Bank Credits: An Aid to Economic Growth In Nigeria

Onuorah, Anastasia Chi-Chi
Department of Accounting, Banking and Finance
Faculty of Management Sciences
Delta State University, Asaba Campus, Delta State, Nigeria
Tel: 08035008100, E-mail: anastasiaonuorah@yahoo.com
&
Ozurumba Benedict Anayochukwu.
Department of Financial Management Technology, School of Management Technology (FMT)
Federal University of Technology, PMB1526 Nigeria. Owerri, Imo State
Tel: 08033262035 Email: OzurumbaBenedict@yahoo.com

Abstract

This paper explores the necessity of bank credit and economic growth of Nigeria, the paper examines the relationship between bank credit and economic growth in Nigeria over the period under review. However the problem associated with bank credit facility is the constraint and regulation imposed by CBN on the percentage of credit to be given to the entrepreneurs. The study used Secondary data from banks credit on sectorial distribution such as production, General commerce, services and others were spread across the period 1980- 2011. Various statistical technique such as Diagnostic test, Unit root, co-integration Var model and Casuality test are statistically used to test the stability function, stationary properties, variable relationship and casuality effect of the variable and the result revealed that the time series properties of the variables are stationary and co integrated at most 1 with at least 2 co integrating equation. The study also showed that all the bank credit measures such as Total Production Bank Credits (TPTBKC), Total General Commerce Bank Credits (TGCBKC), Total Services Bank Credit (TSCBKC), and Other Banks Credit (OTHBKC) did not granger cause GDP instead GDP exerted influencing factor on them. More so, short run relationship exited between bank credit measures and GDP as sustainable key player in the economy It therefore recommended total supervision and over haul of the banks credit activities towards encouraging Investors in Nigeria for economic growth.

Key words: Bank credits, Economic Growth, Sectorial Distribution, Production, General Commerce.

1.0 Introduction

Bank credit has been the responsibility of CBN in order to manage our monetary system. Bank credit is one of the instruments of monetary policy that can be used for economic system.

The traditional role of banks in a financial system are collection of deposits, lending of money to customers, acting of referees and agents on behalf of c, issue of travellers cheque and honouring of cheques, financing and discounting bills of exchanges in other to create liquidity for promotion for Economic Growth.

Though, banks are generally allowed to play these roles, but there are associated problems of using bank credits by CBN for Economic Growth. This leads to maximum control to entrepreneurs by CBN on the amount of credit to be given to them,. Again, the legal reserve requirements imposed by the central banks' ability to create credit because of cash constraint and regulation imcposed by the financial authorities, then CBN came with a guideline of credit classification on the economy into production, general commerce, services and other sectors in the economy which made many banks not to extend a lot of credit because of the riskiness associated to prudential guidelines

When there is leakage of cash out of the banking system the amount of money created will be reduced by the multiplier of the leakages, Therefore, for banks to aid the economy for development, the co-operation of the banking public must be the willingness to bank and borrow backed up by appropriated collateral to enable banks to lend to the general public. Some borrowers may not be able to afford stringent collateral demanded by the banking system, thereby discouraging genuine borrowers in favour of dubious borrowers wishing to borrow for entrepreneurial activities. Base on the premise above, the objective of the study examines the possible impact and relationship between bank credit and Economic Growth.

The economy, through the sectoral distribution. The study covers a period of 32 years (1980-2011) drawn across from four (4) Sectorial distributions, viz: Production, General commerce, services and others.

2. Literature Review

Over the years, According to Nzotta (2005) Banks did not substantially provide the necessary assistance to raise entrepreneurial business because of the high level of risks associated with lending to small business. However in 2001, Nzotta (2005), submitted that the bankers committee agreed to set aside 10% of the profit before taxes of each bank to finance entrepreneurship. Bank accepts deposit from customers and transferring funds from the surplus sector to the deficit sector of the economy. Although Nzotta (2005), posits that they are subject to certain regulations by the regulatory authorities, financial intermediaries still determine the rules for allocating funds and as such they play a significant role in determining the type of investment activities, the level of job creation and the distribution of income to the sectors, Gross (2001), Financial authorities determine the allocation of capital by diminishing but not totally eliminating the level of risk through information gathering and special contract design.

