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ANALYSIS OF DEPOSIT MONEY BANKS' FINANCIAL INTERMEDIATION AND NIGERIAN REAL ECONOMY – (1987 TO 2015)

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ABSTRACT

In Nigeria, the banking sector dominates the Nigerian financial system as it accounts for about 90% of the total assets in the system. Implicitly, the banking sector has not contributed significantly to the growth and development of Nigerian economy as expected. This study therefore examines the level of development of Deposit Money Banks' financial intermediation and how it impacts on the real growth of Nigeria's economy, .for the period 1987 to 2015, using secondary data, sourced from CBN publications. Applying Ordinary Least Square regressions model, unit root test, Granger causality and co-integration tests, the study established that variations in the selected financial intermediation indicators employed in the study namely: aggregate DMB deposit, total private sector credit, savings ratio, maximum lending rate and inflation rate, in aggregate, account for about 87.3% variation in economic growth process in Nigeria for the period under review. This strongly suggests that financial intermediation indicators have strong influence in the changes in real economic growth either negatively or positively. However, the total DMB credit to the private sector and savings ratio to GDP have inverse and significant relationship with growth(RGDP} while aggregate DMB deposit (proxy for size of intermediaries) has positive but insignificant relationship with RGDP. This indicates that bank credit to private sector does not contribute effectively to the growth of the economy, despite the size of the intermediaries. Inverse relationship of savings ratio signifies that Nigerians has poor savings habit due to acute poverty and poor financial inclusion. High interest and inflation rates which are control variables are negatively and significantly related to RGDP, implying that they are constraints to financial intermediation benefits. The Granger causal test is inconclusive. The study recommends that the optimal interest (lending) rate should reflect the overall internal rate of return in the productive sector with due attention to market fundamentals to encourage private sector credit. The need for the monetary authority to maintain low and stable prices in order to encourage sustainable growth in the real sector should be highly emphasized. Lastly, infrastructural improvement in the rural areas, structural reforms, financial literacy, and other strategies by the government that will encourage increased savings and credit to the poor should be intensified to reduce financial exclusion.

Keywords: Financial intermediation, Deposit Money Banks, Real Gross Domestic Product (RGDP) A Granger Causality test, Unit root and Co-integration Tests.

INTRODUCTION

The banking sector, as a major intermediary, is the nerve centre of a financial system of any modern economy, being the repository of the people's wealth and supplier of credit which lubricates the engine of growth and development. A financial system is institutional arrangements involving institutions, laws, regulations, instruments, markets and regulatory agencies, for the facilitation of financial flows among the different agents in the economy and its major role is financial intermediation. Sound financial system is recognized as a necessary and sufficient condition for rapid growth and development for every modern economy especially with the increasing rate of complex financial innovative products /services that cater for the diverse needs of both borrowers and lenders. It is the right mix of products and services along with reducing the systematic risks that determine the efficiency of an intermediary. (Robinson, (1952) [46]. Financial intermediation is affected by liquidity, together with other macroeconomic variables like inflation, exchange rate and interest rate (Omotor, 2007). [46).Financial intermediaries have a central role to play in market economy where efficient allocation of resources is the responsibility of market mechanism. In performing their primary function of intermediation, the banks have the significant responsibility to collect deposit from the surplus unit of the economy and lend it out to the deficit unit in form of loans and advances (King and Levine, (1993)[34]. The major role of the financial system in mobilizing and channelling of funds to the real sectors of the economy is referred to financial intermediation and it cannot be over-emphasized.

In Nigeria, the banking sector dominates the Nigerian financial system as it accounts for about 90 % of the total assets in the system and about 65 percent of market capitalization of the Nigeria Stock Exchange. However, the banking sector has not contributed significantly to the growth and development of Nigerian economy as expected. The poor performance of the sector has been attributed to numerous problems that faced the sector such as loss of public confidence as result of financial distress, high interest rate and economic downturns, high non-performing loans which had led to frequent bank failures in the past; inability to mobilize deposits from the rural areas due to financial exclusion of greater number of Nigerian populace, inconsistencies in monetary authority regulatory framework and policies, among others. (Sanusi,(2012). [49]

In early 1980s, before Structural Adjustment programme (SAP) there was severe pressure on the Nigeria's Balance of Payment (BOP). The situation was further complicated with increased debt servicing burden, crash in the international oil market, deterioration in the economic conditions and accumulated trade arrears. The impact was devastating because it worsened the performance of banks and unemployment level in the face of acute shortage of inputs necessary to sustain satisfactory level of industrial production (Oni,(2007)[44] and IMF (2008)[29]

The Nigerian Government embarked on the SAP in 1986 and among the objectives is the implementation of financial sector reforms which is meant to foster competition, strengthen the supervisory role of the monetary authority and streamline the relationship between the public and financial sector of the economy. (IMF 2001) [28], To foster competition, new financial institutions were granted license to operate, banks were encouraged to open branches in the rural areas,, there was interest rate deregulation which de-emphasized the use of credit allocation and

control . This paved way to indirect control of the monetary policy system such as Open Market Operations (OMO), reserve requirement and moral suasion in monetary management. All these were geared towards quality and adequate financial intermediation services in Nigeria, yet the efficiency and effectiveness of DMBs' financial intermediation is still below a standard expectation. In pursuit of this objective, the Nigerian Monetary authorities have adopted (and are still pursuing) several reforms/policies, in line with neo-liberal thinking but much has not been achieved. As a result of limitations and rigidity of different regulations, DMBs find it difficult to expand most of their operations especially credit delivery to the poor and private sectors and some other expected areas of economic development and they have been confined to a relatively limited sphere of financial services. Moreover, efforts to meet long -term financing with short term resources (deposits) may give rise to asset-liability mismatch which can create pressure on their financial lease, hence the emergence of other specialized financial institutions like finance houses that are fiercely competing with them by provision of long-term financing.

Virtually most of the previous studies reviewed have some methodological and conceptual problems that undermine their accuracy and thus their efficacy for effective policy purposes. In most of the studies reviewed, no serious attempts have been made in applying unit root test to reduce misleading results and most studies were cross-country analysis. Estimation ofnon-stationary time series on another, which are subject to accidental or induced auto-serial correlation, can give rise to spurious regression. (Gujarati and Porter, (2009)[25] and Engle and Granger, (1987) [16].

