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DEPOSIT MONEY BANK'S CREDIT TO PRIVATE SECTOR AND ECONOMIC GROWTH IN NIGERIA

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Abstract

In this study, the empirical impact of loans to the private sector on Nigeria's economic growth from 1981 to 2021 is evaluated. The impact of CPS on Gross Domestic Product Growth (GDPG) was examined using series data and the ordinary least squares technique. Credit to the private sector, lending rate, and deposit money bank's assets were used as independent variables. The series' data were taken from the World Bank Indicators 2021 and the Central Bank of Nigeria's Statistical Bulletin 2021. The analysis's findings indicate that all of the variables, including Gross Domestic Product (GDPG), CPS, INTR, and DMBA, were stationary at 1st difference. The analysis discovered that the variables are cointegrated, which means they have a long-run link, even though interest rate was statistically proven to have a negative impact on economic growth. As a result, the study advises policymakers to adopt measures that will direct more money into the economy's productive sectors, and banks should act as effective financial intermediaries so that financial resources are allocated to the most productive uses in order to boost economic growth in Nigeria.

Keywords: *Credit to Private Sector, Economic Growth, Time Series, OLS.*

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1. Introduction

In a small, open economy like Nigeria, deposit money banks (DMBs) are crucial for fostering growth. These institutions play crucial roles in ensuring that sufficient monies move between economic organizations, particularly in supporting the operations of an economy's deficit sector (Ogege and Boloupremo, 2014). Deposit money banks carry out a number of specific tasks to promote the growth of an economy. Deposit money banks' primary and secondary functions are expanding as a result of the fast-moving shift toward a customer-centric model in the 21st

century. The level of economic development of an economy is influenced by a number of elements, including the endowment of natural resources, technical know-how, the supply of trained labor, and, of course, capital resources (Ogege and Shiro, 2013). The functions performed by deposit money banks are encouragement of savings, provision of capital needed for development, encouragement of trading activities through the use of cheques, encouragement of investment, provision of managerial advice to industrialists who do not engage the services of specialists and rendering financial advice (Ogar, Gabriel and Arikpo, 2015). Results from earlier studies showed that the topic under study had a variety of results. As a result, the current study's goal is to reevaluate how Nigeria's credit to private sector affects economic growth. The remaining four sections of the study are organized around the literature review in the subsequent section. The econometric technique used and data sources are presented in section three; the empirical analysis and interpretations are shown in part four. The conclusion and recommendations are found in section five.

2. Literature Review

Several studies on the subject matter were conducted with mixed finding. studies by Samsi, Yusof, and Cheong (2012); Tomola, Adedisi, and Olawale (2012); Okwo, Mbajiaku, and Okelue (2012); Oriavwote and Eshenake (2014); Alkhazaleh (2017); Kolapo, Oke, and Olaniyan (2018); Amos (2020). Similarly, Evbuomwan *et al.* (2013) used a vector autoregression and error correction mechanism (ECM) technique to empirically assess the impact of deposit money banks' loan on the performance of MSMEs in Nigeria. The results of the empirical study showed that credit had a positive effect on MSMEs' GDP in Nigeria.

In order to ascertain the influence and the direction of causality between banks and economic growth throughout intense regulation, deregulation, and guided deregulation regimes, Obademi and Elumaro (2014) reexamine the financial repression theory. The findings of the causality test and ordinary least squares regression demonstrate that banks considerably contribute to economic growth in Nigeria, especially during periods of deregulation. Banks yet appear unconcerned with growth in terms of causality.

In their study, Benjamin and Onyewuchi (2015) focused on the liquidity ratio, interest rate, rate of inflation, loan deposit ratio, and cash reserve ratio as the factors that determine deposit

money banks' loans and advances in Nigeria. Data from deposit money banks in Nigeria that displayed performance indicators between 1994 and 2013 were obtained from secondary sources. Data was examined using the OLS Regression Technique. While the rate of interest with loans and advances has a negative statistical insignificance, the results demonstrated a negative statistical significance.

