



Effect of Banking Credits on Economic Growth: Evidence from Nigeria

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Abstract

This study examined the impact of bank credits on economic growth in Nigeria. The study utilized time series data covering the period of 1986 to 2022. The data were sourced from the annual statistical bulletin of the Central Bank of Nigeria. To analysed the data collected, Johansen cointegration technique and Vector Error Correction Model (VEM) are adopted to measure the long-run and short-run relationship among the study variables. Furthermore, Granger Causality is utilized to measure the direction of causality between banks credits and economic growth. From the analysis, results show that credits to the private sector, credits to the public sector and combined credits to both sectors exacted a positive and significant impact on economic growth. Therefore, this study concludes that for the Nigerian economy to grow, emphasis should be placed on developing and implementing policies that will address increase in banks credit to critical areas like research and education, manufacturing, agriculture, power, infrastructural development etc, as these are growth oriented areas that can move the country forward.

Keywords: *Banking credit, economic growth, regression analysis, Nigeria* **JEL Classification: E51, G21, A10, C53**

Contribution to/Originality Knowledge

This paper has provided a suitable framework for understanding the relationship between banking credit and economic growth in Nigeria using a disaggregated approach.

1.0 Introduction

Every economy is made up of different economic agents contending for scarce resources available within the economy with a view to achieve their goals (Nwanyanwu, 2018). The need of each of the economic agent within the economy varies in accordance with their functions. To meet with these pressing needs however, each of the economic agents contends for scarce financial resources available within the financial system (King & Levine, 2016). For instance, co-operate organizations need fund to procure machineries and equipment needed for the production of goods and services, Farmers obtain credit to purchase seeds, insecticides, fertilizers and erecting of various kinds of farm buildings. Government bodies source for credit to enable them meet with various kinks of recurrent and capital expenditures. Individuals and families on the other hand, take credit which enable them pay for goods and services (Ademu, 2016).



However, to provide these economic agents with their needed credit, various institutions that render financial services comes to play. These institutions otherwise known as financial institutions have banks as a major player among them. This banking institution is responsible for financial intermediation in the Nigerian financial system, which enable the channel funds from surplus unit of the economy to the deficit unit of the same economy, thereby converting deposit to credit (loan). According to Ademu in Nwanyanwu (2018), the provision of credit with sufficient consideration to growth potential in the sector as well as price system in the economy is one of the ways to generate employment opportunities and by so doing contributing to the growth of the economy at large. This can be made possible because, bank credit contribute immensely to the expansion of business enterprises, increases scale of production which results to growth in the overall economy. Therefore, the contribution of bank credit to the growth of the Nigerian economy cannot be overemphasized considering the contribution of this sector to the overall growth of the Nigerian economy. Thus is an indication that the sector has improved and can be attributed to bank credit available to them (Nwanyanwu 2018). It is obvious from the foregoing that bank credit is a vital macroeconomic tool whose contribution to economic growth in Nigeria cannot be underestimated. Reacting to this, Ademu (2016) highlighting the role of bank credit explained that it can be used to prevent an economic activity from total collapse in the event of natural disaster such as flood, drought, disease or fire. To him, credit can help to revive the economy that suffered such set back in their economic activities.

The important of bank credit to the Nigerian economy has led to sustained increase of credit to productive sectors of the Nigerian economy. Central Bank of Nigeria Annual Report (2018), noted that credit to the core private sector by the Deposit Money Banks grew by 10.26% between 2009 to 2010. Outstanding credit to agriculture, solid minerals, exports and manufacturing in 2010 stood at 1.7, 15.3, 0.6 and 12.8 per cent, respectively. Credit flows to the core private sector in 2010 amounted to N10,140,947 million. Adekanye (2016) observed that in making credit available, banks are rendering a great social service, because through their actions, production is increased, capital investment are expanded and a higher standard of living is realized.

According to Osada and Saito (2018), financial or credit development can foster economic growth by raising savings, improving efficiency of loan-able funds and promoting capital accumulation. Banking industry credit in Nigeria assumed a new dimension and was transformed by the recapitalization and consolidation of banks which restructured them for better performance. Access to bank credit or financing can be said to improve commensurately in response to competition and the healthy sate of soundness the banks attained. Availability of credit allows firms to increase production, output and efficiency and in turn increases the profitability of banks through interest earned (Agada, 2016).

