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Money, Banking and Financial Deepening: the Nigerian Experience

Babarinde S.B, Ajala O.A and Suberu O.J*

Department of Banking and Finance, the Polytechnic Ibadan, P.O box 20258 University of Ibadan, Ibadan, Nigeria.

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Abstract

The word money is derived from the Latin word "Moneta" which was the surname of the Roman goddess of Juno in whose temple at Rome money was coined. The origin of money is lost in antiquity. Even the primitive man had some sort of money. The type of money in every age depended on the nature of its likelihood. In a hunting society, the skins of wild animals were used as money. The pastoral society used livestock whereas the agricultural society used grains and food stuff as money and in modern period, currency notes, metal coins amongst other things were used as money .There has been various opinions on the real definition of money but in general terms money can be conceptualized generally as what we use to make payment for our debt, goods, services, products and general assets. Unlike gold or silver money, modern money has no real value it is just paper and ink with no intrinsic value, but everyone wants more of it why because money as an asset perform three very important functions in an economy such as Medium of exchange, Unit of Account, and Store of Value Bank exist to create money and to provide safety for money over the year. It has been a difficult task to find an acceptable definition of a bank or a banker, but the Banking and Other Financial Institution Act (BOFIA) 1991 has provided an insight into the definition of Bank as a company duly incorporated in Nigeria and hold a valid banking license issued under the Act. This paper attempts to examine the impact of Money Development in Nigeria. It is structured into 5 sections: Section one is dedicated to the Introduction while section two discussed the literature section three Data Analysis and model specification section four findings and results, and the final section discussed the summary conclusion and recommendation.

Keywords: Moneta**,** Money, Banking, Currency, Economic Policy, Financial Deepening.

INTRODUCTION

The Federal Republic of Nigeria occupies an area of 923,774 square kilometer between 3 and 15^0E longitude and $4^0$and 14^Nlatiitude on the West Coast of Africa. It is bounded westward by the People Republic of Benin, eastward by the Cameroonian Republic, Northward by the Niger and Chad republic and Southward by the country of Guinea on the Atlantic seaboard. It became independent of British Rule on October 1st 1960.

Nigeria is the eighth most populous country in the world and by far the most populous in Africa. Current estimates put the population at over 180 Million with an annual growth rate of two and half per cent. The population is composed of over 200 ethnic groups the major one's being the Yoruba, Ibo, Edo, Itsekiri, Ibibio and Ijaw in the Southern part of the country and the Hausa, Fulani Nupe, Tiv, Ebira and Kanuri to the North. Before the advent of the European and Arab trade in Nigeria, trade within the country was carried out by the use of rudimentary monetary goods such as Ivory, ornaments and cowries when the Portuguese – the first European to come to West Africa-established trade relationship with the Ancient Kingdom of Benin, this popularize the use of two main currencies, the Cowry and the Manila which were first introduced into West Africa by Arab traders from North Africa.

The British came later to break the Portuguese monopoly of trade with West-Africa. The extension of European trading enterprises and British rule into West

Corresponding Author Email: un_va@yahoo.com

Africa encouraged the use of currency, which greatly facilitated exchange and diminished the use of Barter system. The process was further accelerated by the introduction of Banking at the initiative of G.W Neville and Sir Alfred Lewis Jones in establishing the Bank of British West Africa (BBWA). By organizing the importation and exportation of currency and providing Banking services. BBWA made a notable contribution towards the development of a monetary economy in Nigeria.

The process of monetizing the economy was carried a stage further by the unification of the currency system undertaken by colonial administration through the agency of a currency Board. The West African Currency Board (WACB) introduced the West African pound to replace the varieties of circulating medium of exchange in these territories. The West African countries of Nigeria, Ghana, Sierra Leone and Gambia before and during their contact with European countries had used various commodities such as Gold dust, cowry shells, manila, iron bars and brass rods as money. With the introduction of British silver coinage these commodity currencies gradually ceased to serve as medium of exchange. Some of them like cowry shells and manila persisted in circulation in various parts of Nigeria until 1949 when they were demonetized by the government.

Following the Report of the Emmott Committee in 1911, the West African Currency Board was established by the Secretary of State for the Colonies in 1912. The Board was charged with the responsibilities to:

1). Provide and control the supply of currency to the West African colonies and protectorates and to ensure that the currency is maintained on a sound basis;
2). Make necessary arrangements for the minting of any special coins and the issuance of notes authorized for circulation in the four constituent territories;
3). Facilitate the movement of funds between London and the West African currency area by providing conversion and transfer services at a maximum rate of three-quarters of one per cent;
4). Invest its funds in sterling securities of the government of any part of His Majesty's dominions or in such other manner as the Secretary of State for the Colonies may approve.
5). Pay with the approval of the Colonial Secretary any sum which it thinks is proper out of its income as a contribution to the revenue of the government in the currency area.

From the foregoing it is clear that the WACB was purely an automatic and passive exchange mechanism, and not a currency authority. The Board's capacity to maintain convertibility of the two currencies –the sterling and the West African currency – depended on the availability of adequate stock of each of the two currencies to the exchange. The deficiencies of the WACB system had become quite glaring to African nationalists in the four territories as they struggled for political freedom for their various countries. With the attainment of political independence in Ghana (1957), Nigeria (1960), Sierra Leone (1961), and Gambia (1963), the WACB system was abolished in turn and an appropriate share of its assets and liabilities absorbed by the Central Bank that emerged in the wake of political independence in each of the four territories. This abolition sealed the circulation of a common currency which Nigeria shared with Ghana, Sierra Leone and Gambia. This paved the way for the establishment of a proper monetary authority the Central Bank Nigeria to foster and nurture the development of a sound monetary and financial system. The Central Bank of Nigeria (CBN) was established by an Act of Parliament in March, 1958 and commenced operations in July, 1959. (Uzoaga, 1981).

As the country approached the date of political independence in 1960, moves were made to position it for economic independence and stability. Among these moves were the establishment of a Bank of issue in 1959, and the introduction of a new currency for the country. Thus, in 1959, the Bank of issue (the Central Bank of Nigeria) had issued different denominations of the Nigerian currency, subject to political and economic mood of the country at the time. For example, on July 1, 1959, the Central Bank of Nigeria (CBN) issued the first indigenous Nigerian currency in the denomination of 5 shillings, 10 shillings and one pound notes (CBN, 2015). With the issuance of the new Nigerian currency, the WACB notes and coins that had hitherto circulated in the country began the process of withdrawal as legal tender from the Nigerian economy (CBN 2015). This changeover was, however, completed in December 1962. As at the time of complete changeover, a total of €65 million notes and coins of the WACB was redeemed and its equivalent in sterling paid at par by the WACB to the CBN (Loynes 1957).

Following the attainment of republican status by the country in 1963, a political decision was taken to replace the existing currency notes. To this end, a decision to remove all the stocks of the new notes to a branch of the CBN and all the sub-centre was taken in June 1964, and implementation began on July 1, 1965. At the end of the exchange exercise in June 1966, a total of ₤68.5 million was redeemed (CBN 2015). Although, there was no change in the denominational value of the currency, the new currency outfits showed some changes in colors. However, the old and new currencies still bore pictures of Nigeria's main export commodity is cocoa, groundnuts and palm produce.

In 1968, Independent Nigeria went through another currency exchange in compliance with Central Bank (Currency Conversion) Decree No. 51 of December 30, 1967. Since, the time of the Decree, the country was engaged in a civil war that lasted between 1967 and 1970. It is obvious to say that the currency conversion of 1968 was intended:

i).To ensure the success of the trade embargo on the secessionist (Biafran) areas;
ii).To forestall the use of un-issued currency notes that were burgled from the CBN vaults in Enugu, Port Harcourt and Benin (the war ravaged areas(.

iii). To frustrate the flourishing illegal trafficking in the Nigerian currency known to be going on in some foreign countries at the time. (CBN 2015)

At the end of the currency conversion exercise, a total of ₤86.5 million made up of ₤66.5 million and ₤20 million ex-gratia award for the three states (East Central, South Eastern and River States) affected by the Nigerian Civil War, was said to have been redeemed (CBN 2015).

The 1970s experienced a significant increase in the volume of economic activities in Nigeria. With the phenomenal growth in the volume of commercial transactions, coupled with oil boom of that decade, the CBN introduced the twenty naira note (N20) in 1977. Characteristic of this denomination is that it bears the portrait of one of Nigeria's most vibrant head of state, General Muritala Ramat Mohammed (1939 – 1976). For close to twenty years, the N20 note remained the highest denomination and most dominant in the Nigerian economy. In 1984, the Nigerian military government of General Muhammadu Buhari in an attempt to legitimize is interruption of the democratic process through a military *coupd`etat* directed the Central Bank of Nigeria to cause a change to the color of Nigeria currency.