  This implies that banks make use of the imperfect nature of the market to determine who to allocate funds to in essence, one of the activities of banks financial institution involves intermediating between the surplus and the deficit section of the economy. The availability of credit function positively allows the function of this role and is also important for the growth of the economy.

Nzotta (2005) further postulated that a small and medium scale enterprises equity and investment funds was set up for this purpose. Also, that the monetary authorities also set up the National credit risk fund to provide additional quarantee for credit accommodation to small and medium enterprises available that shows that the level of Financial Accommodation to SME's has increased with the introduction of the equity investment fund and It was severally accepted., The proponents of the hypothesis believe that the activities of bank credit serve as a useful tool for increasing the productive capacity of the economy,   submitted by Osiegbu (2005) that bank credit affect the level of money supply, thus, the monetary authorities seek to influence the volume and costs of credit and thus moderate inflationary trends in the economy. This is premised on the fact that excessive credit expansion affects money supply which ultimately affects the level of inflation and aggregate economic performance.

2.2 Bank Credit and Economic Growth

Several studies have adopted various measures of bank credits. For example, De serres et al (2006) and Levin (2005) have discussed the relationship between bank credit and economic growth. Economic growth is defined as positive change in the national income or the level of production of goods and services by a country over a certain period of time. This is often measured in terms of the level of production of goods and services by a country over a certain period of time. This is often measured in terms of the level of production within the economy,

Other measures of growth ranges from real per capital GDP, the rate of physical capital accumulation etc., king & Levin 1993) Allen and Ndikumama 1998. According to Bencivenca & Smith (1991), Consumption goods in the economy are produced from capital and labour. An entrepreneur who lend credit from the bank used for capital invested in the business, uses it to employ labour in order to produce goods & services for Economic Growth.

Bank credit can be sub divided into two: credit to the private sector and credit to the public sector. This has been empirically proven that credit to the public sector is weak in generating growth within the economy because they are prone to waste and politically motivated programmes which may not deliver the best result to the populace. Studies from Beck et al 2005; Levine (2002); Odedokun 1998; King and Levine 1993). Boyreau-Debray (2003) found a negative correlation between growth and bank credit debt due to the fact that Chinese banks were mobilizing and pouring funds into the declining parts of the Chinese State Enterprise, and hence the system has not been growth promoting. Demirguc-Kunt & Levine (2008) emphasized the importance of focusing on allocation of credit to the private sector as opposed to all bank intermediation. Similarly, Beck et al (2005) also observe private credit as a good predictor of economic growth while the recent study by Crowley (2008) also supported this position. A previous submission in this paper is that there is little information available about the activities of the financial industry and how they affect the economy where they operate. In essence, Onuorah (2011) identified some   factors that drive credit growth are largely not researched hence the contribution of the well acclaimed private sector credit to the growth of the economy may not be easily measured.

  Some group of scholars on their review came up with the definition of Economic growth   as a positive change in the national income or the level of production of goods and services by a country over a certain period of time. This is often measured in terms of the level of production within the economy. Other possible measures include total factor productivity, factors of production such as technological change, human capital termed the Schumpeterian approach, other measures of growth ranges from real per capita GDP; the rate of physical capital accumulation etc (Odedokun 1998; King & Levine 1993; Allen & Ndikumama 1998). According to Bencivenga & Smith (1991), consumption

goods in the economy are produced from capital and labour. An entrepreneur who owns the capital invested in the business uses it to employ labour in order to produce goods. This result in the production function made up of labour and capital which can be used in estimation. There remain divergent views on the issue of causality. Alternative explanation has been empirically offered for the relationship that exists between financial intermediation and growth based on the direction of causation. In essence, financial intermediation can be a causal factor for economic growth. According to the seminal work by Bayoumi & Melander (2008), a 2½% reduction in overall credit causes a reduction in the level of GDP by around 1½%. Similarly, findings have also revealed that economic growth can also be a causal factor for financial development. This often occurs when the level of development within the economy is responsible for prompting the growth of the financial system Situations with bi-directional causality have also been observed too. One such study was by Demetriades & Hussein (1996) who studied 13 countries and observed all three situations described above. They concluded that the issue of causality is country specific rather than general as earlier postulated. Several studies, (Odedokun, 1998; Ghirmay, 2004) lend support to this postulation.