According to Uzonwanne (2015), commercial banks in Nigeria don't have a strong culture of financing SMEs. The information was taken from the CBN's statistical bulletin for the years 1995 to 2012. In order to obtain the required proportion of lending to SMEs, the study used descriptive methodologies for the data analysis and came to the conclusion that financial authorities should start taking steps to deal with the problem of funding SMEs.

In their study, Dalhat and Hassan (2016) looked at the contribution of money deposit banks to the financing of small and medium-sized businesses in Nigeria between 1981 and 2012. Data from a primary source was used. The history of financial assistance, the culture of the organization, and managerial skills were among the study's variables. The data were analyzed using both the linear regression analysis and the multiple regression analysis. They discovered that the expansion of SME's in Nigeria is positively and significantly impacted by DMB's credit.

Udoka, Mbat, and Duke (2016) investigated the impact of commercial bank credits on Nigerian agricultural production using the OLS approach. They found that agricultural productivity in Nigeria grew concurrently with increased commercial bank loans to the agricultural sector.

In their 2016 study, Jatau, Ali, and Ashami (2016) examined the effects of deposit money banks' investment and credit growth in developing economies between 1981 and 2012. Total deposit money, bank credit, interest rate, and investment are the variables considered. They used the ordinary least square (OLS) regression method using the E-views program to examine the data. The study's conclusions show that the total credit extended by deposit money banks and the disclosed interest rates have a positive and significant impact on investment in Nigeria.

Bandlamudi and Taidala (2017) undertook a critical analysis of the effect of commercial banks on India's economic growth. The study provides evidence of the effects of credit and loans on India's GDP and subsequent rate of economic growth.

In their 2017 study, Sikder, Wadud, and Hasan (2017) examined economic growth and financial development in Bangladesh and India between 1974 and 2015. The variables considered in the study were GDP, domestic credit, domestic credit to the private sector, and wide money. It made advantage of the Cointegration and Causality approach. They found a long-term, causal relationship between the variables studied for Bangladesh and India.

Adesola et al.'s (2019) analysis of the relationship between financial deepening and the growth of the Nigerian economy between 1981 and 2017 using an auto-regressive distributed-lag approach found, among other things, that there is neither a significant long-run relationship nor a short-run causality among the proxies used to capture the exogenous and endogenous variables. It showed how horrifyingly the Nigerian financial system had grown over the time under examination.

In their study, Foluso, Abdul-lateef, Rotimi, Adesina, and Ridwan (2019) used a cross-sectional research design. The years 2008 through 2017 were picked after a search of ten (10) years' worth of financial performance index reports of SMEs companies in the Central Bank of Nigeria's (CBN) statistical bulletin. The index contained both dependent and independent components. GDP is a stand-in for SMEs, and fund deposits, loan options, and return on equity are substitutes for the variable used by deposit money institutions. The data was analyzed using descriptive statistics and ordinary least squares techniques. The study discovered that the factors influencing the expansion of SMEs in Nigeria have positive co-efficient values, whereas the returns on equity have negative co-efficients. Due to the unimpressive return on equity from SMEs, the recent economic recession in Nigeria has had an impact on SMEs.

Using 30 Vietnamese commercial banks, Nguyen (2020) tested the impact of commercial bank development on economic growth in Vietnam. The research data were compiled using the WDI and the annual reports of commercial banks for the years 2007 to 2018. The results of the study show the critical role that commercial banks played during this period of Vietnam's economic progress.

Deposit Money Banks Services and Economic Growth in Nigeria were investigated by Adebisi and Ewa (2020). Between 1984 and 2017, time series data were collected from the CBN statistics Bulletin. It also showed low short- and long-term effects of interest rate spread and

negligible short- and long-term effects of total bank deposits on the growth of the Nigerian economy.

In their study from 1994 to 2017, Akintola and Adesanya (2021) concentrated on the connection between Nigeria's deposit money banks (DMBs) and economic growth. According to the study's findings, deposit money institutions significantly influenced Nigeria's economic growth through money supply, credit to the private sector, and interest rates charged on loans to borrowers.

3. Methodology and Data Sources

Annual time series data on economic growth (GDP growth), private sector credit, lending rate, deposit money bank assets, and money supply were gathered for the years 1981 to 2021. Data on the variables were taken from the CBN Statistical Bulletin (2021) and the WDI (2021) taking into account the study's aims and hypotheses.