In 1991, the economy further experienced some re-designing of the Nigerian notes and coins. This followed the recommendations of Thomas De La Rue Limited (now De La Rue Cash System Limited) Committee – a firm appointed in 1989 by the CBN to undertake a comprehensive assessment of the Nigerian currency. In its report, the firm had the re-designing of the entire currency including N10, N20, N50, N100, N500 notes as well as 10k, 50k, N1, N5 and N10 coins (Ikuseedun, 2006). These recommendations were, however, not fully implemented as the apex bank managed to introduce only the N50 currency note in 1991. In respect of the coins, the CBN approved the introduction of a series of 1k, 10k, 25k, 50k and N1 coins (Ikuseedun, 2006).

It is believed that the monetary reforms of this period, particularly the introduction of the N50 currency note were carried out in response to increase public and private spending, resulting, perhaps, from Nigeria's excess oil revenue of the period (Nnadi, 2000). But the re-designing of the coins was received with uneasy calm by certain sections of the Nigerian Society. Some Nigerians were inclined to believe that the demonetization of the smaller denominations was meant to depreciate the value of the currency. There were also reported incidents of people amassing the coins and melting same for ear-rings, as one writer argued:

> *"This particular reform heralded the erosion of coins in Nigeria and precipitated its waning use. Consequently, the N5 note became minimum currency in every transaction" (Nnadi, 2000)"*

The trend in currency reforms and management in Nigeria continued in 1999 with the introduction of the N100 banknote. This currency unit bears the portrait of Chief Obafemi Awolowo, Premier of Western Region of Nigeria in the 1950s, and leader of the Opposition Party at the Federal level in the 960s, in the front view. In its back view is a picture of the Zuma Rock. Again, in November 2000 and April 2001, the CBN issued N200 and N500, notes respectively. The former bears the portrait of Alhaji, Sir Ahmadu Bello, and former Premier of the defunct Northern Region. On the back view of the currency denomination are pictures of herds of cattle, agricultural products and the Nigerian Coat of Arms. The N500 denomination bears, in its front view, the portrait of Chief (Dr) Nnamdi Azikwe, Premier of the defunct Eastern Region, and first Nigerian President between 1963 and 1966. It bears the Nigerian Coat of Arms, on the reverse side. It also bears the Naira sign on both sides of the note.

The last currency denomination introduced in Nigeria is the N1000 currency note. This note was introduced on Wednesday, October 12, 2005, by the Central Bank of Nigeria. Peculiar to this currency is that it bears, in front view, portraits of the past CBN Governor: Alhaji Aliyu Mai-Bornu (governor, 1963-1969) and Dr. Clement Isong (Governor, 1967-1975). There is also a gold foil (kinegram), on the front of the note with the Nigerian Coat of Arms and numeral 1000. Also peculiar to this denomination is that it is devoid of the Naira sign (Kajo 2005; Ozoemena 2005). However, like other post-independent Nigerian currency notes, the N1000 currency note bears the title CENTRAL BANK OF NIGERIA, on the top left corner of the front with two tiny lines underlining it. Generally, the Country's bank of issue has described these peculiar features of the current highest currency denomination as security measures to ease recognition of a genuine note.

Review of Related Literature on Money, Monetary Policy, Banking, and Financial Deepening

Banks exists to provide safe keeping of money to create money. Over the years it has been a difficult task to find acceptable definitions of a Bank or a Banker. Several attempts have been made to offer a comprehensive and acceptable definition. Starting from the time of J W Gilbart, he defined a banker as a dealer in capital, or more appropriately, a dealer in money. Gilbart regarded banks as intermediate parties between the borrower and the lender (Iganiga, 1998). This definition emphasizes the two traditional function of a bank i.e. the mobilization of deposits and the granting of loans and advances. But in recent time banks business has been expanded considerably and as a result Gilbart's definition cannot be regarded as complete comprehensive.

The Banks and Other Financial Institutions Act (1991) as amended like every other Banking legislation before it does not give a vivid definition of Banks or Banking in Nigeria. What it does is to stipulate that: No person shall carry on any banking business in Nigeria except it is a company duly incorporated in Nigeria and holds a valid banking license issued under this following activities:

i). The business of receiving money from outside sources

as deposit irrespective of the payment of interest.
ii). The granting of loan, acceptance of credit or purchase of bills, toque and sales of securities.
iii). The purchase and sales of securities on behalf of customers. (Isedu, 2001).

This definition fits better into the modern day role of banks in the economy, because the definition goes beyond mere collection of depositor's fund. The banks be it central, clearing, merchant, saving or whatever form, pursue similar goals (Umole, 1985). They contribute significantly to achieve the stated macro-economic objective of economic transformation. Transformation in the economy implies a movement from a particular level of development (Todaro, 1977). Rapid transformation of an economy depends on the available resources, manpower and capital. Capital is defined as a factor of production process, and therefore capital is often regarded as the nucleus of economic development in any nation. Capital accumulation in any economy depends on the roles of the bank which include the following: Offering Liquidity, Payment of Service, Lending function, International trade services, Currency transaction, Performance bond services etc.

Evolution of the Nigerian Banking System

The Nigerian financial system may be defined as the family of rules and regulations, and the congeries of financial arrangements, institutions, agents and the mechanism whereby they relate to each other within the financial sector and with the rest of the world. (Okigbo,1981). In other words, the Nigerian financial system encompasses the entire regulatory and operating institutions, including the financial markets and instruments involved in the process of inter-meditation. Within the past two centuries, the system has gone through rapid transformation and expansion, both in terms of the numbers of institutions and the scope and variety of services offered.

The institution operating within the financial system can be classified into two: the banking and non-banking financial institutions. The Nigerian banking system since 1892, when the first banking institutions commenced operations to date, has had its own share of the turbulence, just as it has also enjoyed its period of boom. The need to maintain safety, soundness and stability in the system at the time made it quite pertinent to have a regulator-The Central Bank of Nigeria-in the sector.
Between 1892 and present day, Nigeria's banking system has gone through six stages in its evolutionary process. [Babarinde and Ajala, 2013]

Free Banking Era: 1892-1951

It was so-called because there was a complete absence of laws guiding the establishment and running of banks. During this period, establishment of banks was not related to capacity of the economy to effectively absorb the sharp growth in financial assets. Consequently, most of the banks were hurriedly established and they all went into voluntary liquidation with the same rapidity (Babarinde and Ajala, 2013). Most of those that failed during the period were indigenous banks and were characterized by inadequate capita, fraudulent practices, rapid and indiscriminate expansion, imprudent credit appraisal and administration, lack of proper accounting standard and record keeping and bad management.

Pre-Central Banking/Banking Boom Era: 1952-1958

It was first period during which attempts were made at regulating the banking system. Thus, it also coincided with the period when the 1952 Banking Ordinance was enacted. The ordinance provided for licensing requirements as well as procedures and standards for the conduct of banking business. The major success of this ordinance were the limitation of banking business to establishment holding valid licenses; prevention of the establishment of unviable banks; and the introduction of more orderly commercial banking practices. This however did not prevent the collapse of badly managed banks. (Babarinde and Ajala 2013).

The Era of Banking Regulation: 1959-1985

The third stage was the era of consolidated growth following the establishment of the CBN. This era witnessed the registration of cooperative banks by state governments to cater for the teaming cooperative societies. More foreign banks also emerged between 1960 and 1975. The era also witnessed increase activities in government securities. Shortly after its establishment by the 1958 Act, the CBN made efforts at strengthening the securities market. This culminated in the introduction of some short-term government debt instruments in 1960 to supplement Commercial Papers that were already in the market. In 1962, the call money scheme was introduced to aid banks liquidity management. Treasury certificates were introduced in 1968 while Certificate of Deposit came on stream in 1975. Bankers' Unit Fund and Stabilization Securities came forth in 1976. It was also during the period that CBN facilitated the emergence of the securities markets and instruments as well as the promotion of development banks. In 1960, the Lagos Stock Exchange was established, and reconstituted into Nigerian Stock Exchange in 1977. The Nigerian financial system retained these essential characteristics up till 1985 when the global economic development environment forced deregulation on the system.

The period also witnessed a more intensive intervention by the public sector in financial sector, which took a form of direct credit, strict control of interest rates, and sustained increase in the paid-up capital of new banks. From this period upward, although the policy objectives were sound banking practices to protect customers, the control instrument became rather restrictive. For example, interest rates on bank deposits and loans were administratively controlled to give preferential treatment to certain priority sectors such as agriculture, manufacturing, mining and so on; direct and selective credit controls were imposed on the size of lending to private sector; minimum proportion of available credit was allocated to certain sectors which needed a substantial amount of credit.

The Era of Deregulation (1986-1993)

The world ‘Deregulation’ does not connote absence of regulatory bodies or lack of laws and order within the system. The period, 1986 to 1993, although described as the period of deregulation ended up with so many regulations aimed at correcting distortions caused by regulatory controls. This is necessary because in order to change the old rules of the game, new ones have to be put in place, hence the new regulations. In 1986, Nigeria witnessed the introduction of Structural Adjustment Programme (SAP), which was designed to alter the structure and operational mechanism of the financial system among other objectives. The foreign exchange market and interest rate structure was put at the mercy of demand and supply, that is, market-determined rate. There was a mad rush for bank licensing because of unorthodox dealings due to the wide margin between the official rate and parallel market rate of foreign exchange.