The role of credit in economic growth has been recognized as credits are obtained by various economic agents to enable them meet operating expenses (Nwanyanwu, 2018). Furthermore, according to Ademu (2016), the provision of credit with sufficient consideration for the sector's volume and price system is a way of achieving economic growth through self–employment



opportunities. While highlighting the role of credit to the growth of any economy, he further explained that credit can be used to prevent an economic activity from total collapse in the event of unforeseen circumstances.

The debate on the intermediary role of banks in the economic development has dominated many discussions in literature. However, there seem to be general consensus that the role of intermediary role of banks helps in boosting economic growth and development. Akintola (2017) identifies banks' traditional roles to include financing of agriculture, manufacturing and syndicating of credit to productive sectors of the economy. When the banking industry discharges these important functions satisfactorily the outcome would be that the economic growth, as proxied by the Gross Domestic Product (GDP), will improve commensurately. More so, Akpansung and Babalola (2015) have stated that the central Bank of Nigeria has been seen to be playing a leading and catalytic role by using direct control not only to control overall credit expansion but also to determine the proportion of bank loans and advances to "high priority sector" and "other". According to them, this sectoral distribution of bank credits is often meant to stimulate the productive sectors and consequently lead to increased economic growth in the country.

2.0 Literature Review

2.1 Bank Credit

Borrowing or credit cannot be unconnected from the banking industry as banks serve as a conduit for funds to be received in form of deposits from the surplus units of the economy and passed on to the deficit units who need funds for productive purposes. Banks are therefore debtors to the depositors of funds and creditors to the borrowers of funds. According to Nwanyanwu (2018), bank credit is the borrowing capacity provided to an individual, government, firm or organization by the banking system in the form of loans.

Brief from the Central Bank of Nigeria (2013) defines bank credit as the amount of loans and advances given by the banking sector to the various economic agents. CBN Monetary Policy Circular (2017) identifies such bank credit facilities to include loans, advances, commercial papers, banker's acceptance, bill discounted, with a banks credit risk. Bank credit is often accompanied with some collateral that helps to ensure the repayment of the loan in the event of default. Credit channels savings into productive investment thereby encouraging economic growth. Thus, availability of credit allows the role of intermediation to be carried out, which is important for the growth of the economy. The availability of credit is important to the real economy. Globally, positive change in credit availability has positive significant effect on the nation's real gross domestic product (GDP). According to Nzotta (2016), it is generally accepted that bank credits influence positively the level of economic activities in any country. It influences what is to be produced, who produces it and quantity to be produced.

According to Pearce (2019), credits refer to the process of lending and borrowing of fund from financial able bodies such as banks, government, individuals and other financial institutions. It can also be describe as a means of obtaining resources at a certain period of time with an



obligation to repay in accordance with the terms and conditions of the credit obtained. Succinctly, credit refers to availability of resources (money) to household, firms and government with an agreement to repay at a stipulated period of time. Pandey, (2016) posits that the credit term to be granted to any customer depends on the norms and practice of the industry. In creating credit, a bank has to know how much of its idle fund after satisfied the requirements of the regulatory authorities (i.e. the Central Bank Nigeria, Nigeria Deposit Insurance Corporation). The tools such as the reserve requirements (cash and liquidly ratios), open market operations and stabilization securities are generally used by the authorities to control the flow credit that. Credit is created when a bank decides to lend some of the depositors' idle fund in its vaults to credit worthy customers. The granting of such credits assists the growth of the economy as resources are pooled from surplus units to needy units. Banks also used this process as an avenue to generate income/ profit as the interest rates at which the loans are granted is higher than deposit rate.