In addition, the use of cross-country analysis precludes country specifics. There are at least two important caveats that might affect such results. The first is that such cross-country analysis is plagued by multiplicity of issues of parameter heterogeneity, omitted variables, model uncertainty and measurement error. (Rodvik, 1999)[48]. Inference based on results of such analyses leads to potential biases. Blonigen and Wang (2005) [5] also argue that pooling rich and poor countries together without distinguishing between their level of development leads to incorrect inferences.

Recognizing the above gaps and challenges, there is need to reexamine this problem holistically by filling these gaps, by updating and increasing and using the number of observations of the Nigerian time series and applying the modern econometric techniques (co-integration, Granger Causality test and unit root test) to see if a more authentic result could be achieved for effective policy planning and implementations.

It is on above backdrop that this study is carried out to examine empirically trend of DMBs' financial intermediation function and how it impacts on the real economy of Nigeria within post SAP period. The objective of this study is therefore to establish if there is a statically significant relationship between the real economy of Nigeria proxies by RGDP and the selected financial intermediation indicators namely: Aggregate Bank Deposit, Credit to the private sector, Savings as ratio of GDP, Inflation and Maximum lending rates (which are control variables) To achieve this objective, the hypothesis as stated below is formulated to aid the analysis:

There is no significant long run relationship between real economic growth proxies by Real Gross Domestic Product (RGDP) and some generally accepted key financial intermediation indicators namely: Aggregate Bank Deposit, Private Sector Credit, Savings as ratio of GDP, Inflation and Maximum lending rates (which are control variables)

This study is structured as follows: Section I which precedes four other sections, introduces the study. Section II discusses the related reviewed literature. Section III provides the methodological issues. Section IV presents and analyses the data while section V concludes the study with policy recommendations.

REVIEW OF RELATED LITERATURE

Conceptual Issues

Financial Intermediation

Over any period of time, there are always some who need to spend more than their current receipts or income for that period, that is, they need to engage in what is known as deficit–spending. Similarly, there are others who from variety of motives, wish to spend less than their current receipts or income, that is, they wish to save. These two groups are referred to as deficit-unit and surplus unit respectively.(Boyreau-Debray, (2003).[7]

The time pattern of an investors' required expenditure may differ from its receipts for many reasons: much of the savings of a community is directly related to the need for deficit spending. For instance, in farming, there may be many months between sowing and reaping during which a farmer receives no income yet he has his daily need and expenses that must be satisfied. He needs to save so as to cope with his seasonal difficulties before the harvest. Although the motives for saving and deficit-spending may be related, their timing is normally quite separated with savings, either proceeding or following deficit– expenditure from a very short to an immense long period. (Bencivenga, and Smith, (1991).[6]Moreover, some savings is motivated by simple desire to accumulate wealth or to enhance future income, and may therefore have no direct relationship to deficit spending at all. This saving and deficit spending are best regarded as quite distinct and separate actions (Goldsmith (1969).[22] This raises questions on: How could deficit-spending be financed at the moment of expenditure? In what forms can savings accumulate and be transferred to the deficit spender?.How can the deficit-spender and surplus unit (saver) in an economy be brought together or be reconciled in aggregate? The answers to these questions now bring us to the main functions of a financial system which include: conversion of financial claims to cash and maintaining confidence on the intermediation system which is not negotiable because it affects the general level of the economic activities. Therefore the principal role of the financial system in an economy is basically financial intermediation. Financial intermediation is therefore a process by which financial institutions bring together the activities of the deficit and surplus spenders, mobilizing savings from the surplus spender in the form of money deposits and then transfer the deposit in the form of credit or loans to deficit spenders who need these funds most for investment or productive uses in the economy. (Allen,

and Ndikumana, (1998)[4]. Put in another way, financial intermediation could be simply defined as financial process through which an intermediary as a person or institution provides services or activities that have to do with collection of savings and lending, thus standing in-between the ultimate lender (saver) and the borrower (investor) and in that wise matching the investment requirement of the borrower with the savings requirement of the lender. A financial intermediary is therefore a facilitator of financial transactions that take place within the financial system. It serves as mediator between the fund savers (the surplus unit) and the users (deficit unit) (Lemuel (2009) [38] and Rousseau & Wachtel, (1998) [49]

For financial intermediation to succeed, three qualities are essential. These are: cost, convenience and confidence. Cost refers to the transaction cost that the saver or borrower is made to bear in the process of his dealing with the intermediary. Convenience refers to the ease with which people transact business with the intermediary which include the formalities involved, simplicity of operation that must ensure that it does not require specialist knowledge or certain level of education to deal with an intermediary. The last is confidence which entails people having confidence in the intermediary.. The relative stability of foreign banks then made people to have more confidence in them and that partly, and perhaps substantially, explains the relative domination of the foreign banks in Nigeria, until the indigenization reform of 1976.(Rousseau & Wachtel, (1998)[49].

Economic growth

This is a key policy objective of any government and monetary policy is a major instrument for attainment of such objective. However, monetary policy is an aggregate (macroeconomic) phenomenon within which there are policy instruments including interest rates, money supply, exchange rates, inflation rates, credit control and others (Omotor, 2007). [46] Thus in addressing the pertinent issues in economic management, experts and economic planners have had to choose between or combine some of these instruments. Economic growth raises the general standard of living of the population as measured by per capita national income; makes many kinds of income distribution easier to achieve; enhances the time frame of accomplishing the basic necessities of man, like shelter, food, clothing etc, by a substantial majority of the populace. (Schumpeter, (1934)[52].

However, the concept of economic growth has not been quite easy to understand and likewise its measurements in real terms. This is because in most literature of economics, some authors have differentiated economic growth from the term “economic development” in different ways. Authors like To daro (1980)[59] argues that the mere increase in the aggregate level of goods and services produced in a country, tells nothing about the quality of life of a citizenry given the threats of global pollution, abysmal lop-sided distribution of aggregate income, environmental degradation, prevalence of chronic and deadly diseases and absence of freedom and justice. These authors believe that attention should be focused not merely on increase in aggregate output and income but also on the total quality and standard of living of the citizenry. Nevertheless, it is evident that there is yet no satisfactory measure of “quality of life” that can be applied to

quantitative measure of aggregate output and income, that would be acceptable to all and sundry that could stand the test of time. The apparent consensus suggests that economic growth refers to an increase in the aggregate level of output within a given time period in a country while economic development is seen as an increase in the aggregate level of output and incomes with due consideration given to the quality of life that hopefully takes into consideration the distribution of income, healthcare, environmental degradation, global pollution, freedom and justice, etc.