The Nigeria Deposit Insurance Corporation (NDIC) was set up by Decree 22 of 1988 to ensure the deposit liabilities of licensed banks provide financial and technical assistance to the banks and contribute to the quest for a safe and sound banking environment in Nigeria. The Central Bank of Nigeria Decree 24 and Banks and Other Financial Institution Decree (BOFID) 25 both of 1991 amended by Decree 3 and 4 of 1997 respectively, were enacted to replace the Banking Act of 1969 as amended. They were meant to improve the level of banking operation.

The National Economic Reconstruction Fund (NERFUND) was established through Decree 2 of 1989 and Bureau-De Change was also established in 1989 to provide access to credit and foreign exchange by small and medium enterprises; while the Nigerian Export and Import Bank (NEXIM) was set up in 1991 to promote the export of non-oil products by providing credit and risk bearing facilities.

In February 1988, the total number of banks operating in Nigeria was 50, out of which 34 were commercial banks and 16 were Merchants banks. In 1990, the Central Bank of Nigeria issued the largest number of licenses for 25 banks to commenced operations. Twelve new banks commenced business in 1991 bringing the total to 119 (65 commercial and 54 Merchant). During the first quarter of 1992, the last and youngest bank – Magnum Trust Bank Limited commenced operations thus increasing the number to 120 (66 commercial and 54 Merchant), an increase of 140% in four years.

Due to lack of proper economic structure that would aid rapid economic development at the grass root level; the Central Bank has continued to search for a way of monetizing the rural economy through the planned establishment of rural cooperative banks, which never was. Since Federal Government through its grass root oriented programmes and agencies have conducted extensive research into the establishment of Community Banking System. (Babarinde, 1998) The community banking system was therefore envisioned to provide adequate credit access to rural inhabitants in such manner to bridge the gap between conventional sophisticated but limited in coverage credit delivery services and the People’s Bank low credit capacity. (Babarinde and Ajala, 2013).

Microfinance and institutions providing it are not new in Nigeria and in many developing countries. Before the recent microfinance policy and approaches, various rural communities had evolved traditional savings and credit schemes to meet the savings and credit requirements of the people some to limited extent (Ojo, 2010). All licensed Community Banks, prior to the approval of the Microfinance Banks policy in 2005, were mandated to transform to microfinance banks to operate as unit banks on meeting the prescribed new capital and other conversion requirements within a period of 24 months from the date of approval of the policy. Any community banks which failed to meet the new capital requirement within the stipulated period ceased to operate either as a community or microfinance bank.

As at close of business on 31st December 1994, the number of insured commercial banks was 65 with 2,359 branches. Forty-one (41) of the banks had their Head-offices in Lagos while the remaining, which had affiliations with one state or the other, had theirs in different capital cities. At the same time, the total number Merchant Banks was 51 with 142 branch offices nationwide. As at 31st December 1993, Primary Mortgage Institution (Mortgage Banks) had grown from zero in 1990 to 252, Community banks had increased from zero in 1989 to 147. We need to mention the fact that Finance Houses also brought their own glamour to the deregulation era.

The Era of Guided Deregulation: 1994-1998

Due to over exposure during the deregulation era which led to distress and erosion of the public confidence in banks, government embarked on guided deregulation in 1994 to sanitize the banking sector and enhance public confidence. This era witnessed the licensing of banks, regulation of interest and exchange rates, liquidating of distressed banks, promulgation of Failed Banks Decree and setting-up of Failed Banks’ Tribunals, increase in the paid up capital of banks etc.

The Present Democratic Era: 1999 to Date

With the assumption of civilian government on May 29, 1999; the financial sector as a whole also witnessed a great change. Some of the already distressed banks were bought up and restructured for better performance. Majority of the existing banks opened more branches, while foreign banks equally got established in Nigeria.

Table 1. Number of Commercial Banks Branches in Nigeria from 2006-2013

2006	2007	2008	2009	2010	2011	2012	2013
3,233	4,200	4,952	5,436	5,809	5,454	5,564	5,639

Source: CBN Annual Report (2013) Summary by the author

Example is the Standard Chartered Bank Limited, with the share capital of banks (Commercial/Merchant) fixed at N500m in 1998 and agitation for equal treatment by Merchant Banks, about thirteen (13) of Merchant Banks converted to Commercial Banks. Considering the need to improve bank density in the country, through increased branch network, the government saw the clamor by merchant banks for conversion to commercial banking status as another way of increasing the number of bank branches. Thus, the Federal Government, late in 1998 approved that merchant banks wishing to convert to commercial banks should be allowed to do so subject to the conditions stated by the CBN in its circular reference number BSD/CR/8/89 of 14th December 1998. Consequently, by the end of December 2000, thirteen (13) merchant banks had converted to commercial banks.

In the year 2010, the CBN came out with a new banking model which classified banks into three categories, namely, regional, national and international banks. The minimum paid up capital for the Regional banks is N10billion, National banks is N25billion and N50billion for international banks. For the poverty Alleviation Programs Federal Government to be better executed, government ordered the merger of the Family Economic Advancement Programmed (FEAP), People's Bank of Nigeria Agricultural Cooperative Bank (NACB) to become Nigerian Agricultural cooperative and Rural Development Bank (NACRDB) with a take-off grant of N4.5billiion.

The restructuring of the NACRDB continued in 2010 with the reconstitution of the Board of Directors and a change of name of Bank of Agriculture (BOA). For the development of the national economy, government had announced the establishment of Bank of Industry (BOI) with a take-off grant of N100billion, the bank is expected to have branches in all the states of the Federation to take over all the assets and liabilities of Nigerian Industrial and Development Bank (NIDB), National Economic Reconstruction Fund (NERFUND) and the Nigerian Bank for Commerce and Industry (NBCI). In the same vein, in order to promote small and medium industries, the government through the CBN mandated licensed banks to finance SMEs with 10% of their profit before Tax [PBT] apart from other incentives. This era has also witnessed the increase of share capital of existing banks to N25billion. Number of commercial banks in the country has reduced to 22 presently.

ELECTRONIC BANKING (E-BANKING)

The banking industry today remains the largest user of Information Technology within the Nigerian Economic System. This trend can be attributed to the large amount of information management carried out by banks on a daily basis. The Nigerian banks have come a long way from use of ledger cards and manual filing system to the mechanized system of operations and unto electronic banking. Electronic banking has been described as the use of magnetically encoded plastic cards of terminals outside a regular location for check cash, deposit and other monetary functions (Babarinde and Ajala, 2013).

With the new technology, computerized banks can respond immediately to request from customers for statement of account, balance and account activities enquiries. Integrated in nature verification system also makes it possible to minimize the time taking by cashiers to offer typical cashier service like receiving and paying of cash, which contribute to the majority of delays experienced in banking halls. Banks now establish communication links between their branches through Wide Area Network (WAN) which makes it possible for customers to be able to carry out banking operations in any branch of the bank. Plastic money, internet banking, credit cards, telephone banking, automated teller machine (ATM) are some of the organs of electronic banking in operation in Nigeria.

The newly introduced cashless policy of the Central Bank of Nigeria is aimed at reducing the amount of physical cash circulating in the economy, and encouraging more electronic based transactions. It stipulate a cash handling charge on daily cash withdrawers or cash deposit that exceed₦150,000 for individuals and ₦1000,000 for corporate bodies (Suberu et al 2015).

Even though, the use of the various e-payments channels indicated that Automated Teller Machine (ATMs) remain the most patronized, accounting for 95.2% of the total e-payment transactions in volume terms, while the point-of-sale (POS) terminal was the least with 0.8%. The development reflected increase public confidence in the system after the adoption of various measures to combat card frauds.

BANKING HABIT AND ITS DEVELOPMENT IN NIGERIA

Before the advent of modern banking practice in Nigeria different means of safe keeping of money and other means of exchange were in use. These include burying money inside the ground, keeping money on rooftops and also with trusted people within the community. The coming of modern banking practices traced to the late 19th century has however revolutionized banking operation. It is however instructive to say that till date banking habit is yet to be adequately developed and imbibed by all Nigerians. This is because as often reported by the Central Bank, the amount of money outside the banking system is much more than what passes through the banking system. The lack of absolute confidence in the banking system, illiteracy, low bank ratio, poverty, lack of banking education, paucity of infrastructural facilities and the operational procedure of banks are largely responsible for this.

BANKING EDUCATION IN NIGERIA

Many forces such as deregulation, technological advances, reforms et cetera have shaped the Nigeria banking sector lately. These, have posed some far reaching challenges to the sector and the economy as a whole requiring innovative process, management, competitive staff training initiatives and management of rising cost pressures, unfortunately, until the establishment of the Central Bank of Nigeria. (Babarinde, 2010).