The ordinary least squares method was employed in the study to assess the relationship between GDP and the relevant independent variables. Before modeling the variables, it is useful to be aware of the orders of integration for the variables being taken into account (Asteriou and Hall, 2007). In this work, unit root tests were executed using the Augmented Dickey Fuller (ADF) test.

Co-integration analysis, in accordance with Johansen and Juselius (1990), makes clear the long-term relationships between integrated variables. Co-integration theory states that if two data series are non-stationary, then it is likely that their linear combination's residuals or long-run co-integration regression will be stationary as well. In this case, characterizing or, in a more formal sense, representing or specifying the relationship between the two series would be best done using an error correction model.

3.1 Model Specification

The study adapts the empirical work of (Adesola and Uket, 2019) in order to specify the functional form model.

Thus, the functional form of the model for the study is presented below;

GDPG = *f* (CPS, INTR, DMBA) …… (3.1)

Linear form of the model is presented below;

$GDPG_t = \beta_o + \beta_1 LogCPS_t + \beta_2 INTR_t + \beta_3 LogDMBA_t + \mu_t$ …… (3.2)

Where;

GDPG = Gross Domestic Product Growth

f = functional relationship

CPS = Credit to Private Sector

INTR = Interest Rate of Deposit Money Banks

DMBA = Deposit Money Bank's Assets

β_o= Benchmark (GDPG Intercept)

β_1, β_2, and β_3 = Slope of the coefficients

μ= Error term

4. Empirical Analysis and Interpretations

Table 1: Descriptive Statistics

	GDPG	LCPS	INTR	LDMBA
Mean	2.984463	6.530877	17.55756	7.334574
Median	3.200125	6.639824	17.56000	7.717369
Maximum	15.32916	10.60169	29.80000	11.64577
Minimum	-13.12788	2.148268	7.750000	2.969388
Std. Dev.	5.391234	2.814553	4.593267	2.767227
Skewness	-0.785288	-0.105753	0.184959	-0.125535
Kurtosis	4.566736	1.583158	3.555654	1.610935
Jarque-Bera	8.407339	3.505801	0.761216	3.403916
Probability	0.014941	0.173271	0.683446	0.182326
Sum	122.3630	267.7660	719.8600	300.7175
Sum Sq. Dev.	1162.616	316.8683	843.9240	306.3018
Observations	41	41	41	41

Source: Author's computation, 2023

The table above shows the descriptive statistics of the variables. The mean values simply tell us tells us the average value for each of the variable. And the median simply tells us the middle values for each of the variables. While the maximum and minimum values tell us the highest and lowest figures in each of the variables. The standard deviation tells us the deviation from

the sample mean with respect to each variable. For normal Skewness the value is zero therefore, GDPG has a long-left tail (negative skewness) -0.78. CPS has a long-left tail (negative skewness) -0.10. INTR Mirrors normal Skewness 0.18 while DMBA has a long-left tail (negative skewness) -0.12. Kurtosis value of 3 means the distribution is normal (Mesokurtic), more than 3 means it is leptokurtic, and less than 3 means it is Platykurtic. Therefore, GDPG is leptokurtic because 4.566736 is greater than 3. CPS is Platykurtic because 1.583158 is < 3. INTR is Mesokurtic because Kurtosis = 3.555654. DMBA is Platykurtic because 1.610935 < 3. Furthermore, the null hypothesis for Jarque-bera test is that "The Distribution is Normal" Now if the P-value is above 0.05 level of significance we cannot reject the null hypothesis. Hence, we say that the variable is a normally distributed curve i.e. it has a normal distribution. And if the P-value is less than 0.05 level of significance we reject the null hypothesis of a normal distribution. Hence, we say that the variable is not normally distributed. For GDPG the P-value is below 0.05 we reject the null hypothesis; hence, we say that GDPG is not normally distributed and GPDG doesn't have a normally distributed curve. For CPS the P-value is above 0.05 we cannot reject the null hypothesis; hence, we say that CPS is normally distributed and CPS has a normally distributed curve. For INTR the P-value is above 0.05 we cannot reject the null hypothesis; hence, we say that INTR is normally distributed and INTR has a normally distributed curve. For DMBA the P-value is above 0.05 we cannot reject the null hypothesis; hence, we say that DMBA is normally distributed and DMBA has a normally distributed curve.