Generally, economic development is a process by which an economy experiences three main phenomena namely: growth in output, structural changes and institutional changes. If the three phenomena take place, it will lead to a rise in standard of living of the populace. Hence growth could be enjoyed by many economies but not all experience development. But for growth to be effectively and practically experienced, it should go with development.(Schumpeter, (1934).[52] For the purpose of this study, the term economic growth is used all through the text to describe the increase in aggregate output and services in an economy within a given period of time.

Theoretical Issues

The theory of financial intermediation was first formalized in the works of Goldsmith (1969), [22], Shaw (1973)[54] and Mckinnon (1973)[42]as seen in financial markets (capital and money markets) playing a pivotal role in economic development , attributing the difference in growth across countries to the quality and quantity of financial services provided by financial institutions. In Nigeria, Nwaogwugwo.(2008)[43]. Dabwor (2009)[14] supported this view in their studies of Stock market development and economic growth, a causal linkage. However, Robinson contrasted that "financial markets are essentially handmaidens to domestic industries, and responds passively to other factors that produce cross countries differences in growth. However, there is a general tendency for supply-side of finance to move along with the demand side of it. The same impulse within an economy, which sets investors on foot, make owners of wealth venturesome and when strong impulse to invest is threatened by lack of finance, devices are made to release it. Robinson (1952)[47]school of thought therefore believes that economic growth will bring about positive expansion on financial sector. Goldsmith (1969) [22]attributed the direct correlation between the real per capita GNP and financial development to positive effect that financial development has on encouraging more efficient use of the capital stock. In addition, process of growth has feedback effects on financial markets by creating incentives for further financial development.

Mckinnon (1973)[42] in his thesis argued that there is a complementary rerelationship between physical capital stock and money that reflected in money demanded. According to him the complementary relationship links the demand for money directly with the process of capital accumulation mainly because the conditions of money supply have first order impact on decision to save and invest. Theoretical literature on financial intermediation generally refers banks as intermediaries that mobilize deposits from the surplus unit of the economy and channel it to deficit units.(Lemuel (2009) [38]. According to him these institutions focus on short term banking system financial intermediation by mobilizing deposit from the public among other resources under the direct control of the regulatory authorities. The proponents of demand-

following hypothesis argued that economic growth is a causal factor for bank lending, not the reverse**.** Gurley & Shaw (1969)[27] argued that as the economy expands and grows, the increasing demand for financial services stimulates banks to provide more credit.

However, the proponents of supply-leading hypothesis are of the belief that bank lending is a veritable tool for attainment of economic growth and development. The hypothesis was originally credited to the works of Schumpeter (1934). Schumpeter strongly believed that efficient allocation of savings by means of identification and funding of entrepreneurs who invest such funds in innovation and production of goods and services, thus leading to economic growth. This view was supported by other scholars like McKinnon (1973), [42] Shaw (1973)[54], Fry (1988)[21], and Greenwood &Jovanic(1990)[25] and (Demetriades and Huseini (1996).[15]

Developments in Nigerian Banking Sector

The development of banking activities in Nigeria can be classified as free banking era, regulated banking era, deregulated banking era, consolidated banking era and post consolidated banking era (Somoye, 2008) [57]. The free banking era also known as pre-independence banking period marked the genesis of the development of banking activities in Nigeria and the era was before 1952. Two main features characterized the era. The first feature was the absence of any banking legislation as anyone could establish a banking company as long as he registered under the Companies Ordinance 1948. The second feature of the era was when five banks were established consisting of three biggest foreign banks and two biggest indigenous banks. However, it was reported that between 1947 and 1952, 22 banks were registered in Nigeria (Somoye, 2008) [57].

Banking operation actually started in Nigeria with establishment of African Banking Corporation (ABC) in 1892 and two years later, the Bank of British West Africa (BBWA) (now First Bank of Nigeria Plc) was established to take over ABC. BBWA remained the only bank operating in Nigeria until Barclays Bank (now Union Bank Plc) joined in 1912. The third foreign bank to operate in Nigeria was British and French Bank Ltd (now UBA Plc) which was established in 1949. The first indigenous bank in Nigeria was the National Bank of Nigeria, which was established in 1933. The second successful indigenous bank was African Continental Bank Ltd, which started operation in 1947 (Alabede, 2012) [3].

Following the collapse of some banks in the free banking era, it became obvious that there was need for legislation for the control of the Nigerian banking sector. As a result, the first banking legislation in Nigeria was passed in 1952.This marked the beginning of regulated era in the Nigerian banking sector(Diego, (2003) [18]. Under the 1952 Banking Ordinance, before a bank was allowed to operate in Nigeria, it must have a banking licence and must have a minimum paid up capital stipulated by the Ordinance. In 1958, Central Bank of Nigeria (CBN) was established through CBN Ordinance of 1958 to supervise Nigerian banking sector and under 1958 Ordinance, the authorized capital of foreign banks was raised to £400,000 (Alabede, 2012) [3].The Banking Ordinance of 1952 together with its several amendments was replaced with the Banking Decree of 1969.

With the introduction of Structural Adjustment Programme (SAP) in 1986, the Nigeria banking sector was deregulated. As a result of the deregulation, the number of banks operating in Nigeria increased from 55 to 125 together with 275 branches of the people's bank and 1,000 community bank (CBN, 1993) [13]. During the deregulation era, Banking Decree of 1969 was repealed while Bank and Other Financial Institution Act of 1991 (BOFIA) was promulgated. The new Act raised the minimum capital of banks to N50 million for commercial banks and N40 million for merchant banks in 1991 and this was further increased to N2 billion in 2001 (Alabede, 2012).[3]

In 2004, CBN embarked on major reform in the Nigerian banking sector with a 13-point agenda and this marked the commencement of the consolidation era. The objective of the reform was to consolidate the Nigerian banks and increase their capital (Somoye, 2008) [57]. As part of the reform, the minimum capital for Nigerian banks was reviewed from N2 billion to N25 billion in July 2004 with effect from 31 December 2005. Before the consolidation era, 89 commercial banks were operating in Nigeria but the number reduced to 25 after consolidation. The grave conditions in the Nigerian banking sector under the crisis provoked the post consolidation reform tagged "The Project Alpha Initiative" in 2009 (Sanusi, 2012).[51]

As part of the reform, CBN carried out special examination into operation of Nigerian banks with specific reference to the liquidity, capital adequacy and c

orporate governance in 2008. The results indicate that 10 of the 24 banks were in grave condition (the 10 banks in grave condition included Afri bank, Equatorial Trust Bank, Fin Bank, Intercontinental Bank, Oceanic International Bank, Platinum-Habib Bank, Spring Bank, Sterling Bank, Union Bank, Unity Bank and Wema Bank) (Alabede, 2012)[3] .