The first banking institution that opened a training centre locally was Union Bank in 1956; the First Bank did not have a local training centre until 1960. United Bank of Africa, which opened its door for business in 1961, did not start a training centre until 1975. The savannah Bank, formerly Bank of America did not have a training centre until 1978 even though its door was opened for business in 1960.

Training and development of staff were not totally neglected as banks such as the CBN, First Bank, Union Bank that had training centers assisted in training other banks' staff and this was complimented with the job training. Later professional bodies such as The Chartered Institute of Bankers of Nigeria (CIBN) develop training modules for Financial Programs to produce graduates bankers and financiers for the industry in particular and the economy in general.

GOVERNMENT PARTICIPATION IN BANKING

Almost from the time when modern money came into use in Nigeria the State has taken a keen interest in its control and regulation. With the establishment of the CBN in 1959 the Bank acquired the sole right to issue coins and banknotes within its border, and by legislation gradually itself obtained control of the note issue and the volume of bank deposits.

The CBN through the liquidity ratio requirements provides the principal check on the powers of the commercial banks to expand their deposits. In addition to the role of creating and controlling legal tender in Nigeria, government's participation in banking has taken different forms which include:

1). Establishment of banking institutions at one time or the other in the country. Examples of these banking organizations are the Central Bank of Nigeria (CBN), Bank of Industry, Nigeria Export and Import Bank, Federal Mortgage Bank, Bank of Agriculture, Urban Development Bank etc. by the Federal government and mainly commercial banks by State Governments.
2). Putting in place legislations that guide the conduct of banking business e.g. Banks and Other Financial Institutions Act, 1991.
3). Established bank regulatory frameworks and procedures e.g the Prudential Guidelines for Licensed Banks, 1990.
4). Made broad policy pronouncement that affects the conduct of banking business e.g. as it concern foreign exchange transactions and capital base.
5). Defining what is acceptable as legal tender for business transaction within the economy.

RECAPILIZATION OF THE BANKING INDUSTRY

The term recapitalization is derived from the word recapitalize. Recapitalize means the statutory shoring up or increase in the capital base of Nigerian banks from the initial base to N25billion as directed by the Central Bank. As part of the economic reforms introduced by Obasanjo administration to reposition the Nigerian economy and to make it one of the twenty leading economies by the year 2020, the idea of bank recapitalization was mooted on 6th July 2004 through a pronouncement by Professor Charles Soludo who was then the Governor of the Central Bank.

The pronouncement stipulated that all banks in Nigeria must increase their capital base to minimum of 25billion by 31st December 2005. As expected, the directive to recapitalize generated a lot of debates because some people thought the new capital base was unrealizable, but a proponent of recapitalization is that no Nigerian bank was among the first 1000 banks in the world.

Also it was embarrassing to know that the largest bank in Nigeria as at then which was First Bank Plc had a total net-worth of a $240 million that does not come close to the $526million which the smallest bank in Malaysia had. Equally more embarrassing was the fact that the value of Nigerian banks added together before the recapitalization exercise was not up to the worth of a single bank in South Africa. This type of scenario has grave implications on the economy and investment considering the strategic place of banks in any nation's economy.

Another case in favor of the recapitalization of banks is the incessant bank failure witnessed in Nigeria with dire consequences. With recapitalization, shareholders fund must not be less than N25billion and any bank that falls short of this was to have its operating license withdrawn. The recapitalization directive led to mergers and acquisitions and increased activities in the capital market through banks raised funds in form of initial public offering.

IMPLICATIONS OF RECAPITALIZATION

With the recapitalization exercise completed there are many

Table 2. Composition of Total Monetary Aggregate (M2) (per cent)

	2006	2007	2008	2009	2010	2011	2012	2013
Net Foreign Assets	156.6	125.1	93.3	70.3	56.5	54	58.4	54.3
Net Domestic credit	17.7	46.3	54.0	73.4	75.6	98.9	82.0	96.0
Net credit to government	-48.1	-40.8	-33.9	-21.9	-11.6	-7.7	-15.8	-9.4
Credit to private sector	65.8	87.0	87.9	94.8	85.3	106.6	97.9	105.4
Other Assets (Net)	-74.3	-71.3	-47.3	-43.9	-32.0	-52.5	-40.4	-50.3
Total Monetary Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Money Supply (M_1)	56.6	53.6	53.0	46.5	48.3	50.9	47.9	44.8
Currency outside Banks	16.2	12.7	9.7	8.6	9.4	9.4	8.4	9.2
Demand Deposit	40.5	40.9	43.2	37.9	38.9	41.5	39.5	35.5
Quasi Money	43.4	46.4	47.0	53.5	51.7	49.1	52.1	55.2
Time & Savings Deposit	43.4	46.4	47.0	53.5	51.7	49.1	52.1	55.2
Foreign Currency Deposit (FCD)	7.5	8.2	10.1	13.4	13.1	14.8	17.6	21.7
Total Monetary Liabilities (M_2)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CBN, Annual Reports, 2010 and 2013

Table 3. Contribution to the Growth in M2 (2007 - 2013) per cent

	2007	2008	2009	2010	2011	2012	2013
Net Foreign Assets (NFA)	23.8	22.1	-11	-11.98	5.9	14.32	-3.42
Net Domestic Credit (NDC)	49	39	31.9	9.84	32.1	-3.42	15.13
Other Assets (net) (OAN)	-28.6	-3.3	-3.9	8.84	-22.6	5.49	-10.51
M_2	44.2	57.8	17.06	6.7	15.4	16.4	1.2
Narrow Money (M1)	20.7	30	1.2	4.93	10.4	4.88	-2.64
Quasi Money	23.5	27.8	15.9	1.77	5	11.51	3.83
M_2	44.2	57.8	17.06	6.7	15.4	16.4	1.2

Source: CBN Annual Reports, 2011 and 2013

positive implications or benefits and these include:

1). Nigerian banks can better participate in the global economy with their having more funds.
2). The financing of the sector or productive sector and infrastructural development projects can better be done post-consolidation.
3). The spate of bank distress and failures will be drastically reduced.
4). It has raise customer's confidence in the banking sector and thus to some extent increased banking habit.
5). It has led to increase in foreign investment either through the involvement of foreign partners in the new banks that merged or the repatriation of money owned by Nigerians who are abroad in form of investment in these recapitalized banks.
6). It has resulted in efficient service delivery due to the healthy competition that recapitalization has stimulated.
7). It has reduced the incidence of unethical practices or "sharp" practices in the banking industry.
8). It has led to growth of the economy as a result of the multiplier effect of capital in the capital formation.
9). It has helped the regulatory bodies to be more responsible to trends in the nation's economy.

It must be emphasized that the reforms in the banking sector also embraces the liberalization of the establishment of banks. That is, foreigners can now come to Nigeria and invest their funds 100percent in the banking sector with full ownership.

Despite the aforementioned benefits of recapitalization it should be pointed out that the magnitude of risk that banks are exposed to may be more after recapitalization because tendency is for the banks to give large sum or value of credit to users of funds. In addition, the size of banks now means the capacity of the management may be overstretched if adequate strategies are not put in place. This has sadly played out in the banking sector crisis in Nigeria accentuated by the global financial crisis which started in year 2008.

The recent clamor for and moves by the Central Bank of Nigeria to categories banks based on their capacity into either regional banks, national banks and international banks is not unconnected with weakness noticed in the management of banks and the weak risk management practices.

The average quantity of money in a country at any given period of time is dependent upon numerous factors, some of which may be legal, some economic and still others physical. Thus, change in the quantity of money which if unchecked would induce the price level to rise or fall may result from a great variety of causes such as changes in available foreign exchange reserves, variation in the reserve requirements of central and commercial banks, the banks own decisions to buy business and consumers, and the Central Bank's credit outstanding.

DATA ANALYSIS AND MODEL SPECIFICATION

The analysis of broad money supply in Nigeria is based on table 7 & 8. Broad money supply (M_2) grew by 15.4% at end- December 2011 to ₦13, 300.3 billion, compared with indicative benchmark of 13.8% for fiscal 2011 and the growth of 6.9% at end – December 2010. The development was largely driven by the expansion in domestic credit (net) growth in total monetary liabilities, $M_{2,}$ was driven by the increase in its components, namely, narrow money and quasi-money Analysis of composition of M2 showed that, as in the preceding year, the distribution was skewed in favor of the highly liquid M1, especially in the currency outside bank grew by 23.1 and 15.0 per cent, respectively, at the end of the year under review.

At 13.6 per cent at end-December 2011, foreign currency deposit, remained a significant compound of M2. The movement in M2 was largely driven by the expansion in domestic credit (net) and foreign assets (net)of the banking system.