2.2 Economic Growth

In contrast and compared to development, economic growth is, in a limited sense, an increase of the national income per capita, and it involves the analysis, especially in quantitative terms, of this process, with a focus on the functional relations between the endogenous variables; in a wider sense, it involves the increase of the Gross Domestic Product (GDP), Gross National Product (GNP) and National Income (NI), therefore of the national wealth, including the production capacity, expressed in both absolute and relative size, per capita, encompassing also the structural modifications of economy. We could therefore estimate that *economic growth* is the process of increasing the sizes of national economies, the macro-economic indications, especially the GDP per capita, in an ascendant but not necessarily linear direction, with positive effects on the economic-social sector, while development shows us how growth impacts on the society by increasing the standard of life, (Amartya, 2018).

Typologically, in one sense and in the other, economic growth can be: positive, zero, negative. *Positive economic growth* is recorded when the annual average rhythms of the macro-indicators are higher than the average rhythms of growth of the population. When the annual average rhythms of growth of the macro-economic indicators, particularly GDP, are equal to those of the population growth, we can speak of *zero economic growth*. *Negative economic growth* appears when the rhythms of population growth are higher than those of the macro-economic indicators, (Amartya, 2018).

Economic growth is a complex, long-run phenomenon, subjected to constraints like: excessive rise of population, limited resources, inadequate infrastructure, inefficient utilization of resources, excessive governmental intervention, institutional and cultural models that make the increase difficult, etc. Economic growth is obtained by an efficient use of the available resources and by increasing the capacity of production of a country. It facilitates the redistribution of incomes between population and society. The cumulative effects, the small differences of the increase rates, become big for periods of one decade or more. It is easier to redistribute the income in a dynamic, growing society, than in a static one (Angelescu, 2015). There are situations when economic growth is confounded with economic fluctuations. The



application of expansionist monetary and tax policies could lead to the elimination of recessionary gaps and to increasing the GDP beyond its potential level. Economic growth supposes the modification of the potential output, due to the modification of the offer of factors (labour and capital) or of the increase of the productivity of factors (output per input unit).

2.3 **Empirical Review**

Mishra (2019) examined the direction of causality that runs between credit market development and the economic growth in India for the period 1980 to 2008. In the VAR framework the application of Granger Causality Test provided the evidence in support of the fact that credit market development spurs economic growth. The empirical investigation indicated a positive effect of economic growth on credit market development of the country.

Mukhopadhyay and Pradhan (2018) recently examined the causal relationship between financial development and economic growth of 7 Asian developing countries (Thailand, Indonesia, Malaysia, the Philippines, China, India and Singapore) during the last 30 years, using multivariate VAR model. The study concluded that no general consensus can be made about the finance-growth relationship in the context of developing countries. Examining the Nigerian experience, Fadare (2018) empirically identifies the effect of banking sector reforms on economic growth in Nigeria by using the data 1999 - 2009. Variables used for the study are interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation rate lagged by one year, size of banking sector capital and cash reserve ratios. Results indicate that the relationship between economic growth and other exogenous variables of interest rate margins, parallel market premiums, total banking sector credit to the private sector.

Kayode (2020) investigated the effect of bank lending and economic growth on the manufacturing output in Nigeria. Using the times series data which covered a period of 36 years (1973 to 2009), the technique he used for analysis the model is the co-integration and vector error correction model (VECM) techniques. The empirical outcomes of the study show that production volume utilize in manufacturing and bank rate of lending loans significantly affect manufacturing output in Nigeria. However, at the other hand relationship between manufacturing output and economic growth was found to be significant resulting to a success and progress in the country.

Akpansung and Babalola (2016), examined the impact of bank credit on the growth of Nigerian economy for the period of 1970-2008, using two-stage least square and granger causality test, the result indicates that bank credit has a negative impact on the growth of Nigerian economy with causation running from GDP to bank credit. Nwanyanwu (2018) employed OLS econometrics techniques in determining the impact of bank credit on the growth of Nigerian economy, she found that bank credit positively and significantly impact on the growth of Nigerian economy.