The above discovery has made it rather important to examine the relationship between banks and the economy with a view to determining the direction of causality that exists amongst them. This study will help us to critically assess whether banks through their role of intermediation can be relied on to stimulate the growth of the Nigerian economy. With some research work reporting reverse causality in their study, it will be necessary to also examine the direction of causality for this study relative to Nigeria. It will also assist us to determine the factors that accelerate the growth of financial intermediation. To analyse the relationship, this study adopts various methods ranging from bi-variate model as proposed by Ghirmay (2004) in his study of financial development and economic growth in 16 Sub-Saharan Africa countries to a multivariate model proposed by Tang (2003) in his study of bank lending and economic growth in Malaysia. This study will fill this gap by analyzing the contribution of private sector credit to the growth of the economy and also determine the factors that are economically significant for credit growth.

And also determine the direction of causality between real output and the financial sector.

2.3 Empirical Studies

Empirical studies have agreed that there exists a linear relationship between bank credit and economic growth. In order to examine the relationship that exists between credit and sustenance economy growth, previous studies have used several analytical approaches. These include cross country growth regression used by King & Levine (1993); panel techniques used by Rioja & Valev (2003) and time-series used by Demetriades & Hussein (1996). These approaches Demetriades & Andrianova (2003) summarised that 'It is difficult to draw out any reliable policy implications from cross-country or panel regressions, and those conclusions that we may draw from time-series studies for individual countries cannot be generalised'. In essence, time-series is more applicable for single country analysis; hence this study intends to use time-series method of estimation following the methods used by Ghirmay (2004), Tang (2003), Demetriades & Hussein (1996). This according to Demetriades & Andrianova (2003) allow the use of appropriate statistical procedures, such as cointegration to test for the long run relationships; they also allow the use of statistical procedures that can shed light on the causality between two or more variables in both the long run and the short run. Though not without its limitation, it is often considered an appropriate tool in single country analysis.

The study by Demetriades & Hussein (1996) observed that both Engle/Granger and Johansen based ECM are useful in determining the direction of causality between variables in a series. Persons using the second technique because the Wald tests based on the levels VAR approach are, at best, only valid asymptotically (Toda & Phillips, 1993). It was further explained by Davis and Madsen (2008) who show that Granger causality does not give proof on causality, but is only useful in assessing whether there is a consistent pattern of shifts in one variable preceding the other. It is mainly useful in establishing grounds for further investigation. Therefore, this study will use the Engle Granger and Johansen based ECM in establishing the direction of causality. The determinants of credit growth have also been critically discussed in literature as earlier stated. What is very clear is that, there is no universal model for dealing with this issue. According to Rioja & Valev (2003), what appears not to have statistical significance in one area may have a positive significant effect in other areas, even with varying degrees of significance. This study uses the multivariate model developed by Crowley (2008) to determine this relationship. The model adopts a cross country regression approach to determine the factors that are crucial in driving credit growth within the Middle East, Mediterranean North Africa and Southwest Former Soviet Union countries of Central Asia

3 Methodology

The study used data sourced secondarily from the statistical bulletin and CBN annual reports 2012. Various statistical techniques are adopted to test the properties of the variables and the stability of the model structure and functional

form. Unit root, Johansen Co integration, VAR model and Causality test are used to investigation the stationarity properties of the variable, relationship, model estimation and causal effect of the entrepreneur indicators on the economic growth and development in Nigeria. The time series data are processed electronically with the use of econometric software E-views 4.0.