Net Foreign Assets (NFAs)

Net foreign assets of the banking system, at N7, 180.6billion, represented an increase of 10.4 per cent at end-December 2011, in contrast with the decline of 14.3 per cent at the end of the preceding year. The development reflected, wholly, the increase in the net foreign assets (NFA) holdings of the CBN, which rose to N5,865 billion at end-December 2011 from N5,372.3 billion at end-December 2010. As a share of M2, NFA accounted for 56.5,54.0.58.4,4 and 54.3 per cent and contributed -11.98,5.9.14.32 and -3.42 per cent to its growth at end-December 2010, 2011, 2012 and 2013 respectively.

Net Domestic Credit (NDC)

Credit to the domestic economy (net) grew by 42.4 per cent at end – December 2011, compared with 10.0 per cent at end – December 2010. At that level, domestic credit (net) exceeded the indicative benchmark of 29.3 per cent for fiscal 2011. The development reflected the 52.7 per cent growth in credit to the Federal Government and the 31.6 per cent rise in credit to the private sector. Net domestic credit to the economy contributed 9.84,32.1, -3.42 and 15.13 per cent to the growth of total monetary assets (M2) at end-December 2010, 2011, 2012 and 2013 respectively in the same vein NDC accounted for 75.6, 93.3, 82.0 and 96.0 of the composition of total monetary aggregate (M2) for the period under review.

Net Credit to Government (NCG)

Net Credit to government (NCG) rose by 52.7 per cent, compared with 51.3 per cent at end-December 2010 and the indicative benchmark of 29.3 per cent for fiscal 2011. The substantial growth in credit to the Federal Government was attributable to the issuance of treasury bills and bonds during the review period. Even though the NGC made negative contributions to M2 in the years under review, the Federal Government remained a net creditor to the banking system in 2013, as in preceding years.

Credit to the Private Sector (CPS)

Credit to the private sector(including states and local governments and non-financial public enterprises) grew by 31.6 per cent, in contrast to the decline of 3.8 per cent, in contrast to the decline of 4.4 per cent at end-December 2010. The significant growth in credit to the private sector reflected the injection of funds by AMCON into the intervened banks. The contribution of CPS to M2 is 85.3, 97.2, 97.9 and 105.4% respectively in 2010,2011,2012 and 2013.

Narrow Money (M1)

Narrow money supply (M1), grew by 21.5 per cent at end-December 2011, compared with 11.1 per cent at end-December 2010. The currency component (COB) rose by 15.0 per cent, while demand deposit grew by 23.1 per cent, compared with their respective growth rate of 16.7 and 9.8 per cent the end of the preceding year. As a proportion of M1, COB stood at 18.0 per cent at end-December 2011, 1.4 percentage point lower than the level at end-December 2010. M1 constituted 48.3, 50.9, 47.9 and 44.8 percent point in total monetary aggregate (M2) and contributed 4.93, 10.4, 4.88 and -2.64 percent to the growth in M2 for the period 2010, 2011, 2012 and 2013 respectively.

Quasi-Money

Quasi-Money grew by 9.7 per cent, compared with 3.3 per cent at end-December 2010. The development reflected, largely the growth in foreign currency deposit with DMBs. The contribution of quasi money to M2 in 2010 was 51.7 and its contributed to the growth of M2 is 1.77% point. This is against the 55.2 and 3.83 percent point in 2013 respectively.

MONETARY POLICY IMPLEMENTATION IN NIGERIA

Monetary policy is a deliberate action of the monetary authorities to influence the quantity, cost and availability of money credit in order to achieve desired macroeconomic objectives of internal and external balances. The action is carried out through changing money supply and/or interest rates with the aim of managing the quantity of money in the economy. The importance of money in economic life has made policy makers and other relevant stakeholders to accord special recognition to the conduct of monetary policy.

The Central Bank of Nigeria is the organ of the Government responsible for the conduct of monetary policy in Nigeria Monetary policy can either be Expansionary or Contractionary, depending on the overall policy thrust of the monetary authorities. Monetary policy is expansionary when the policy adopted by the central bank increases the supply of money in the system and contractionary when the actions reduce the quantity of money supply available in the economy or constrains the money banks to grant further credit.

The primary objective of monetary policy is the realization of stable non-inflationary growth. This gives the citizens confidence in future value of their money, so that they can make sound economic and financial decisions. Low and stable inflation also helps to prevent inflationary boom and bust cycles that could result in a recession and higher unemployment.

In pursuit of the provisions of the CBN Act 2007, the primary objective of monetary policy has remained the maintenance of monetary and price stability. Generally, the monetary policy of CBN is anchored on four:

i). Inflation as monetary phenomenon;
ii). The public's expectation of future inflation (this is crucial in the setting of current wages and prices). A corollary to this is that there is no long-run trade-off between unemployment and inflation; to anchor expectations;
iii). Proactive and rule based monetary policy (for instance, under the Taylor rule, for monetary policy to stabilize prices, the nominal interest rate must be raised by more than the level of inflation); and
iv). The need for monetary policy to be undertaken outside the control of the political authorities i.e. independence of the central bank to conduct monetary policy.

The implementation of monetary policy in Nigeria has been under two broad regimes, in consonance with the Federal Government's macroeconomic policy objectives. The two regimes are direct and indirect control. The monetary policy measures under these two regimes are discussed below:

Direct Controls

The direct method of monetary policy lasted from 1959-1985. Between 1960 and 1962, the CBN operated a passive monetary policy regime in which the focus was on developing and maintaining a sound domestic currency. In 1962/63, the focus changed to development issues with the need to ensure adequate supply of credit to the economy with minimal inflationary pressures. In the latter part of 1964 and in 1965, the primary objective of monetary policy was on achievement of balance of payments equilibrium and the policy tool was credit rationing conveyed in guidelines that placed ceilings on the rate of expansion of commercial bank advances.

Credit restriction was lifted in November 1966 to enable the banking system provide the Nigerian government with sufficient resources to prosecute the civil war. The result was high post- war inflationary pressures, deteriorating balance of payments position, and a rapid increase in deficit financing. Subsequent policies were directed at reducing inflationary pressures, restoring normal economic conditions, relieving the pressures on the external payments position, increasing Government revenue and reducing government's reliance on the banking system. This policy stance continued throughout the period 1966 to March 1972.

In the period April 1972 and March 1976, the thrust of monetary policy was to expand domestic aggregate output and curtail inflationary pressures. During the same period, government finances and foreign exchange reserves improved owing to increased oil earnings. This resulted in increased aggregate demand and money supply. The task of monetary management became complicated with excess liquidity. Consequently, the selective credit control policy was retained, supported by interest rate and exchange rate policies in the latter part of the period. Stabilization securities were also introduced in an attempt to reduce the high liquidity conditions in the banking system.

The CBN continued with its monetary restraint policy between April 1976 and December 1981 due to the persistence of excess liquidity in the system. Direct credit ceiling, cash reserve requirements, stabilization securities, the exclusion of deposits against letters of credit from eligible liquid assets and interest rate changes were combined to address the challenge excess liquidity. Between 1981 and 1985, the monetary policy instruments were broadly the same as in the decade preceding it (1970-1980). However, the instruments were fine-tuned in line with challenges faced. Some major highlights during this period included:

1). Prescription of permissible aggregate credit expansion ceilings;
2). Guidelines on the sectoral allocation of banks' loans and advances which continued to favor the preferred sectors of the economy (agriculture and manufacturing);
3). Selective credit controls to encourage indigenous businesses, small scale enterprises and the rural areas;
4). Unchanged Cash Reserve Requirement (CRR) during the period; and
5). Marginal upward adjustment of interest rate.

The policy of stringent monetary restraint targeted the conservation of foreign exchange reserves and the maintenance of price stability. Measures taken to reduce foreign exchange disbursements included the re-introduction of pre-shipment inspection and imposition of pre-import deposits ranging from 10.0 per cent to 250.0 per cent. In addition, interest rates were raised to encourage savings and reduce demand for foreign exchange.

Indirect Controls

As conditions in the economy worsened in 1986, concerted efforts were made to eliminate unnecessary economic controls and to free the economy (Ojo, 2000). This prompted the introduction of the Structural Adjustment Program (SAP) in July 1986. The purpose was to ultimately institute a more efficient market system for the allocation of resources, with the implication that excessive controls of the previous two decades would be gradually eliminated or reduced to levels that would not inhibit economic development.

The three major planks for achieving this overall objective included exchange control liberalization, adoption of relevant pricing policies in all sectors of the economy and a further rationalization of restructuring of public expenditure and customs tariffs. Thus, monetary policy was expected to play an important role in the new economic management process. Indeed, the ultimate objectives of monetary policy remained as in pre-1986 period. However, in the specific environment of financial and economic liberalization, monetary policy was also to stabilize the economy in the short –run and to induce the emergence of a market-oriented financial sector.