4.1 Stationarity Test Results

Most time series variables are said to be non-stationary and using non-stationary variables in the model will lead to spurious regressions (Asteriou and Hall, 2007). Stationarity was assessed for each variable using the Augmented Dickey-Fuller (ADF) test as shown in table 2 below;

Table 2: Stationarity Test Results

Test Statistics			
Variables	**A: Level**		
	Intercept	**Trend & Intercept**	**Significance Level**
GDPG	-3.020806 (1)	-2.471813 (1)	Not stationary at level
LCPS	-2.808444 (0)	-1.073369 (0)	Not stationary at level
INTR	-2.388214(2)	-3.300310 (0)	Not stationary at level

LDMBA	-6.673475 (9)	-5.673475(9)	Not stationary at level
B: 1st Difference			
ΔGDPG	-10.07167(0) *	-10.45065(0) *	Stationary at first difference
ΔLCPS	-3.296652(0) *	-5.366740(0) *	Stationary at first difference
ΔINTR	-5.908318(1) *	-6.256787(1) *	Stationary at first difference
ΔLDMBA	-3.100111 (9) *	-3.365338 (9) *	Stationary at first difference

Source; Author's computation, 2023

Note: (*) show the level of significance at 5%

Since the variables are I(1), the next step is to check if the variables are cointegrated and if they are cointegrated an error correction model can be estimated.

4.2 Co-integration

The variables in table 2 above are stationary at the 1st difference, I(1), which suggests that they are all integrated of the same order. The Johansen co-integration test was also employed to examine the long-term relationship between the variables. The outcome is described as follows:

Table 3: Cointegration Test

Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.514931	51.08175	47.85613	0.0241
At most 1	0.311489	23.59010	29.79707	0.2183
At most 2	0.219288	9.407570	15.49471	0.3290
At most 3	1.863005	0.000708	3.841466	0.9799
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.514931	29.49165	27.58434	0.0514
At most 1	0.311489	14.18253	21.13162	0.3503
At most 2	0.219288	9.406862	14.26460	0.2538
At most 3	1.863005	0.000708	3.841466	0.9799
Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				

Source; Author's computation, 2023

From table 3 above we can infer that both Max-Eigen and trace tests indicates I cointegrating eqn(s) at the 0.05 level of significance. As seen above, the variables included in the study are co-integrated, which means that they have a long-run relationship and move in tandem in the long-run.

4.3 **Discussion of OLS Results**

Table 4: OLS Result

Variable	Coef.	Std. Err.	t-Statistic	Prob.
C	11.66882	2.958105	3.944696	0.0004
LCPS	1.230926	0.370343	3.323748	0.0020
INTR	-0.468436	0.156664	-2.990069	0.0050
LDMBA	0.000114	5.101605	2.233202	0.0318
R^2=0.56	$\hat{R}^2$ = 0.50	F= 9.811197	Prob> F= 0.000072	DW= 1.534719

Source; Author's computation, 2023

The findings clearly support the claim that good banking system management will have a favorable effect on the expansion of the Nigerian economy. According to the aforementioned R^2 statistic, the explanatory variables in terms of credit to the private sector (CPS), interest rates (INTR), and deposit money bank assets (DMBA) accounted for 56% of the variation in the gross domestic product (GDPG).

This suggests that the model can only account for 56% of the changes in GDPG, leaving the remaining 44% unaccounted for. Since R^2 gauges the model's fitness, this model has good fit, meaning the data is fitted is well. After accounting for the degrees of freedom, the $\hat{R}^2$ (which might be less than or equal to R^2) explained 50% of the variance in GDPG. We can conclude that the explanatory variables fully account for the behavior of the dependent variable.

Using the F-statistic, we may determine whether the independent variables are collectively significant to explain the dependent variable or the overall relevance of the model. We can therefore infer that there is a statistically significant association between the explanatory variables and the dependent variable given the F-statistic value of 9.811197 and the Probability value of 0.000072.