3.2 Model Specification

This study proposes the following model to study the role of banks credits in sustaining entrepreneurship development in Nigeria.

$$f\left(GDP, TPTBKC, TGCBKC, TSCBKC, OTHBKC\right)$$ 1

$$GDP_{t+1} = \alpha_0 + \alpha_1 TPTBKC_{t-1} + \alpha_2 TDCBKC_{t-1} + \alpha_3 TGCBKC_{t-1} + \alpha_4 OTHBKC_{t-1} + Var(-1) + \varepsilon_t$$

2

$$DGDP_{t+1} \rightarrow DY_i$$

3

Where:GDP: Gross Domestic Product, TPTBKC: Total Production Bank Credits, TGCBKC: Total General Commerce

Bank Credits, TSCBKC: Total Services Bank Credit, OTHBKC: Other Bank Credits. The aprior expectation shows

that the indicators are all greater than zero, that is, $\alpha_i > 0$ and α_0 is constant. The equation specifically address the

model function in equation 1, the VAR estimation model representation is represented by equation 2 and 3 symbolizes

causal relationship.

4.0 Empirical Analysis and Result
4.1 Diagnostic Test Analysis of the model

The empirical analysis of the data shows the following diagnostic results showing the behaviour of the data that satisfy the regression model characteristics.

Normality Test

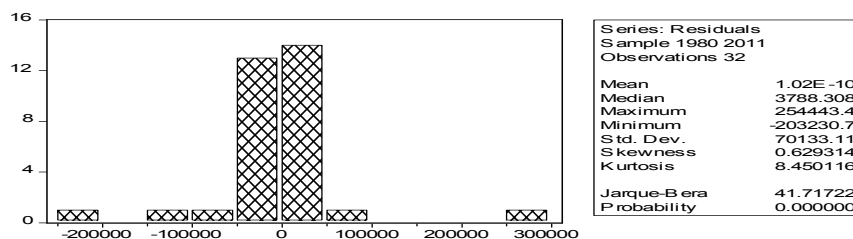| Series: Residuals	
Sample 1980 2011	
Observations 32	
Mean	1.02E-10
Median	3788.308
Maximum	254443.4
Minimum	-203230.7
Std. Dev.	70133.11
Skewness	0.629314
Kurtosis	8.450116
Jarque-Bera	41.71722
Probability	0.000000

Fig.1

The figure above illustrated that there is strong evidence that the time series residual variable data are normally distributed as the probability of JB-statistic is 0.0000 which is absolutely less than the critical value of 0.05 hence the null hypothesis (HO) is rejected in favour of the alternative (H1) that the residual of the distribution of the model is normally distributed.

Table1a. Serial Correlation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.119638	Probability	0.887747
Obs*R-squared	0.303369	Probability	0.859260

Table1b. Heteroskedasticity Test
ARCH Test:

F-statistic	0.346211	Probability	0.710457
Obs*R-squared	0.750121	Probability	0.687248

Table1c. Stability Test
Ramsey RESET Test:

F-statistic	8.510717	Probability	0.000132
Log likelihood ratio	34.44650	Probability	0.000002

Sig. if P<0.05 at 5% Critical value.
Source: E-Views 4.0

The probability associated with the F-statistics in table 1a of LM Test is greater than the critical value at 5% level, the null hypothesis (H_o) is accepted that the residual of the model fit is not the same, ie not serially correlated, and we concluded that there is no presence of serial correlation and the model is significant.

In table 1b, the variance of the residual is homoscedasticity in nature that is, it possesses equal variance as the P-value of the F-stat of the ARCH Test is greater than 0.05 and we accept H_o which is significant.

In table 1c, the probability of f-stat. of stability test is 0.0001 which is very low compare to the critical value at 5%, Ho is rejected in favour of the alternative that the model adopted is structurally stable for predication and forecasting.