Abdullahi and Adamu (2018) adopted Autoregressive Distributed Lag Bound Approach (ARDL) to examine the relationship between banks' private sector credits and economic growth in Nigeria



for the period of 37 years (i.e 1974-2010). The study discovered that significant long-run relationship exists between private sector credits and economic growth, but no significant causality between them in either or both directions. Therefore, the study concluded that Nigerian banks are playing neither supply-leading nor demand-following roles but conform to the Schumpeterian independent hypothesis stage. It was recommended that implementation and adoption of more long-term loans for entrepreneurship ventures in Nigeria should be put in place instead of short term and self-liquidating credit facilities preferred by Nigerian banks. In the study of Tomola, Adebisi and Olawale (2019) on the effect of bank lending on the growth of manufacturing output in Nigeria. Times series data for the period of 36 years was employed and tested with the co-integration and vector error correction model (VECM) techniques. The study revealed that manufacturing capacity utilization and bank lending rates significantly affect manufacturing output in Nigeria. They suggested that concerted effort by the government, manufacturers and the lending institutions are needed to review the lending and growth policies and provide appropriate macroeconomic environment, in order to encourage investment, lending and borrowing by the financial institutions.

3.0 Methodology

The study adopts Johansen cointegration technique and Vector Error Correction Model (VEM) to measure the long-run and short-run relationship among the study variables. Furthermore, Granger Causality is utilized to measure the direction of causality between banks credits and economic growth within the coverage periods.

This section presents the sources of data utilized for the study as well as the methodology adopted to analyze the data.

3.1 Data Source

This study used secondary sources of data spanning the period of 1986 to 2022. The justification for the use of secondary data in this study is based on the conviction that relevant data so obtained was highly reliable, verifiable, and free from any bias, sentiment and spuriousness. The data was extracted from Central Bank of Nigeria Annual Reports and Statistical Bulletins within the coverage periods.

The study is treated as an expost facto research since the study relied on historical data. *Expost facto* research design involves the observation of events that have indeed taken place already (Asika, 2020). This will be most preferable for our purpose, and quite appropriate for this study.

Data collected was presented descriptively with the aid of tables, where as linear regression was used in testing the various hypotheses stated

3.2 Model Specification

$$Y = \alpha + \beta FD + \gamma X + \varepsilon \tag{1}$$

Where;

Y = GDP



FD = ratio of credit to the private sector

X = vector of other influential growth determinants ε = error term.

Models for this study will be patterned after the above model. The functional relationships for hypotheses one, two and three are therefore specified as follows:

$$RGDP_{1} = \beta 0 + \beta_{1}CPSR + \mu$$
⁽²⁾

Where:

 $RGDP_t = a + \beta_1 CPSR + \beta_2 CPSCR + \beta_3 CCR + \mu$

CPSR= Credit per GDP to the Private Sector Rate

CPSCR= Credit per GDP to the Public Sector Rate

CCR= Total of CPSR and PSCR

RGDP=Natural Log of Gross Domestic Product

a. Constant of the regression

 β = Coefficient of the explanatory variable

3.3 Measurement of variables

Real Gross Domestic Product: Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year. Real GDP is expressed in base-year prices. It is often referred to as constant-price GDP, inflation-corrected GDP, or constant-dollar GDP.

Bank credits to the public sector rate: Bank credit rate public sector refers to rate chargeable on loans received from commercial banks by the government. The higher the rate the more the banks get profit to reloan to other customers..

Bank credits to the private sector rate: Bank credit rate refers to the rate charged on the credits or loans offered by commercial banks to private sector. Bank credit rate is a quantitative credit control measure under the monetary policy of the bank as it is used to control the overall supply of the money in the economy.

4.0 **Results and Discussion**

4.1 Testing for Normality

In other to estimate the impact of bank credits on economic growth of Nigeria, we tested for normality of the time series data set. This was necessitated because we wanted to ensure that the parameters estimated are normally distributed time series data. We utilized the Jarque Bera Statistcs



(JB). To reject the null hypothesis that the data are normally distributed, the JB statistics must be significant at a critical value of 0.05 (Gujarati and Porter, 2009).