To save the sector, CBN moved in and replaced chief executive and directors (CEOs) of 8 banks (the chief executive officers removed from office were that of Afribank, Equatorial Trust Bank, Fin Bank, Intercontinental Bank, Oceanic International Bank, Platinum-Habib Bank, Spring Bank, Sterling Bank and Union Bank) with more competent hands and bailed out 9 banks with N620billion public money (Sanusi, 2010) [51]. Similarly, in order to reduce the problem of liquidity in the banking sector, CBN established the Assets Management Corporation of Nigeria (AMCON)**.**In 2011, AMCON acquired 1.7 trillion naira nonperforming assets of some Nigerian banks in Nigeria. Furthermore, the CBN reviewed and replaced the universal banking model which was adopted in Nigeria in 2001 with a new model which make banks to focus on core banking business (Sanusi,2012)[51].

Under the new model, banking licenses are categorized into three: commercial banking (regional, national or international); merchant (investment) banking and specialized banking which could be microfinance (unit, state or national) mortgage (state or nation) or non-interest banking (CBN, 2011 [9]; Sanusi, 2012)[51]. In 2011, after 3 of the 8 banks that were bailed out with the public money failed to show commitment towards recapitalization, their banking licenses were revoked and NDIC formed three new banks to take over their assets and liabilities (the 3 banks that failed to recapitalize before the CBN dateline were Afri bank,

Platinum-Habib Bank and Spring Bank; while Main Street Bank Ltd, Keystone Bank Ltd and Enterprise Bank Ltd were new banks established to take up their operations respectively) (CBN, 2011)[9].

The remaining bailed banks were recapitalized through merger/acquisition and injection of capital by core investors (Equatorial Trust Bank, FinBank, Intercontinental Bank and Oceanic Bank International entered into merger/acquisition agreement with Access Bank, Eco Bank Plc, FCMB and (DMBs) operating in Nigeria reduced to 20 with 5,810 branches at end of 2011 (Alabede, 2012**)[3].**

The various reforms in the Nigerian banking sector had impact on the performance of the sectors. For example; the 2004 reform indicates that capital

Adequacy rate increased from 13.16% in 2004 to 21.25% in 2005 while liquidity improved from 50.44 % to 60.69% and the ratio of nonperforming debt to total credit dropped from 23% to 20% in the same period (NDIC, 2005).

Furthermore, because of the impact of the reform, all the 25 DMBs operating in Nigeria in 2005 were in sound condition. The 2009 reform also shows great impact on performance of the banks and save the sector from collapse as a result of the adverse effect of the global financial crisis. Evidence available shows that the banks are recovering from the shock of the crisis as the number of DMBs in sound healthy condition increased from 13 in 2009 to 19 in 2011.(Sanni, (2010)[50]. This is reflected in the performance indicators: capital adequacy rate moved from 10.24% in 2009 to 17.9% in 2011, liquidity increased from 44.17 % to 69.1% and the ratio of nonperforming debt to total credit declined from 32.8 to 5% respectively (NDIC, 2010; CBN, 2011)[9]. However, this short lived impressive performance was partly driven by the activity of AMCON. The AMCON took over N1.7 trillion nonperforming risk assets of the DMBs in 2011 (CBN, FSR2015)[10].

In view of the foregoing, Nigeria is considered a veritable case for investigating the link between bank financial intermediation and economic growth, for at least two reasons. Firstly, since the reform measures of Structural Adjustment Programmed are meant to strengthen the banking system to adequately play its intermediary role between the surplus and deficit unit, there is need to assess the trend and efficacy of the measures of banks' ability to perform their intermediary goals. Secondly, since the ultimate aim of developments/reforms in the banking sector is to boost economic activities, itis pertinent to determine the level of impact of bank financial intermediation on the real economy.

Empirical Reviewed Studies

There is scanty empirical work on banking financial intermediation. However, a good number of studies have shown that there is relationship between financial development and economic growth.US as a case study, established that the rate of real per capita income growth increased significantly as result of financial development. This was attributed to quality of bank lending but not the volume.

Odedokun (1998)[44] in his study, using a cross country data from 71 less developing countries (LDCs), for a period 1960 to1980, using OLS and Generalized least square, technique observed that even though financial intermediation promotes growth, the growth promoting effect are more pronounced in low income countries.

Fritz (1984) [20] examined the direction of causation between economic development and financial intermediation. Using data from the Philippines, the study discovered that financial intermediation brings about economic development at the early stage of economic growth/development and the direction of causation was reversed at a later stage. This assertion is supported by the work of Rousseau and Wachtel (1998) [49], who examined the links between the intensity of financial intermediation and the economic performance of five industrialized countries. Tang, {2003)[58] also discovered that intermediation played an important role in the rapid industrial transformations of those countries

Levine , Loayza and Beck (2000)[39] in their study using Generalized Method of Moment technique and a cross country data, confirmed a strong positive relationship between economic growth and endogenous indicators of financial intermediation of banks. They however noted that countries with high priority for creditors protection, strong will to enforce contracts, and unambiguous accounting standard, have the potentials for developed financial intermediation. Hao (2006)[28] in his study, using specific data from China and Generalized Method of Moments model confirmed that financial intermediation indicators has a causal effect and positive impact on growth through the household savings mobilization and substitution of loans for state budget appropriation was not significant. The study revealed those banks' activities as dominant indicators of financial development are significant but have negative relationship with growth. This was attributed to inefficiency in loans distribution and self-financing ability of the provincial government.

Acha (2011) [1] in his study on "Does Bank financial intermediation cause growth in developing economies: Nigerian experience",(1980 -2008) using savings and credit as financial intermediation indicators confirmed absence of causal relation from savings ratio and private sector credit to economic growth. He attributed it to the economy's developmental stage, characterized by infrastructural decay and inefficiency in utilization of mobilized deposits.

Shittu (2012)[55] . Examined the impact of financial intermediation on economic growth in Nigeria using Nigerian time series from 1971 to 2010 using unit root test, co-integration and error correction model and confirmed significant impact on economic growth in Nigeria.