At the start of SAP, traditional instruments were fine-tuned to deal with the excess liquidity in the economy. In august 1986, the CBN, for instance, required banks to deposit in a non-interest bearing account at the Bank, the naira equivalent of all outstanding external payment arrears. Also, the 10 per cent ceiling imposed on the rate of credit expansion by banks fixed in January 1986 was reduced to 8 per cent in July and maintained until August 1987 when it was further reduced to 7.4 per cent.

Several measures were also added to stem the growth of excess liquidity. There was the abolition of the use of foreign guarantees/currency deposits as collateral for naira loans which implied that deposit money banks were no longer to grant domestic loans denominated in naira on the security of foreign guarantees or deposits held abroad and in domiciliary accounts with the banks. In May 1989, the Federal Government directed that all public sector accounts be withdrawn from the banks. Its immediate impact was the reduction in banking system liquidity. A reverse policy took place in 1999 when the retail functions of the CBN were transferred to the DMBs. Other policy measures included:

1). Rationalization of sectoral credit controls so as to give a larger measure of discretion to banks in respect of credit operations in 1986 and 1987;
2). Abolition of all mandatory credit allocation mechanisms by the CBN from October 1996;
3). Adjustment of CRR to embrace the total deposit liabilities (demand, savings and time deposits) of banks instead of the earlier method of computing the CRR based on demand deposits alone;
4). Deregulation of interest rates;
5). Reintroduction of the use of stabilization securities in 1990;
6). Migrate from direct controls of monetary management to an indirect or market based approach.

In line with the liberalization policy thrust of SAP, there was a paradigm shift from the hitherto direct monetary control method to an indirect approach anchored on the use of market instruments in monetary management.

This was borne out of the desire to eliminate the distortions and inefficiencies in the financial system caused by the prolonged use of administrative controls and the need to engender competition amongst banks and other operators in the financial system. Two major policy regimes of short- and medium-term horizon can be identified:

The Short-Term Monetary Policy Horizon (1986-2001)

Following the liberalization of the economy in 1986, monetary policy was refocused to a one year perspective. Consistent with the broad objectives of monetary policy for the year, a number of monetary targets and instruments were adopted during the one-year horizon. OMO, conducted wholly using the Nigeria Treasury Bills (NTBs), continued to be the primary technique of monetary policy. This was complemented by the cash reserve requirement (CRR) and the liquidity ratio (LR).
Other policy instrument employed included the discount window operations, mandatory sale of special NTBs to banks and a requirement of 200 per cent treasury instruments to cover for banks' foreign exchange demand at the Autonomous Foreign Exchange Market (AFEM). Interest minimum rediscount rate (MRR) to signal policy direction consistent with liquidity conditions. Surveillance activities of the CBN focused mainly on ensuring sound management and maintenance of a healthy balance sheet position on the part of the banks. On the external side, the official and interbank exchange rates were unified in 1999.

The Medium-Term Monetary Policy Horizon (2002-Date)

In 2002, the CBN commenced a two-year medium-term monetary programme aimed at freeing monetary policy from the problem of time inconsistency and minimizing over-reaction due to temporary shocks. The new monetary policy horizon, still in operation, is based on the evidence that monetary policy actions affect the ultimate objectives with a substantial lag. Under the medium-term, monetary policy guidelines are open to half-yearly review in line with developments in monetary and financial market conditions in order to achieve medium-to long-term goals.

The main objectives of monetary policy have remained largely the same, namely to subdue inflation to a single digit level and maintain a stable exchange rate of the naira, as well as the objectives of output and employment generation. Attention has also been focused on the need for a more competitive financial sector geared towards improving the payments system. The OMO has continued to be the primary tool of monetary policy, and is complemented by reserve requirements, discount window operations, foreign exchange market intervention and movement of public sector deposit in and out of the DMBs. The CBN has continued to ensure banking soundness and financial sector stability to enhance the efficiency of the payments system.

The Monetary Policy Implementation Framework (2006-Date)

Following recent developments in the economy, particularly in the financial sector, it became necessary to review the conduct of monetary policy and strengthen the machinery of monetary policy to achieve set targets and objectives. In particular, the relationship between the Minimum Rediscount Rate (MRR) and other rates in the market became weak and the significance of using the MRR as the anchor for other short-term interest rates was eroded. Also, the persistent failure to meet stipulated monetary policy targets continued unabated.

Consequently, in December 2006, the Bank introduced the current framework for monetary policy implementation with the objective of addressing the persistent interest rate volatility and making the money market more responsive to monetary policy interest rate changes, especially the overnight interbank interest rate. The containment of interest rate volatility was to be addressed through the application of some policy measure including averaging or reserve requirements maintenance period of two weeks and the use of Standing Lending and Deposit Facilities to define an interest rate corridor around the monetary policy rate (MPR) which would drive interest rate in the money market.

THE CONCEPT OF ECONOMIC DEVELOPMENT

Ojo (2010) defines economic development as a sustained secular increase in real national income per head of population over a period of years. He opines further that development is always accompanied by radical changes in productive techniques and usually by a rise in the standard of living and reduction in poverty level. In other words economic development is a process whereby an economy's real national income increases over a long period of time. In determining whether or not economic development is occurring, Ojo gives three essential tests that can be applied thus.

A feature of a transaction involving money is that direct exchange gives way to indirect exchange. Money, in addition to broadening the scope of exchange by eliminating the need for a double coincidence, adds convenience and flexibility to economic consumption and also allows for a wider specialization and division of labour thus amplifying the range of goods and service people can produce, resulting therefore to economic efficiency. Money affects important economic variables, such as Gross National Product, the price level, interest rate and the use of credit.

The entire modern business is based on credit and credit is based on money. Credit is created when someone with purchasing power has no immediate need for it, but decides to transfer it to another person who has the immediate need for it at a price or cost called interest. This is the core of banking operations. Most monetary transactions consist of cheques, drafts, bill of exchange, overdraft, etc. These are all credit instruments created by banks. It is not all these credit instruments that is money. What is money are the bank demand deposits. Bank credits play a major role in transferring funds from depositors (those with purchasing power but do not have immediate need for it) to investors (those with purchasing power needs).

Thus credit expands investment. Therefore, the more credit that banks and business organizations grant, the greater the purchasing power of the economy, and the easier the flow and growth of economic activities. Bank credit is a major source of liquidity for financing production and running the economy. Theoretical and empirical studies have shown that real money balance could be included as a factor in the aggregate production function. Sinai and Stokes (1972), employed Cobb-Douglas production function to examine the potential significance of real money in the production function and explain its contribution or impact on GDP. This they demonstrated in Cobb-Douglas production function equation as follows:

$Q = TK^{a}L^{\beta}m^{Y}\ u$

Where:

Q= Output

K= Capital

L= Labour

M= Real money balances

T= Efficiency factor

a, $^{\beta}$, y Elasticity of output with respect to Capital, Labour and Real money balances respectively.

U = Random disturbances.

The above Cobb-Douglas production function shows that output, that is, GDP is a function of real money balance [m] and other factors of production. That means that the level of Output at any given time depends on the level of real money balances [availability of credit to boost liquidity] and other factors of production. Ho [2005], opined that the above Cobb-Douglas production equation could be re-written in such a manner to incorporate directly credit in place of real money balances. In his opinion, the production function equation above may be written as:

$Q = f(X_{1,} C)$

Where, Q = Output [GDP]

$X = (X_{1,} X_{2,} \ldots . X_n)$ is a set of production factors.

C = the level of Credit available.

Taylor [1983], however, contends that the incorporation of a credit factor in Cobb-Douglass production function directly reflects the contributions of financial institutions to aggregate production or output level of any economy. The emphasis is that the credit incorporation in Cobb-

Douglass production function that contributes to aggregate GDP includes Credit to the Production Sector of the economy because Credit to the productive Sector of the economy constitutes a factor of production and not that expended on consumption. Based on the above economic facts, an analysis of banking system credit in Nigeria is presented in table 4 and 5 below.

Financial Development And Economic Growth

Economists hold startling different opinions regarding the importance of the financial system foe economic growth. Walter Bagehot (1873) and John Hicks argue that it played a critical role in igniting industrialization in England by facilitating the mobilization of capital for “immense work”. Joseph Schumpeter (1912) contends that well functioning-banks spur technological innovation by identifying and funding these entrepreneurs with the best chances of successfully implementing innovative products and production processes. In contrast, Joan Robinson (1952) declares that “where enterprise leads finance follows”.

According to this view, economic development creates demand for particular type of financial arrangement, and the financial system responds automatically to these demands. Moreover, some economist just does not believe that the finance-growth relationship is important. Robert Lucas (1988) asserts that economist “badly over stress” the role of financial factors in economic growth while development economist frequently expresses their skepticism about the role of the financial system by ignoring it (Anand Chandavarkar (1992).

For example a collection of essays by these pioneers of development economics including three Nobel Laureates, does not mention finance (Gerald Meir, and Dudley Seers 1984). Furthermore, Nicholas Stern’s (1989) review of development economics does not discuss the financial system even in a section that list omitted topics. In light of these conflicting views, there are existing theories used to organize an analytical frame work of these finance-growth nexus and the quantitative importance of the financial system in economic growth.

