6966
INFR	-0.095360	-2.042540	0.0494
INTR	2.357676	0.992400	0.3301
C	-2.696622	-0.257577	0.7988

(b)

**Short-Run Coefficient**

Variable	Coefficient	t-Statistic	Prob.
D(CPSRGDP)	-0.017090	-0.422922	0.6758
D(MSRGDP)	-0.021946	-0.375277	0.7105
D(TRADER)	-0.017880	-0.989126	0.3317
D(INFR)	-0.037683	-4.940096	0.0000
D(INTR)	0.035508	1.420663	0.1673
CointEq(-1)	-0.038814	-10.11479	0.0000

**Source: Author's Computation, (2019)**

Table 5b explained the short-run relationship between RGDP and other explanatory variables. Firstly, the adjustment speed is well defined, that is negative and



statistically significant with a coefficient of -0.038814. This indicated about 4% of the previous year's disequilibrium in RGDP is being corrected in the long-run.

In terms of the signs and magnitude of the coefficients, the long-run indicates that credit to the private sector to RGDP and trade ratio exerts positive insignificant relationship on the growth of the economy. The implication of this result is that the level of credit extended to the private sector is too low and thus could not depict any meaningful impact on the economy. This could also be explained that credits to private sector are not channeled to productive uses but are diverted to other personal uses. The result is consistent with the work of Ali (2013), Chinweoke, Onyedikachi and Elizabeth (2014), Ndubuisi and Uma (2016), Markjackson, Timinipre, Nelson and Okoyan (2017).

The ratio of money supply to RGDP indicates negative and insignificant relationship on the growth of the economy. Possible explanation for this result is that the depth of money in the financial system is too low, therefore creating finance deficit to Nigerian economy. This could also be caused because the little money supply could also be diverted to foreign banks by the corrupt leaders. Furthermore, the negative relationship between money supply and real gross domestic product is consistent with Ali (2013), Alpha, Ding, Abdrahmane and Kargbo (2016), Ndubuisi and Uma (2016), and Marshal, Onyinye, Ifechi, and Charles (2016) earlier reviewed. The result also showed that inflation rate exerts negative and significant relationship on the growth of the Nigerian economy which is in support of the work in Alpha, Ding, Abdrahmane and Kargbo (2016) and other studies earlier reviewed. This shows that the rate of inflation in the country is too high thereby eroding the purchasing power of money. Interest rate depicts insignificant positive relationship on the growth of Nigerian economy.

#### 4.5 Granger Causality Test

**Table 6: Granger Causality Test**

Null Hypothesis:	Obs	F-Statistic	Prob.
CPSRGDP RGDP RGDP CPSRGDP	36	0.12104 4.71431	0.8864 0.0163
MSRGDP RGDP RGDP MSRGDP	36	2.22019 5.16206	0.1256 0.0116
TRADER RGDP RGDP TRADER	36	0.57883 0.44150	0.5665 0.5665
INFR RGDP RGDP INFR	36	7.27952 1.63302	0.0026 0.2117
INTR RGDP RGDP INTR	36	0.92969 0.28843	0.4054 0.7514

Sources: Author's Computation (2019)



The pair wise Granger causality test in Table 6 indicates that unidirectional causality, flowing from real gross domestic product to credit to private sector ratio RGDP, to money supply ratio RGDP. Also, from inflation rate to real gross domestic product while no causal link were found between trade ratio, interest rate and real gross domestic product.

## **5. CONCLUSION AND RECOMMENDATIONS**

The study has demonstrated that the relevance of financial institutions especially deposit money banks in generating growth within an economy through their intermediation activities cannot be over-emphasized. The study employed autoregressive distribution lag coupled with granger causality test to examine the short and long-run relationship among the variables from 1981 to 2018. The results affirmed the presence of long-run between indicators of financial intermediation and the Nigerian economy. The ARDL result showed that insignificant positive relationships were found among credit to private sector ratio real gross domestic product, trade ratio and interest rate. While money supply ratio real gross domestic product and inflation rate depict positive and insignificant relationship with the growth of the economy. The causality test showed unidirectional causal link flowing from real gross domestic product to credit to private sector ratio, to money supply ratio, and from inflation rate to real gross domestic product. While no causal link was found among trade ratio and interest rate. Since most financial intermediary variables were not statistically significant, the study recommended in this direction that the scope of credit needs to be expanded by the regulatory authorities. This will allow better accessibility to credit and in turn boost investment that can translate to economic growth in the country. For this to be effective, inflation rate and interest charged by the banks should be carefully monitored.



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