Table 2 Unit Root Test Results
   a. **GDP**
At Order 2

ADF Test Statistic	-4.622627	1%	Critical Value*	-3.6959
		5%	Critical Value	-2.9750
		10%	Critical Value	-2.6265

*MacKinnon critical values for rejection of hypothesis of a unit root.

   b. **TPTBKC**
At Order 1

ADF Test Statistic	-3.463670	1%	Critical Value*	-3.6852
		5%	Critical Value	-2.9705
		10%	Critical Value	-2.6242

*MacKinnon critical values for rejection of hypothesis of a unit root.

   c. **TGCBKC**
At Order 1

ADF Test Statistic	-3.795904	1%	Critical Value*	-3.6852
		5%	Critical Value	-2.9705
		10%	Critical Value	-2.6242

*MacKinnon critical values for rejection of hypothesis of a unit root.

   d. **TSCBKC**

At Order 1

ADF Test Statistic	-3.672346	1%	Critical Value*	-3.6852
		5%	Critical Value	-2.9705
		10%	Critical Value	-2.6242

*MacKinnon critical values for rejection of hypothesis of a unit root.

e. OTHBKC

At Level

ADF Test Statistic	4.189897	1%	Critical Value*	-3.6752
		5%	Critical Value	-2.9665
		10%	Critical Value	-2.6220

*MacKinnon critical values for rejection of hypothesis of a unit root.

Sig. if ADF> Critical value at 5%.
Source: E-Views 4.0

From the table 2a to 2e, the empirical result of the unit root test for stationary of time series property of variables is shown. The criterion is that the augmented Dickey Fuller results must be strictly greater than the critical at certain level of significance to confirm the presence of stationarity pattern of variables. The unit root values for the variables of understudy reveal that the variable TPTBKC, TGCBKC and TSCBKC have no unit root at order 1. GDP has no unit root at order 2 and OTHBKC has no unit root at level. This is because the ADF values of the variables are all greater than the critical value at 5%. (see tables above). We therefore test for co integration using Johansen approach at 1% level of significance.

Table3. Co integration Result

Date: 02/07/13   Time: 23:58
Sample: 1980 2011
Included observations: 31

Series: GDP TPTBKC TGCBKC OTHBKC
Lags interval: No lags

Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized No. of CE(s)
0.857685	102.1780	47.21	54.46	None **
0.632416	41.73686	29.68	35.65	At most 1 **
0.286721	10.71196	15.41	20.04	At most 2
0.007635	0.237588	3.76	6.65	At most 3

*(**) denotes rejection of the hypothesis at 5%(1%) significance level L.R. test indicates 2 cointegrating equation(s) at 5% significance level
Source: E-Views 4.0

To test the co integrating strength of the variables, Johansen technique is adopted. The table 4 above reveals that there is co integration among the variables: GDP, TPTBKC, TGCBKC, TSCBKC and OTHBKC. The Likelihood Ratio value is 41.74 which is greater than critical of 29.68 at 5% level at most 1 indicating at least 2 co integrating equations. Since the unit root proves stationarity at various level and order, we apply VAR as most suitable model for estimation of the relationship among variables of interest.

Table 4: VAR Model

Date: 02/08/13   Time: 01:57
Sample(adjusted): 1982 2011
Included observations: 30 after
adjusting endpoints
Standard errors & t-statistics in
parentheses

	GDP
GDP(-1)	1.035751
	(0.09381)
	(11.0410)
GDP(-2)	0.017049
	(0.08298)
	(0.20545)
C	-6802.481
	(12450.8)
	(-0.54635)
TPTBKC	0.011450
	(0.01550)
	(0.73890)
TGCBKC	0.76088
	(0.19648)
	(0.38725)
TSCBKC	-0.022896
	(0.01253)
	(-1.82772)
OTHBKC	-0.001909
	(0.00171)
	(-1.11958)
R-squared	0.995277
Adj. R-squared	0.994045
Sum sq. resids	4.90E+09
S.E. equation	14588.81
F-statistic	807.7482
Log likelihood	-326.2229
Akaike AK	22.21486
Schwarz SC	22.54181
Mean dependent	378359.7
S.D. dependent	189043.9

Source: E-Views 4.0

Var estimation result output in table 4 shows that GDP is statistically significant in the current year based on the strength of the entrepreneurship indicators as the value of 11.04 is 5 times greater than the value of the rule of thumb 2.0. However, the economic growth shows no trace record of statistical significance in the previous year which could suggest possibility of short run relationship. The model is adjudge better model fit as the values of Ak and SC are relatively low and almost near value of 22.0.