Although, it must be stated hesitantly with ample qualification, the preponderance of theoretical reasoning and empirical evidence that suggest a positive, first order relationship between financial development and economic growth.

A growing body of work would push even more skeptics towards the belief that the development of financial market and institution is a critical and inextricable part of the growth process and away from the view that the financial system is an inconsequential side show, responding passively to economic growth and industrialization.

There is even evidence that the level of financial development is a good predictor of future rates of economic growth, capital accumulation and technological change. Moreover, cross country case study, industry and firm level analyses document extensive periods when financial development or the lack thereof crucially affect the speed and pattern of economic development.

CONCEPT OF FINANCIAL DEEPNING

This is an increase in stock of financial assets relative to the Gross National Product GNP. This was introduced by Shaw and Mckinnon in 1973 as a measurement of efficient allocation of capital by shifting more of the available resources to those with better investment opportunities. Their practical experience and insight with countries case studies led to the development of models designed to explain how financial deepening would be a compliment to and not a substitute for the accumulation of physical capital.

In relating financial intermediaries to developing countries such as Nigeria, Hugh Patric enunciated a much broader and expansive role and scope for financial policies for economic development objectives especially in those countries where capital market rather do not exist or are underdeveloped and underutilized. The lack of demand for financial institutions in the developing countries is due to number of factors:

1). Excessive regulatory controls;
2). Restrictive banking legislations;
3). Imperfections and distortions in the operations of the market mechanism.

Shaw’s strong position is the development of a supply-led system in which the creation of financial institution and the supply of financial assets and liabilities would proceed in advance of demand for them. In this case, *supply creates its own demand.* The Objective is:

1). To transform traditional resources from the traditional sector to the modern sector, and
2). To promote, stimulate and develop an entrepreneurial response in the modern sector.

In this context, supply-led policies would be most likely to increase public awareness of possibilities in financial market and hence generate a demand response that is helpful to development. The Japanese examples during their country stage of rapid industrialization illustrate this very clearly.

From Patrick’s point of view, the increase in the demand for financial assets as against real wealth (Landed property, simple agricultural tools, household and consumer goods) into productive forms is not only promoting financial assets holding. Financial intermediaries provide wealth holders with an alternative means of holding wealth. The role of financial intermediaries in converting the family farm land into productive use through the application of financial and technical inputs, the increase in labor force on the farm arising from opportunities for economies of scale, changes in production organization through investment opportunities, provides a framework for fostering specialized skills, expanding output and diversifying the economy.

The financial system can thus be seen as economic sector using inputs to produce a complex set of service outputs, most of which in turn becomes intermediate inputs in the production process. The contribution of the sector to development is a function of the quality and quantity of its services and the efficiency with which the services are provided. This would depend on successful the sector is in building channels for the flow of financial operations, inculcating financial habits and discipline and developing human skills for carrying out complex financial operations.

A further inquiry into the financial deepening thesis of Shaw was undertaking by David Gill who has developed some useful relationship and inter-country analysis and comparison of some indicators of financial assets. He divided financial market into three segments:

1). Monetary intermediary made up of Central banks and Commercial Banks.
2). Non monetary intermediary made up of a wide range of specialized institution such as saving and loans institutions, development banks mutual funds, investment trusts along with insurance and pension funds;
3). The securities markets primarily market for stocks and bonds.

He introduced the Raymond Goldsmith variation, which recognizes not just the process of growth in financial assets, but the variation in the speed of growth by relating the ratio of total assets of financial institutions to GNP (a ratio which Goldsmith called the financial intermediation ratio) for the purpose of determining the financial deepening among countries and between developed countries on the one hand and the developing countries on the other hand.

The result of this exercise shows that for the developed countries for about a century ago, 80-90 percent of the financing flowing from the financial institution flowing from the financial institution came largely from the commercial banking system a situation still through of most developing countries today..in the developed countries the role of the commercial banking system in financial deepening has declined over time to about 40 percent or less.

The growth of the non monetary intermediaries and the relative reduction in the scope of the commercial banking system have become a fairly standard phenomenon of the process of economic development and structural change and an important factor in the process of financial deepening. The growth of the securities market was accelerated by the development of specialized intermediaries like pension and insurance funds that have mobilized the savings of the household sector.

ROLE OF FINANCIAL SECTOR IN ECONOMIC DEVELOPMENT

Development is a highly complex process by economic and non economic factors and the rate of capital accumulation as well as how utilized is a major determinant of growth. Economic development can be defined as a sustained secular increase in real national income per head of population over a period of years. Development is always accompanied by radical changes in productive technique and usually by a rise in the standard of living and reduction in poverty level.

Economic development is a process whereby an economy's real national income increases over a long period of time. The term economic development also refers to achievement by poor countries of higher level of real per-capital income and of improved condition of living for their people; i.e achievement of an environment more like that prevailing in developed countries. In the technical sense, economic development refers to a process of economic growth within an economy; the central objective of the process of being higher and rising real per capital income for that economy with benefits of this higher and rising income being widely diffused within the economy.

Development encompasses aggregate output, the quality of the labor force, net national income and the growth in per capital income and output. For any development to take place, growth must occur in the various sector of the economy, either simultaneously or via a big push from a sector or group of sectors. Development can be viewed as continuous outward shift in a country's production possibility boundary. While capital is perhaps a major scarce factor in developing economies, it would be an over-simplification to regard economic development as a matter of capital formation alone. Development also depends on absorptive capacity of the economy. Adsorptive capacity in turn depends on natural resources, the labor supply, and productivity, entrepreneurial capacity, the level of technology and cultural/attitudinal factors. Absorptive capacity greatly influences the demand for capital goods as well as the supply.

The financial sector facilitates borrowing by the deficit economic units and saving by the surplus economic units through the intermediation of financial intermediaries. The various types of financial transactions engaged in have major implication for consumption, investment, production, macroeconomic stability and achievement of other economic objectives. Discussing the importance of the financial system in economic development, the *World Development Report 1989,* notes that "finance is the key to investment and hence to growth". This is so since financial services make it cheaper and less risky to trade goods and services and to borrow and lend, thus in many developing countries, financial sectors are in urgent need of reform. A financial system shapes its own domestic economy, and can influence other economies development as well, for financial availability and the terms on which it is provided can either promote or constrain economic growth and development. In turn, economies shape financial system, since economic growth usually leads to further development of a financial system.

Finance affects economic development, either aiding or constraining capital formation according to the kind of

Table 4. Banking Credit to the Domestic credit Economy (₦ million)

	Credit to other Private Sector	Credit to Private Sector	Credit to Non-Fin. Public Sector	Credit To State & Local Government	Credit to Fed. Government (Net)	Aggregate Credit (Net)
1992	76,098.7		2,347.4	1,512.8	91,112.1	171,071.0
1993	91,239.3		2,746.8	1,543.5	185,167.9	280,697.6
1994	145,103.9		3,655.4	2,241.0	288,113.5	439,113.8
1995	204,945.1		3,479.6	2,933.9	263,002.8	474,361.4
1996	255,558.8		1,524.5	3,530.2	110,465.6	371,079.0
1997	316,577.3		1,453.0	1,481.9	463,358.4	365,870.6
1998	370,706.7		13,933.6	941.3	133,929.0	519,510.6
1999	452,411.1		692.3	2,101.8	176,804.9	632,010.1
2000	587,486.2		951.0	7,564.3	[123,989.8]	472.011.7
2001	827,122.9		1,080.1	26,796.4	[6006.5]	848,992.8
2002	988,271.2		164.3	17,326.6	373,639.2	1,311,910.4
2003	1,281,125.5		212.0	20,234.9	552,569.3	1,833,694.8
2004	1,507,885.2		1,930.8	24,631.8	485,725.5	1,993,610.7
2005	1,950,379.8		2,449.4	54,256.6	306,031.9	2,256,411.7
2006	2,217,532.1		9,723.7	63,361.9	[244,409.9]	2,046,207.8
2007	3,604,582.4		5,520.6	58,554.8	2,522,892.7	1,145,765.1
2008	6,809,679.0		0	110,819.8	[2,909,778.3]	4,010,719.7
2009	8,834,582.2	9,102,049	1,104.1	266,362.8	[2,559,423.7]	6,094,541.3
2010	9,822,667.6	10,157,021.2	5,520.6	328,833.0	[1,576,929.6]	8,580,091.6
2011	10,258,353.1	10,660,071.8	0.0	401,718.8	[1,283,158.3]	9,376,913.6
2012	14,070,190.9	14,649,276.5	6.8	579,078.7	[1,655,954.9]	12,993,321.6
2013	15,079,143.1	15,778,305.2	1,964.9	697,197.3	[2,404,383.9]	13,373,921.4

Source: CBN (2007), CBN (2010), CBN annual report 2013

propositions financiers will entertain. Decisions made by financiers influence the amount and kind of capital formation which can take place. Capital formation activity in turn affects economic growth. The direct effect of investment is to increase aggregate demand by a factor determined by the multiplier. The indirect effect of capital formation activity is its impact on the composition of an economy's capital stock. For instance the nature of capital in place has impacted on the profitability of further investment. Economic growth leads to demand for more of the same kind of financial services and for innovative forms. With economic development, the ability to realize scale and scope economies in financial activities means the system can develop more specialized facilities for dealing with different kinds of financial demands.