	CPSR	PSCR	CCR	LOGGDP
Mean	14.11538	18.73846	32.84615	6.639975
Median	11.00000	15.85000	26.75000	6.748563
Maximum	36.70000	38.00000	74.70000	7.607928
Minimum	5.900000	8.600000	14.50000	5.285841
Std. Dev.	8.374548	8.523946	17.76327	0.710165
Skewness	0.421982	0.983610	1.230563	-0.419240
Kurtosis	2.579322	2.720570	3.156243	1.992290
Jarque-Bera	4.125729	4.277043	6.588347	1.861741
Probability	0.110432	0.117829	0.037099	0.394210

Table 1Descriptive Statistics of CPSR, PSCR, CCR and RGDP

Source: Researcher's E-views Result, 2023

Note: a= Researcher's Computation, CPSR=Credit per GDP to the Private Sector Rate, PSCR= Credit per GDP to the Public Sector Rate, CCR= Total of CPSR and PSCR, RGDP=Natural Log of Gross Domestic Product

Credit to the private sector showed some relevant traits in performing the normality test. The table 4.1 above showed that Credit to the private sector is a little right tailed with skewness value of 0.42 and it also has peakness value of 2.57. The Jarque Bera test for normality with the value of 4.11 is significant at the probability value of 11%. It means that the data is fairly normal. The table showed that Credit to the public sector is a little right tailed with skewness value of 0.98 and it also has peakness value of 2.72. It also illustrates that there is strong evidence that the time series residual variable data of credit to the public sector is normally distributed as the probability of JB-statistic is 0.11 which is absolutely greater than the critical value of 0.05 hence the null hypothesis (H_1) is rejected in favour of the alternative (H_0) that the residual of the distributed.

The table showed that Credit to the private and public sectors is right tailed with skewness value of 1.23 and it also has peakness value of 3.1 considering 3 as the accepted kurtosis value. The figure above illustrates that there is strong evidence that the time series residual variable data of total credit to the public and private sector not normally distributed as the probability of JB-statistic is 0.03 which is absolutely less than the critical value of 0.05 hence the null hypothesis (H₀) is rejected in favour of the alternative (H₁) that the residual of the distribution of the model is not normally distributed.



The time series residual variable data of real gross domestic product is normally distributed as the probability of JB-statistic is 0.39 which is absolutely greater than the critical value of 0.05 hence the null hypothesis (H_1) is rejected in favour of the alternative (H_0) that the residual of the distribution of the model is normally distributed.

4.2 Testing for Stationarity

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In other to estimate the impact of banks' credit on economic growth of Nigeria, we tested for the presence of unit root in the time series data set. This was necessitated because we wanted to ensure that the parameters estimated are stationary time series data. We utilized the Augmented Dickey-Fuller (ADF). To reject the null hypothesis that that the data are non-stationary, the ADF statistics must be more negative than the critical values and significant.

From appendix 2, the empirical result of the unit root test for stationary of time series property of LOGGDP is shown. As revealed, there was a presence of stationarity since the ADF Statistical is less the critical values at 1%, 5% and 10% respectively at a three period difference, a lags and trend.

Table 2: Multivariate Johansen Cointegration Test Result (Trace and Max-Eigen Statis	stic)
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Trend assumption: No deterministic trend (restricted constant)					
Series: CPSR PSCR CCR RGDP					
Lags interval (in	first differences):	1 to 1			
Unrestricted Coi	ntegration Rank T	est (Trace)			
Hypothesized		Trace	0.05		
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**	
None *	0.834216	183.7464	134.6780	0.0000	
At most 1 *	0.757536	122.6460	103.8473	0.0016	
At most 2	0.555244	74.47141	76.97277	0.0764	
At most 3	0.461755	46.92360	54.07904	0.1859	
At most 4	0.340245	25.86261	35.19275	0.3497	
Trace test indica * denotes reject **MacKinnon-H	ates 2 cointegratin ion of the hypothe aug-Michelis (199	ng eqn(s) at the 0 sis at the 0.05 le 9) p-values	.05 level vel		
Unrestricted Coi	ntegration Rank T	est (Maximum Ei	genvalue)		
Hypothesized		Max-Eigen	0.05		
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**	
None *	0 834216	61 10040	47 07897	0 0009	
At most 1 *	0.757536	48.17460	40.95680	0.0065	
At most 2	0.555244	27.54781	34.80587	0.2827	
At most 3	0.461755	21.06100	28.58808	0.3353	
At most 4	0.340245	14.14015	22.29962	0.4493	
Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level					