Estimation Proc:
============================
LS 1 2 GDP   @ C TPTBKC TGCBKC TSCBKC OTHBKC

VAR Model:
============================
GDP = C(1,1)*GDP(-1) + C(1,2)*GDP(-2) + C(1,3) + C(1,4)*TPTBKC + C(1,5)*TGCBKC + C(1,6)*TSCBKC + C(1,7)*OTHBKC

VAR Model - Substituted Coefficients:
============================
GDP = 1.035750546*GDP(-1) + 0.01704921837*GDP(-2) - 6802.480948 + 0.01144997221*TPTBKC + 0.07608776967*TGCBKC - 0.02289637386*TSCBKC - 0.001909356003*OTHBKC

Source: E-Views 4.0

Investigating the bank credits in sustainable entrepreneurship development in Nigeria for economic growth, the estimated value 0.011of Total Production Bank Credits (TPTBKC) implies direct relationship between GDP and TPTBKC, a unit increase in TPTBKC will result in about 1.1% increase in GDP. 0.076 is an estimate value ofTotal General Commerce Bank Credits (TGCBKC) which means that direct relationship exists between GDP and TGCBKC. A change in TGCBKC will bring about 7.6% rise in the value of GDP in Nigeria. More so, -0.022 and -0.001 are estimated value of Total Services Bank Credit (TSCBKC) and Other Bank Credits (OTHBKC) respectively. There is an inverse relationship among the Total Services Bank Credit (TSCBKC) and Other Bank Credits (OTHBKC) and GDP. A change in Total Services Bank Credit (TSCBKC) and Other Bank Credits (OTHBKC) will result in disproportional to GDP by 2.2% and 0.1% respectively. Based on the rule of thumb, the exogenous variables of banks credit measure of entrepreneur sustainability in Nigeria are not statistically significant to GDP as the t-statistic values are less than 2.0.

Table 5: Granger Causality

Pairwise Granger Causality Tests
Date: 02/08/13   Time: 00:01
Sample: 1980 2011
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Probability
TPTBKC does not Granger Cause GDP	30	0.27458	0.76215
GDP does not Granger Cause TPTBKC		9.58658	0.00081
TGCBKC does not Granger Cause GDP	30	0.19919	0.82068
GDP does not Granger Cause TGCBKC		7.08177	0.00366
OTHBKC does not Granger Cause GDP	30	0.09608	0.90873
GDP does not Granger Cause OTHBKC		7.37825	0.00303

To categorically investigate the impact level of banks credit measures Economic Growth in Nigeria, Granger causality approach is used. The result of the table 5 above explicitly shown that the Gross Domestic Product (GDP) granger causes Total Production Bank Credits (TPTBKC), Total General Commerce Bank Credits (TGCBKC), TSCBKC and Other Bank Credits (OTHBKC). However, Total Production Bank Credits (TPTBKC), Total General Commerce Bank Credits (TGCBKC), and Other Bank Credits (OTHBKC) do not jointly granger cause GDP. This is evidence from the value of the probability of F-statistic being greater than the critical value at 5%.

5.0 Conclusion

The study has clearly shown that some bank credit measures such as Total Production Bank Credits (TPTBKC), Total General Commerce Bank Credits (TGCBKC) have positive effect on the   development in the economic growth of Nigeria. That the bank credit indicators do not granger cause GDP instead GDP exact influencing factor on Total Production Bank Credits (TPTBKC), Total General Commerce Bank Credits (TGCBKC), Total Services Bank Credits TSCBKC and Other Bank Credits (OTHBKC). However, Total Production Bank Credits (TPTBKC), Total General

Commerce Bank Credits (TGCBKC). On the whole, empirical result reveals that there is short run relationship between bank credit measures and GDP key player in the development of the economy.

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