Agada and Osuji (2013) [2] in their study on financial intermediation and growth in Nigeria for a period spanning 1981 to 2011, using bank aggregate time/savings deposit, aggregate credit(loans and advances) established positive relationship in the long run with economic growth and inverse relationship in the short run which coincided with the period of global financial crises.

METHODOLOGICAL ISSUES

Estimation Technique and Procedure:

The study applied modern econometric analytical techniques – OLS regression, unit root test, Co-integration test and Granger Causality test for the data analysis, with time series (annual) extracted from Central Bank of Nigeria (CBN) publications, including National Bureau of Statistics (NBS), spanning through 1987 to 2015.

The level series OLS regression was applied at first stage to test for short run relationship between financial intermediation indicators (explanatory variables) and real GDP as the dependent variable. However, being conscious of the characteristics of the time series, we were careful about the properties of the stochastic error terms that might have entered the model which could give rise to spurious regression. Consequently, a further rigorous investigation was carried out using the Augmented Dickey Fuller (ADF) (1981) [16] unit root test.

Unit Root Unit Test

Sometimes, time series data is subject to accidental or auto/serial correlation. This is informed by the basic concepts in time series econometrics which states that empirical work on OLS multiple regression analysis for time series data, implicitly assumes that the underlying time series is stationary. But sometimes auto or serial correlation may result, due to the fact that underlying time series is non-stationary. This may give rise to spurious regression and it misleads the analyst (Granger and New bold,(1974)[24] and (Gujarati and Porters, (2009) [26].Consequently, prior to testing for the direction of causality, the first step is to check the stationary property of the variables used in the model.

In line with recent development in time series modeling, unit root test is basically required to establish whether the time series have a stationary trend, and if non-stationary, to show the number of times the variable has to be differenced (screened) to arrive at a stationary. This could form the strategy and reduce (if not eliminate) the risk of spurious regression, Engel and Granger (1987) [17] and Granger and New bold (1974) [24]. Usually the unit root test (using first or series of orders of differencing) fringes the variable to stationary.

A time series is stationary if it means, variance and auto-variance are not time-dependent. The ADF (1981) unit root test was applied. The assumption is that the time series used for this research have unit root stochastic process represented as follows:

$$\Delta Yt = \beta o + \beta 1t + \text{ɜ}Yt\text{-}1 + \ldots \Sigma \acute{\alpha} i\, \Delta Yt - i + \text{ɛ}t \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (3.1)$$

where Yt represents each single time series (RGDP,BCRP, SAR ABD, INF , MLR) under investigation and β the parameter coefficient, ɛt is a pure white noise error term, άi and ɜ are coefficients of the lag terms and m is the length of the lag terms which is automatically selected using Akaike information criteria. If 'ɜ' is 0, then there is unit root, but if it is less than zero (negative), the null hypothesis is rejected and the alternative that the series is stationary is

accepted where (RGDP) is Real Gross Domestic Product, (BCRP) Bank Credit to Private sector, (SAR) Aggregate Savings as ratio to GDP (ABDD) Aggregate Bank Deposit, (INF). Inflation rate and (MLR) Maximum Lending rate.

Co-integration Test

Capitalizing on the likelihood of the co-movement in their behavior which implies that there is possibility that the variables trend together towards stable long run equilibrium, Johansen (1991)[33] co-integration test was applied. The objective of this test is to determine if there is existence of long-run equilibrium relationships among variables used in this research. As pointed out by Engle and Granger (1987)[17] the concept of co-integration creates a link between integrated process and the concept of steady state of equilibrium. Co-integration occurs when two or more time series variables which themselves may be non-stationary, drift together at roughly the same time. This implies that a linear combination of the variables is stationary. The null hypothesis is that the variables are not co-'integrated. Based on this, we specify the full information maximum likelihood based on the vector autoregressive equation (VAR) Johansen (1991) [33], as mathematically stated below:

$y_t = a_1 y_{t-1} + \ldots + a_k y_{t-k} + \acute{o} x_t + \mu_t$ ....(3.2)

where: yt is a k-vector of 'differenced' stationary time series, 'k' being the lag length for the first order differenced variables, /(1), 'xt' is a vector of deterministic variables, 'a' is a constant, ǿ are the coefficient of the deterministic variables and μ_t is a vector of innovations or error term and it is known as the adjustment parameters in the vector error correction model, while "t" indicates time dependent. Using this method we estimated the equation in an unrestricted form and then tested whether we can reject the restriction implied by the residual rank of the co-integration.

Applying the maximal non-zero eigen-values and the trace test of the maximum likelihood ratio, with reference to the level of significance, the number of Co-integration relations or equations could be determined which indicate the existence of long run relationship but if there is no existence of equation, it implies no long relationship. Johansen 1991[33].

Granger Causality Test

This test is important in determining if it is RGDP or financial intermediation indicators are significant in either enhancing or deteriorating the rate of each others' performance in Nigeria. Although correlation analysis deals with dependence of one variable on the other, it does not imply causation in the real sense. (Zellner, 1979). [60]A statistical relationship in itself cannot logically imply causation.(Kendal and Stuat, (1961)[36]. Consequently, the Granger Causality test which measures both causation and direction was performed on the variables. The test is based on Vector error correction model (VECM) which suggest that while the past can cause or predict the future, the future cannot predict or cause the past..(Granger (1969)[23]. The test enables us to determine whether lagged information on GDP as well as that of the selected financial intermediation indicators variables, have any statistical significant role in explaining the effect of financial intermediation on Nigeria's real Gross Domestic Product. The test was run with an optimal lag of two.

Thus, according to Granger, (1969)[23] variable X Granger causes variable Y if the past values of X can be used to predict Y more accurately than simply using the past values of Y. The test involves estimating a pair of regression as expressed below using Inflation (INF) rate and Real Gross Domestic Product as the variables to be tested as an example:

$$RGDPt = ao + \sum_{i=1}^{n} \acute{a}i INFt\text{-}i + \sum_{j=1}^{n} \beta j \ln RGDPt\text{–}j + \mu t1 \quad \ldots\ldots\ldots (3.3)$$

$$INF_t = bo + \sum_{i=1}^{n} \phi i \ln RGDP.t - i + \sum_{j=1}^{n} \varphi j FXRt\text{–}j + \mu t2 \ldots\ldots\ldots (3.4)$$

Equation 3.3 postulates that current RGDP is related to a number of inflation rate lags (INFt–i) or past values of INF as well as its own past values (RGDPt–j) where ά and β are their coefficients, i and j indicate length of time lags while μt1 is the error term and 'n' is the number of lag terms included. RGDPt is the current value of Real GDP. It is assumed that the error terms μt1 and μt2 are uncorrelated.