ANALYSIS OF BANKING SYSTEM CREDIT IN NIGERIA

We attempt to analyze banking system credit in Nigeria in line with data provided by the Central Bank of Nigeria (CBN), Statistical Bulletin (2007) for the period 1992 to 2007 and CBN Annual Reports (2010 and 2013) for the period 2006 to 2013. Evaluate the effect of credit growth to output raised a number of burning issues. According to CBN sources, the total aggregate credit (Net) disbursed by Banking Service Providers (BSPs) to the domestic economy in Nigeria, grew astronomically from N171,071.00 million in 1992 to an aggregate [Net] total of N13,373,921.4 million, that is, [Thirteen trillion, three hundred and seventy three billion, nine hundred and twenty-one million Naira only] in 2003, with credit of Federal Government standing on a negative balance of N20,404,383.9 million in 2013.

For the same period, credit to the private sector alone grew to N15,778,305.2 million in 2013, that is, over fifteen trillion Naira (see Table 5). Going by the CBN figures, this is quite a colossal sun and to be fair to Banking System Providers [BSPs], it is a tremendous performance but the question that readily comes to mind is how has this credit affected output to spur growth in the economy? For case of analysis, we present below table 5, Banking system credit to the domestic economy for five selected years, 2005, 2007, 2009, 2011 and 2013, showing total credit and their percentages to the various sectors of the economy.

According to table 5 above, banking system credit [net balance] to the federal government stood at 306,031.9million Naira in 2005 representing 13.15% of total credit to the domestic economy. Over the years, though with increase in value term, there have been downward trends as per the percentage of credit disbursed to the federal government. For the period under review, banking system credit to state and local governments show fluctuating low range of percentages indicating that banks are either stringent reluctant in disbursing credit to state and local governments. The reason may not be farfetched since there is no continuity

Table 5. Percentage of Banking System's Credit to the Domestic Economy

	2005₦'m	%	2007₦'m	%	2009₦'m	%	2011₦'m	%	2013₦'m	%
Aggregate Credit [Net]	2,256,411	100	1,145,765.1	100	6,094,541.3	100	9,376,913.6	100	13,373,921.4	100
Credit to FGN	306031	13.56	2,522,892.7	-220.19	2,559,423.7	42	1,283,158.3	13.68	20,404,383.9	17.98
Credit to state & local Govt.	54,526	2.41	58,554.8	5.11	266,362.8	4.37	401,718.8	4.28	697,197.3	5.22
Credit to Non Fin. Public Enterprise	2449	0.11	5,520.6	0.48	1,104.1	0.02	0	0	1,964.9	0.01
Credit to other private sector	1,950,379	86.44	3,604,582.4	314.60	8,834,582.2	144.96	10,258,353.1	109.40	15,079,143.1	112.75
Credit to Private sector					9,102,049	149.35	10,660.071.8	109.40	15,778,305.2	112.75

in governance in Nigeria the fear that loans obtained by an administration may not be repaid by the succeeding administration constitute a basic factor. The degree of corruption and abuse of public fund by the government officials may be another one.

Sadly, in Nigeria, the non-financial public enterprises comprising of companies and enterprises controlled by government or government owned corporation, a very important productive sector of the economy appears neglected in the disbursement of bank credits to the domestic economy. Table 5 reveals that banking system credit to this sector in 2005 was ₦2,449 million, representing 0.11% and ₦5520.6 million and ₦1,964.9 million, representing 0.48% and 0.01% was channelled to this sector in 2007 and 2013 respectively. This explains why the productive capacity of this sector is low with resultant negative effect on export and hence foreign earnings. With this level of performance Nigeria's dream of attaining economic freedom or power in 2020 could be a mirage.

Accordingly, while a paltry sum of ₦5,520.6million representing 0.48% of total credit to domestic economy was channeled to non-financial public enterprises for productive investment, a whooping sum of ₦3,604,582.4million representing 314% was channeled to the private sector comprising mainly of private companies, small and medium enterprises (SMEs), individuals and households, basically for consumption purposes in 2010 alone. It grew worse in 2011 and 2013, with banking credits to NonFinancial public enterprise and the private sector standing at zero and 1,964.9million Naira respectively. The implication of this is that Nigeria consumes far greater than we produce and the consequences of such are dreaded anywhere. However, according to Table 4 above, credit to the domestic economy (net) grew by 13.4% at the end of Dec. 2010 but was lower the indicating benchmark of 51.4% for the year, and the growth rate of 59.6% at the end of December 2009. The development reflected, only, the growth of 64.2% in credit to the Federal Government (issuance of treasury security). Credit to the private sector declined by 4.1% as against the growth of 26.6% at the end of December 2009.

Net domestic credit to the economy constituted 78.0% of total monetary assets (M2) at the end of December 2010. This trend continued in 2011 to 2013 as an aggregate credit to the domestic economy rose from 9.3trillion Naira to well over 13.3 trillion Naira within the period. Net credit to the Federal Government (CG) rose by 64.2%, compared with 25.9% at the end of December 2009 and the indicative benchmark of 25.1% for fiscal 2010. Notwithstanding, the Federal Government remains a net creditor to the private sector (including the state and local government and non-financial public enterprises), a decline of 4.1%, in contrast to the increase of 26.6% recorded at end December 2009. Credit to the core private sector (excluding state and local government), continued to be on the increase from 9.1 million Naira in 2009 to over 15.7million Naira in 2013. The development reflected, largely the crowding-out effect of the banking systems' claims of the federal government.

CONCLUSION AND RECOMMENDATIONS

This paper attempt to address the Nexus between Money, Banking and Economic Development in Nigeria. We traced the origin of money from primitive money to paper money and creation of bank credits. It has been observed that the use of various forms of money-paper currency and coins, bank deposits, and plastic card- are growing in volume and enhancing economic transactions and productive capacity.

The use of mobile money payment was still in its infancy as the mobile payment service operators were only recently licensed. The use of mobile telephones for payment is also not encouraging. The banking system needs to overhaul its internal control system and facilitate the more and the use of e-payment models. The government on its part has to provide the necessary infrastructure for the banking sector to provide its services at minimal cost. The CBN and NDIC must put in place regulation, guidelines and supervisions that would reduce fraud and other inefficiencies to zero level. The judiciary must bring to book perpetrator of internet fraud in accordance with international best practice.

It was observed that bank credit to the most productive sectors of the economy experienced some level of growth. It is a tremendous performance but the question that readily comes to mind is, how has this credit affected output to spur growth in the economy? We notice with dismay that bank lending was small to the consumer unit rather than to the productive sector. As a result the contribution of banking system credit to the domestic economy, though enormous has a weak impact on output or GDP.

Deliberate effort must be made by government, monetary authorities and policy makers to channel adequate funds from the banks to the productive sector of the economy to reverse this trend. Some people have observed that the comatose state of deposit banks made us realize that:

1). Deposit banks in Nigeria have not been living up to expectation in terms of service delivery to their customers.
2). They have abandoned their traditional banking functions in pursuit of short-term money spinning ventures like round tripping in foreign exchange, money laundering and other criminal tendencies, which are inimical to the growth of the economy.

The above quotations call for an organized, systematic and more effective monetary management in the Nigerian financial system so as to accentuate the effects of monetary policy variables like Broad Money Supply, Real Interest Rate and Real Exchange Rate. This promotes real GDP in Nigeria. By implication, the monetary policy authorities must attempt to keep the money supply growing at an appropriate rate so as to secure a sustainable economic growth and maintain internal-external stability of the Naira, and also develop a stable monetary policy that would propel the economy towards a positive end.

Over the years, the efficacy of monetary policy in Nigeria improved progressively. It started from a position where the economy was largely rudimentary, moved through periods of economic crises and the use of unorthodox policy instruments. Over the last decade, the monetary policy tools have been substantially sharpened in accordance with international best practices, resulting in more effective monetary policy.

Many factors could be identified as the sources of strength in the monetary policy process. A key element was the rapid development of in-house expertise which successfully steered the processes to an internationally accepted standard. Another factor was the promotion, institutional changes reflected in the improved efficiency of the financial markets. Monetary policy also gradually became more transparent and gained the confidence of the general public. No less important was the improved coordination between monetary and fiscal policies. Nevertheless, monetary policy faces enormous challenges in the years ahead. Current monetary policy operations need to be further fine-tuned to sustain the relevance of the policy in the economy.

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