This is because the null hypothesis, which states that there is no significant relationship between the explanatory variables and the dependent variable, was rejected because the probability value of 0.000072 is less than 0.05, or at the 5% level of significance. As a result, the alternative hypothesis, which states that there is a significant relationship between the explanatory variables and the dependent variable, was accepted.

A 1% increase in CPS will result in a 123% increase in GDPG, according to the coefficient of CPS, which is 1.23 and indicates a positive and strong link with GDPG. This is consistent with economic theory and earlier studies that found that giving credit to the private sector will boost Nigeria's economy. This finding supports the idea that economic growth cannot exist without the banking industry's ability to extend credit, which has the potential to accelerate economic growth in Nigeria. With this finding, we reject the null hypothesis, which claims that credit to the private sector has no substantial impact on economic growth in Nigeria. This is consistent with what Okwo, Mbajiaku, and Ugwunta (2012) found.

We accept the null hypothesis and reject the alternative hypothesis since the coefficient of INTR is negative but statistically significant, indicating that there is a negative link between interest rates and economic growth in Nigeria over the research period. The interest rate is a key component of Nigeria's banking system, and changes in it have an impact on the national economy. This suggests that it is necessary to maintain interest rates at a level that will accelerate the nation's economic expansion.

The positive coefficient of DMBA is consistent with the 'a priori' notion that the assets of deposit money banks and GDPG are positively correlated. Deposit money bank assets, valued at 0.000114, provided a positive and meaningful explanation for the link between GDPG. It is anticipated that a rise in deposit money bank assets will result in an increase in GDPG. The GDP will rise if deposit money banks' assets in Nigeria rise. Therefore, DMBA and economic growth in Nigeria over the research period have a positive and statistically significant association.

Taking into account the Durbin-Watson Statistic of 1.5, which can be roughly translated to 2, shows that the model is autocorrelation-free or has no autocorrelation.

4.3.1 Error Correction Mechanism (ECM) Result

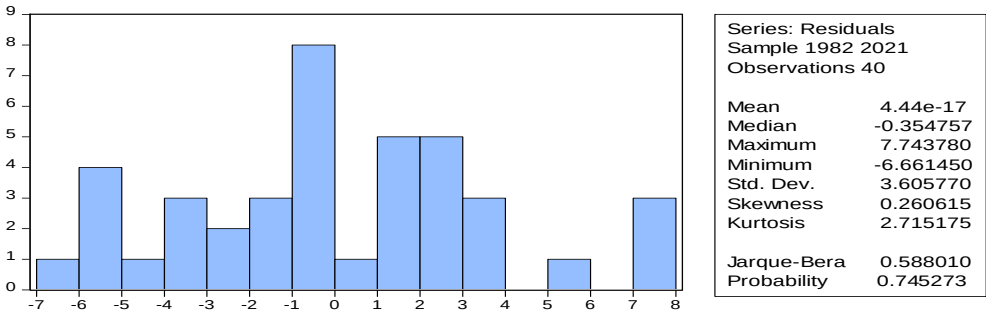
Table 5: ECM Result

Dependent Variable: D(GDPG)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.466654	1.332319	1.100828	0.2785
D(LCPS)	0.210956	4.062058	0.051933	0.0489
D(INTR)	-0.345721	0.144134	-2.398605	0.0219
D(LDMBA)	5.342710	5.851420	0.913062	0.0375
ECT(-1)	-0.629369	0.146964	-4.282465	0.0001
R-squared	0.417491	Mean dependent var		0.360947
Adjusted R-squared	0.350918	S.D. dependent var		4.724398
S.E. of regression	3.806241	Akaike info criterion		5.627630
Sum squared resid	507.0614	Schwarz criterion		5.838740
Log likelihood	-107.5526	Hannan-Quinn criter.		5.703960
F-statistic	6.271218	Durbin-Watson stat		2.071403
Prob(F-statistic)	0.000649			

Source; Author's computation, 2023

From the table above, the coefficient of ECT is 0.6293 which shows the speed of adjustment towards equilibrium. Here the speed is 62.93% per unit of time annually or in a year. All else equal the Error Correction term is negative and statistically significant.