In like manner, equation (3.4) postulates that current inflation rate (INFt) is related to a number of Real GDP lags ((RGDPt–i) or past values of RGDP as well as its own past values INFt–j , where n is the number of lag terms. This process applies to each parameter used in the study. If all 'i's of the coefficients of Inflation (άi) are statistically significant but that of RGDP (βj) are not, then inflation causes RGDP. If reverse is the case, the RGDP causes inflation. However when both coefficients are significant there is existence of bilateral relationship. Bilateral, unilateral and independent relationship can be established. The null hypothesis is that there is no causal relationship.

Bilateral causal relation exists when both null hypotheses are rejected indicating that both coefficients are statistically and significantly different from zero in both regression. This implies a feed-back. Unilateral causal relation exists when we accept one of the null hypotheses and reject the other without a feed back. Lastly, independent causal relation exist when we accept both null hypotheses (Gujarati,2009)[26].The F-statistic is used for the joint test of hypothesis.

Model Specification /Analytical Framework

Key indicators selected as financial intermediation indicators in this study include: aggregate Bank Deposit, Bank credit to private sector, aggregate Savings ratio to GDP, inflation rate and Maximum lending rate. In specifying the effect of financial intermediation on the real economy of Nigeria, it is assumed that increase in the availability and quality of financial resources will lead to higher level of growth in the economy. (Romer 1994). (Iwedi and Igbanigbo, (2015)[31].

The transmission channel concept of the monetary policy proposes that changes in the quanta and associate prices of loan able funds (interest rate) made by Deposit Money Banks, could be used as a measure of the impact of the monetary policy on the economy (Lissovolik, 2003) [40]. Specifically, to reduce inflation via reduction in liquidity within the system, will lead to a fall in the quantum of loans made by deposit money banks and a rise in the price of loans (interest rate) is expected to lead to a fall in investment, which ultimately causes the volume of aggregate output to decline. Consequently, high interest rate is expected to have an inverse relationship with RGDP. Savings implies the pegging of current consumption at a level lower than current income could sustain. Increase in savings will lead to increased deposit base and increase in credit delivery which will spur up investment and productive capacity and so it is expected to have positive relationship with growth..The specification could be mathematically written in both functional and linear form and the natural-log form as stated below makes the analyses less tedious:

RGDP= f(BCRP, SAR, ABD, INF, MLR, μ) … (3.5)

$\Delta \ln RGDP_t = b_0 + b1\ln BCRPt + b2\ln SARt + b_3\ln ABDt - b4\ln INFt - b6\ln MLRt + \mu$ .. (3.6)

Where:

RGDP = Real Economic growth
SAR = Aggregate savings ratio to GPD
ABD= Aggregate Bank Deposit

BCRP = Bank Credit to Private Sector

INF = Inflation Rate
MLR = Maximum Lending Rate
u = Error term

Theoretical priori expectation: b1, b2, and b3,> 0; b4 and b5< 0.

Hence, the above estimable long-run linear equation 3.5 posits that the real economic growth (RGDP) in Nigeria is a function of (SAR), (ABD). (BCRP), (INF), (MLR), which are the financial intermediation indicators and explanatory variables. Real Economic growth (RGDP) is the dependent variable, 't' indicates time dependent and μt is an unobservable component that is assumed "white noise"

PRESENTATION AND ANALYSIS OF DATA

Introduction

This section presents the data used by the study, the empirical results and discussions on the relevant findings from the model developed and tested in this study. The findings and analysis are based on the outcome of the estimation results of the model specifications for RGDP and Granger Causality test.

In determining the models adequacy, the broad features of the diagnostic tests such as the coefficient of determination (R-squared), the estimated t-statistic ratios and their probabilities, the signs of the estimated regression coefficients in relation to their prior expectations, the Durbin Watson (D.W) statistics, the F-statistics are taken into consideration. If these diagnostic tests are reasonably good, the models can be accepted as good fit models and should be regarded as a fair representation of the reality of the study.

Consequently, the choice of the reported estimation results was based on overall plausibility of the theoretical expectations. The signs and significance of the individual regression coefficients, t-statistics and their probabilities indicate the level of significance for quick identification of the variables that are statistically significant. The overall goodness of fit as measured by the coefficient of determination (R-squared) and the F-statistics and their probabilities measure the level of aggregate significance, suggesting collectively that all the variables are statistically important and have not only individually but also collectively made significant impact or not on the dependent variable. (Gujarati (2009).) In addition, the existence or absence of first-order autocorrelation for the behavioral equations of the models is measured by D.W. test statistics (since the models include the lag of the dependent variables). The results and the relevant analysis are presented below using the appropriate statistics.

RGDP = f(INF, ABD, BCRP,MLR, SAR)

Dependent Variable: LNGDP
Method: Least Squares
Date: 06/01/18 Time: 07:03
Sample(adjusted): 19872015
Included observations: 29 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INF.	-0.079865	0.020213	-3.95117	0.0005
lnABD	0.029183	0.016061	1.817004	0.0835
lnBCRP	-0.089915	0.023241	-3.868809	0.0010

MLR	-0.008069	0.002492	-3.237961	0.0039
lnSAR	0.038213	0.829460	0.046213	0.4306
C	10.68752	0.382888	27.91293	0.0000

R-squared	0.873264	Mean dependent var	13.91639
Adjusted R-squared	0.849198	S.D. dependent var	2.180303
S.E. of regression	0.215856	Akaike info criterion	0.000544
Sum squared resid	0.978474	Schwarz criterion	0.377729
Log likelihood	7.992113	F-statistic	402.0874
Durbin-Watson stat	1.387723	Prob(F-statistic)	0.000000