* denotes rejection of the hypothesis at the 0.05 level **MacKinnon-Haug-Michelis (1999) p-values

Source: Extracts from E-Views 9, 2023

The result of the cointegration test indicates the existence of 2 cointegrating equations at five percent level of significance using the trace and maximum Eigen statistics. According to Osinowo (2015), the existence of at least one co-integrating equation using either trace statistics or maximum Eigen test established that, the relationship could be considered as a stable long-run relationship among the variables which qualify the equation to be estimated using appropriate econometric technique in this case, the error correction mechanism.

4.3 Vector Error-Correction Modelling

Having reached conclusions on the inherent long-run relationships, we proceed to investigate the short-run dynamics of the CPSR equation. The existence of cointegration among the I(1) variables entails the presence of short-run error correction relationship associated with them. The relationship represents an adjustment process by which the deviated actual CPSR is expected to adjust back to its long-run equilibrium path (Takaendesa, 2005). The results of the VECM of short run dynamics of trade are presented in Table .3.

Parameters	Coefficient	Standards Error	t-statistic
С	1.886566	1.11872	1.68637
D CPSR (-1)	0.574556	0.14215	4.04203
DPSCR(-1)	4.537235	0.78264	5.79734
DCCR(-1)	8.440742	3.12042	2.70500
DLOGGDP(-1)	-23.36249	1.23572	-18.9059
ECM (-1)	-0.085789	0.01960	-4.37699
Adjusted R ² =0.5177	<i>F</i> = 5.428435		

 Table 3: Short-run Dynamic Estimates of VECM Normalised on CPSR

Source: Extracts from E-views Output, 2023

The parsimonious result shows that the error correction mechanism was well specified and is statistically significant. This supports the earlier assertion that Bank credit in Nigeria and its regressors are cointegrated. The speed of adjustment which is the coefficient of the error correction mechanism (ECM) indicates the movement from short-run disequilibrium to long-run equilibrium indicated by (-0.085789) is negative which implies that about 8.58% of the disequilibrium in bank credits are corrected annually. The adjusted R^2 value of 0.5177 shows that about 51.77% of total variation in bank credit is determined or influenced by changes in the explanatory variables which show a good fit for the model.



Testing for Causality

Causality test was conducted to explore the transmission mechanism between bank credit and economic growth. Thus, within our bank credit - economic growth context, Granger Causality will be established if the coefficient β is non-zero or otherwise that is P-values being less than 0.05 critical values. The test is carried out based on one lag of the variables and data ranges from 1986 to 2022.

Table 4Granger Causality

Sample: 1996 2021			
Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Probability
CPSR does not Granger Cause PSCR	25	1.07067	0.31203
PSCR does not Granger Cause CPSR		3.91100	0.06063
CCR does not Granger Cause PSCR	25	1.09034	0.30774
PSCR does not Granger Cause CCR		2.41536	0.13442
LOGGDP does not Granger Cause PSCR	25	4.26476	0.030891853 9556
PSCR does not Granger Cause LOGGDP		1.68823	0.20729
CCR does not Granger Cause CPSR	25	3.86911	0.06192
CPSR does not Granger Cause CCR		2.34698	0.13978
LOGGDP does not Granger Cause CPSR	25	4.32045	0.04953
CPSR does not Granger Cause LOGGDP		0.75196	0.39522
LOGGDP does not Granger Cause CCR	25	4.44448	0.04663
CCR does not Granger Cause LOGGDP		1.17301	0.29051

Source: Researcher's Eview Result, 2023.

Note: CPSR=Credit per GDP to the Private Sector Rate, PSCR= Credit per GDP to the Public Sector Rate, CCR= Total of CPSR and PSCR, LOGGDP=Natural Log of Gross Domestic Product.

The result of the table 4 above explicitly shows that the Gross Domestic Product (LOGGDP) granger causes Public Sector Credit Rate (PSCR), Credit to the Private Sector Rate (CPSR) and Total Credit Rate (CCR). However, Public Sector Credit Rate (PSCR), Credit to the Private Sector Rate (CPSR) and Total Credit Rate (CCR) do not jointly granger causes GDP. This is evidence from the probability value of Fstatistic being greater than the critical value at 5%. Gujarati and Portar (2009) opined that granger causality and exogeneity should be treated separately but the former as a useful descriptive tool for time series data.