Source: E-View Econometric Computer Software Application, Version 6

Analysis of the Result

Table 4.1 above present's data estimated to establish the effect of financial intermediation indicators on real economic growth (RGDP) in Nigeria for the period 1987 to 2015. This period reflects the Post Structural Adjustment Programmed (SAP) reform period which banks are expected to perform better. The Ordinary Least Square (OLS) level series result shows that the coefficient of determination (R-square indicates that 87.3 per cent of the variations in real economic growth (RGDP) are determined by the combined effect of changes in the explanatory variables (financial intermediation indicators) during the period under review.. This suggests a strong explanatory power, implying that financial intermediation influences the economic growth process and investment in the real sector of the economy. The F-statistics (302.87) confirms further that the explanatory variables are jointly and statistically important in explaining the variation processes in the economic growth. The selected explanatory variables are rightly signed in accordance with the priori expectations except, credit to private sector with negative sign. Credit to private sector, inflation and maximum lending rates is inversely and significantly related to RGDP. This implies that bank credit to private sector does not contribute effectively to the growth of the economy despite the size of the intermediaries. High inflation rate and high interest rate (MLR) constitute a risk and therefore a constraint to the benefits derivable from financial intermediation in Nigeria.(Robinson, (1952).Savings is positively but insignificantly related to RGPD indicating the poor savings habit of the greater populace of Nigeria due to poor financial inclusion and abject poverty. The study further reveals that one percent decrease in credit allocation to private sector causes 08.9 percent decrease in real economic growth, other variables being held constant.. The sub-optimal performance of financial intermediation in Nigeria could be traced to many factors including persistent inflationary pressures, low financial inclusion and literacy, the fragility of the financial system which has exposed the banking industries to

financial distress, a run on the banks and loss of public confidence in the industries despite the size of the intermediaries. The study gives support to Hao ()

Generally, the best linear unbiased estimator (BLUE) property of the OLS regression requires that the residual or the error term should have a zero mean, constant variance and zero autocorrelation and also assumes normal distribution. But using times series data, we are careful about the properties of stochastic error terms that might have entered the models which might give rise to spurious regression.(Gujarati, (2009).

Consequently, despite these results, a cursory look at the diagnostics tests suggests a possible spurious regression, with the low (Durban Watson) DW-statistics and very high coefficient of determination (R^2) in model in table 4.1. This indicates that there may be some degree of time- dependence in the level of the series which could lead to a misleading result. Therefore, there was need for more rigorous tests which justifies looking at the inherent properties or characteristics of these time series data by testing for stationary or otherwise, of these variables, using conventional Augmented Dickey Fuller (1981) unit root test.

TABLE 4.2

Summary of Unit Root Test Result Data Presentation

Variables	At Level		First Order Difference		Remarks
	ADF Test Stat	Order of Integration	ADF Test Stat	Order of Integration	
(INF)	-2.187927	-	-3.226143	/ (1)	**
ln(RGDP)	-1.860782	-	-3.999801	/ (1)	***
ln(BCRP)	-2.254731	-	-4.170888	/ (1)	***
(MLR)	-2.118511	-	-6.966956	/(1)	***
lnSAR lnABD	-2.259895 -2.221351	- -	-5.900253 -6.567142	/(1) /(1)	*** **
	Critical Value:		Critical Value:		

Note:	1% = -3.6852 5% = -2.9705 10% = -2.6242	1% = -3.6959 5% = -2.9750 10% = -2.6265

* = 10% level of Significance ** = 5 % level of significance
*** = 1 % level of significance.
Source: E-VIEW Econometric Computer Software application, Version 6

Analysis of Unit Root Test Results

In view of the suspected time-dependent feature of the data used for this research as shown on table 4.1, the ADF unit root test was applied separately on all the variables (financial intermediation indicators and GDP) at ordinary and first order levels of differencing. The objective of this test is to establish whether the time series employed have a stationary trend. The summary of the unit root test results as presented on Table 4.2 above shows that the null hypothesis of non-stationary exists at level but only became stationary at first differencing., implying that the variables are not stationary at level but could only be rejected after the first order / (1) differencing, for all the selected variables at one and 5 per cent levels of significance. This is evidenced by ADF test result at the ordinary level, which shows that the computed negative ADF test statistics for each variable is less than the Mackinnon critical values (Mackinnon, (1991)[42], in absolute term.

Table 4.3 Summary of Johansen Co-integration Test Result

Sample: 1988-2015
Included observations: 28
Test Assumption: linear deterministic Trend in the data
Series: Ln RGDP, ln SAR, INF, ln ABD, MLR, BCRP
Lags interval: 1 to 1

Eigenvalue	**Likelihood**	**5 Present**	**1 Percent**	**Hypothesis**
0.990932	243.9036	94.16	103.16	None **
0.821018	189.5467	68.49	76.09	At most 1 **
0.760823	131.38554	47.31	54.48	At most 2 **
0.646831	79.47555	29.76	35.71	At most 3**

0.315628	11.96182	15.53	20.08	At most 4
0.046811	1.342749	3.67	6.69	At most 5

*(**) denotes rejection of the hypothesis at 1% (5%) significance level

* = 10% level of Significance ** = 5 % level of significance
L.R. test indicates four (4) co-integrating equation(s) at 5% significance level
Source: E-View Econometric computer software application, version 6.

*** = 1 % level of significance.
Source: E-VIEW Econometric Computer Software application, Version 6

Analysis of Co-integration Tests Results

The objective of this test is to determine if there is existence of long-run equilibrium relationships among the variables used in this study. The concept of co-integration as pointed out by Engle and Granger, (1987) [17] creates a link between integrated process and the concept of steady state of equilibrium. The concept as earlier stated implies that although two or more different time series may not themselves, be stationary, some linear combinations of these series may indeed be stationary with generalization of more than two series which implies that the combination does not have a stochastic trend. based on the outcome of the unit root test which confirms that all the variables are 'difference' stationary at first order /(1) level, a co-integration test was applied using the Johansen (1991)[33]method in order to confirm if the variables are co-integrated or not; in other words, if there is a long-run relationship.

The null hypotheses are that there are no co-integrating relationships among the variables employed. The decision rule is that the computed likelihood ratios should be greater than the critical values for co-integration relation to exist. The eigen value must also be non-zero. Based on these rules, the number of the co-integrating relations in the model was determined. The summary of the results

Are presented on table 4.3.

The result shows that there are four (4) co-integration relations at 5 percent significant level. This implies that the test statistics rejected the null hypothesis that the variables are not co-integrated and accepted the alternative hypothesis that they are. The presence of co-integrating vector equations in this model therefore implies that there is a long-run relationship at both one and five per cent level of significance among RGDP SAR, BCRP, ABD, INF and MLR variables..