4.4 Discussion

This study examined the impact of banking credit on economic growth in Nigerian from 1986 to 2022. Following a detailed time series data analysis, the findings revealed plausible results on the economic growth parameter. The implications of these findings are discussed in line with the objectives of this study.

Objective One: To evaluate the impact of bank credits advanced to the private sector on the Nigerian economic growth. As revealed from the finding of this study, Credits to the private sector had positive and significant impact on Economic growth. Also a cursory examination revealed that the rate of penetration of credit granted to the private sector by financial institutions within the region contributes to 14.12% to gross domestic product. This implies that on the average about 14.12% of the entire private sector production had asses to bank credit.

Although, the result from the hypothesis tested indicates that Credit to the private sector had positive and significant impact on Economic growth, compared to other regions several reasons may have been behind the dismal Economic growth. Top among these reasons is high incidence of poverty. The reason for this dismal performance in Nigeria can be traced to the level of development of the financial sectors in the country. However, a 14% economic growth is a step in the right direction. It shows that with vitality, creativity and genuine organizational potential, the country can mobilize credit to improve on economic growth.

Objective Two: To ascertain the effect of bank credits extended to the public sector on Nigerian economic growth. Beck *et al.*, 2000 and Levine, 1997, opined that a weak credit to the public sector may be that credit to the public sector is weak in generating growth within the economy because they are prone to waste and politically motivated programs. As revealed from the average credit to the public sector per GDP of 18.7%, implying that on the average about 18.7% of the entire public sector production had asses to bank credit and the positive impact of credit to the public sector on Economic growth of the country answers to the possible difference being as a result of democratic governance exacting pressure on efficient allocation. This shows that with greater allocation responsibility the public sector can actual help drive the economy for a growth.

Objective Three: To ascertain the impact of the aggregate bank credits to the private and public sectors on the Nigerian economy. The average ratio of total credit to gross domestic product in Nigeria for the period 1987 to 2012 is 32.8%. As revealed from the finding of this study, total credit to the private and public sector had positive and significant impact on Economic growth. Also a cursory examination revealed that the rate of penetration of credit granted to the private and public sector by financial institutions within the country contributes 32.8% to gross domestic product. This implies that on the average about 32.8% of the entire private and public sector production had asses to bank credit.

Though, within the period of this study, economic activity was robust as attested by the positive and significant impact observed from the hypothesis tested in this regard, Nigeria's domestic constraints and a tightening competitive global environment could have led to the low impact observed from this study.



5.0 Conclusion and Recommendations

Based on the foregoing, it is concluded that bank credits to the private sector have positive and significant impact on economic Growth in Nigeria. Similarly, bank Credits to the public sector have positive and significant impact on economic Growth in Nigeria it is also concluded that bank Credits to the public and private sectors have positive and significant impact on economic Growth in Nigeria.

5.1 **Recommendations**

In line with the specific objectives of this study, we recommend as follows:

- 1. Provision of private sector credits to priority economic sectors of the economy holds great opportunity to promoting economic growth. The banking sector, which is the main source of credit to the private sector, is an important channel of financial intermediation through which financial resources can be mobilized for productive investment needed for the realization of the high economic growth. Policy frameworks should be established for further financial market developments that favour more credit to the private sector with minimal interest rate to stimulate economic growth.
- 2. Sustained and equitable economic growth is clearly a predominant objective of public expenditure policy and one of the sources of public sector finances includes external borrowing from banks. Policies on public sector borrowing and spending should be reviewed in other to discourage gross unproductive "white elephant" investments and more credit channeled into sub sectors with a more linkage effect such as agriculture, manufacturing, energy and infrastructural development.
- 3. The single most important thing to understand about finance and economics is that credit growth drives economies. This study recommends that policy makers should pay attention to the level of credits to each sector in order not to crowd out one, especially the private sector, in obtaining credit.

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