Table 4.4

Summary of Pair wise Granger Causality Test Results

SAMPLE: 1987 – 2015

DATE: 04/02/2018 TIME: 11: 45
LAGS = 2
Observation = 29 (after Adjusting Endpoints)

NULL HYPOTHESIS	F-STATISTICS	PROBABILITY
Ln(INF,) does not Granger cause ln(MLRI)	**3.66705**	**0.03567***
Ln(MLR) does not Granger cause ln(INF,)	**3.83942**	**0.03344***
Ln(RGDP))does not Granger cause ln(SAR) Ln(SAR) does not Granger cause ln(RGDP.)	**6.49734**	**0.00580***
	2.28160	**0.12476**
Ln(RGDP) does not Granger cause ln(ABD)	**8.05879**	**0.00223***
Ln(ABD) does not Granger cause ln(RGDP)	**4.83583**	**0.02457***
Ln(GDP) does not Granger cause ln(BCRP)	**0.41861**	**0.68288**
Ln(BCRP) does not Granger cause ln(GDP)	**0.34915**	**0.70896**
Ln(RGDP) does not Granger cause ln(MLR)	**0.27782**	**0.75994**
Ln(MLR) does not Granger cause ln(GDP)	**2.14136**	**0.14132**
Ln(INF.) does not Granger cause ln(GDP)	**5.26011**	**0.01022***
Ln(GDP) does not Granger cause ln(INF.)	**1.25144**	**0.30567**

At 5 per cent significant level

SOURCE: E-View econometric computer software application version 6.

Summary and analysis of Pair wise Granger Causality Test Result

This test, presented on table 4.4 above, is important in determining if it is financial intermediation or real economic growth is significant in either enhancing or deteriorating the rate of each other's performance in Nigeria. Although correlation regression analysis deals with dependence of one variable on the other, it does not imply causation in the real sense. (Kendall and Stuart, (1961)[36] and Zellner, (1979)[60]. A statistical relationship in itself cannot logically imply causation. Consequently, the Granger Causality test (1969) [23] which measures both causation and direction was performed on the variables employed.

The test was run with an optimal lag of two and the essence is to establish the direction of causality between financial intermediation indicators and real economic growth. Establishing which variable causes or promotes the other will enhance economic planning especially in determining the relative weights to be assigned to these key macroeconomic variables. This can reduce the problem of imbalance encountered while assigning weights to each of these key macroeconomic variables in achieving monetary policy objective for sustainable economic growth. This test also enables us to determine whether lagged information on financial intermediation indicators as well as that of RGDP, has any statistical significant role in explaining the effect of banks' financial intermediation on real economic growth in Nigeria.

The relevant statistical tests used in explaining the Granger causality test are the F-statistics and their probability tests. The major interest of this study is to establish the direction of causality between financial intermediation indicators and real economic growth but however, additional analyses are made between other selected indicators.

Our null hypothesis postulates that the current RGDP is not related to the past values of financial intermediation as well as past values of its indicators. That is, RGDP does not granger cause financial intermediation while the second pair postulates that the current financial intermediation indicators are not related to past values of RGDP as well as past values of its indicators (i.e. they do not granger cause RGDP).

The results alternate between the cases of bilateral, unilateral and independence, depending on the lag length allowed. We reject the null hypothesis if the F-statistics is significant or accept based on the non-statistical significance of the F-statistics and the probability values, in which case the lagged values of financial intermediation indicators or RGDP terms belong or do not belong in the regression.

Firstly, as shown on table 4.4 the result shows that unilateral causality runs significantly from inflation to real economic growth (RGDP) with the F-statistic and probability value of 5.26011 and 0.0102 respectively. Therefore the null hypothesis that inflation does not granger cause GDP is rejected at 5% level of significance which implies that causality runs from inflation to GDP with no evidence of feedback. This shows that Gross domestic product is determined by the rate of inflation in Nigeria without a feed -back and so a constraint to benefits derivable from intermediation. It also implies that inflation predominantly retard economic growth through its

adverse effect on the selected financial intermediation indicators; MLR and credit to private sector. Likewise unilateral causality runs from RGDP to savings ratio without a feedback indicating that economic growth determines savings in Nigeria while savings does not. Furthermore, the relationship between maximum lending rate and inflation rate show significant bilateral causality, indicating that the two determine each other. Bilateral causality also runs from GDP to aggregate bank deposit (ABD) and vice versa. This means that their causality relationships are reciprocal implying that both variables determine each other.

Finally, independent causality exists between RGDP and banks' credit to private sector (BCRP) with the F-statistics being insignificant. This implies that none of them could granger cause each other.

In summary, the above Granger causality result is inconclusive since there are unidirectional, bilateral and independent relationships among some of the economic variables used in the study. However, it agrees with the findings of Kara and Pentecost (2000)[34], Konya (2004) [37] as well as Diego (2003)[18] which show that causality tests are mixed and inconclusive depending on the variables used.

Conclusion and Recommendation

This study examined the long run as well as the causal and direction of relationship between Banks financial intermediation and real economic growth in Nigeria. The overall import of the findings and analysis imply that there is a long run relationship between real economic growth (RGDP) and financial intermediation (proxies by its indicators) but however the level of financial intermediation in Nigeria is low and so, adversely influences economic growth. The empirical results reveal that banks in Nigeria exhibit a low level of activities and a weak capacity to fund the private sector of the Nigerian economy. Another conclusion that can be drawn from the findings of this study is that one percent decrease in banks' credit allocation to private sectors causes a reduction of 8.9 percent in the growth process of the Nigerian real economy after one year. (See table 4.1)

Furthermore, high interest rate and inflation rates are constraints to the benefits derivable from financial intermediation as they impact negatively on investment. Scanty savings mobilized as result of poor savings habit and abject poverty of the majority of the Nigerian populace are not effectively utilized to aid productive capacity .

The study therefore recommends that government should strive to maintain low and sustainable price stability, economic efficiency driven by infrastructural development and enhanced technological capabilities to boost private sector productive capacity. Optimal interest rate (lending) rate should reflect the overall internal rate of return in the productive sector with due attention to market fundamentals to encourage private sector credit. Structural reforms by the government like financial inclusion and others that will encourage the economic active poor to save and invest should be intensified. Finally, stability shapes the overall investment climate and determines the degree of confidence investors have in an economy. It aids planning but macroeconomic and social instability is quite undesirable and it

results to adverse effect on growth. Therefore there is need to restore the confidence of the existing and prospective investors by restoring stability within the economy in order to enhance economic growth.

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