Normality Test



Source; Author's computation, 2023

Figure 1: Normality Test

Here we check if the residual is normally distributed i.e. Residual = actual GDP – fitted GDP. From the result obtained it can be seen clearly that the residual is normally distributed because the probability value of 0.745273 is above 5% which implies that the residuals are normally distributed which is desirable.

Serial Correlation LM Test

Table 6: Breusch-Godfrey Serial Correlation LM Test			
F-statistic	0.990996	Prob. F(2,33)	0.3820
Obs*R-squared	2.266301	Prob. Chi-Square(2)	0.3220

Source; Author's computation, 2023

The observed R^2 is 2.266301 while the F-statistic is 0.990996 and since the probability values of both is greater than 0.05, hence we say that there is no evidence of serial correlation in the model.

Heteroskedasticity Test

The variance of the error term is homoscedastic if the probability value of the computed Chi-Square statistics is greater than 0.05.

Table 7: Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.221086	Prob. F(4,35)	0.9249
Obs*R-squared	0.985771	Prob. Chi-Square(4)	0.9119
Scaled explained SS	0.647248	Prob. Chi-Square(4)	0.9577

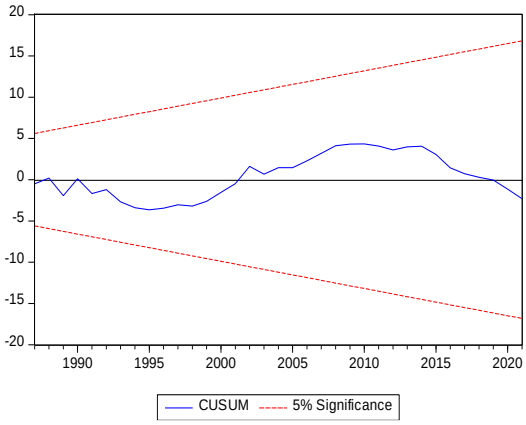
Source; Author's computation, 2023

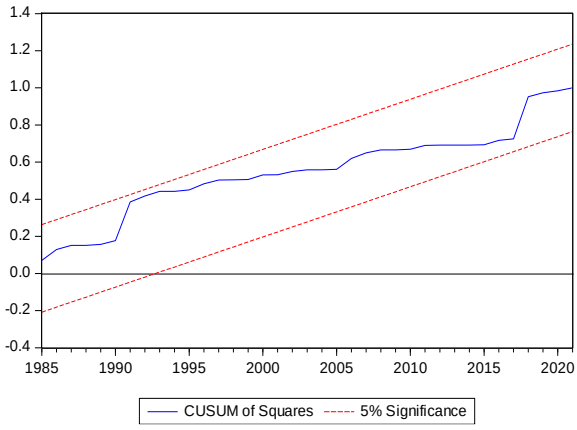
The observed R^2 is 0.985771, since the probability value, which is 0.9119, is more than 0.05, the error term is considered to be homoscedastic at the 5% level of significance.

Stability Test Result

The tests performed on the residuals show that there is no evidence of coefficient instability. This is due to the test's assumption that residuals outside of the standard error bands signal that an equation's parameters are unstable, but in this instance, the residuals are contained inside the crucial lines and do not deviate from them. This means that the model is stable. Plots of the CUSUM and CUSUMSQ statistics show that the coefficients have remained stable during

the course of the study since they are located within the critical regions of the 5 percent confidence interval of parameter stability.





Source; Author's computation, 2023

Figure 2: Stability Test CUSUM **Figure 3: Stability Test CUSUMQ**

5. Conclusion

In fact, CPS had a favorable impact on GDP during the research period, which shows that CPS has the potential to significantly speed up Nigeria's economic growth. Given that the previous finding clearly shows that interest rates are bad for growth, a consistent but intentional lending rate strategy will help to encourage that growth by keeping interest rates in check. According to the study's findings, deposit money banks' assets have a positive and significant influence on growth. As a result, DMBs must focus on certain strategies, like credit flow, significant

borrowers, and credit discipline, in order to manage their asset quality, which will in turn foster economic growth in Nigeria.

In conclusion, this study empirically evaluated the effect of lending to the private sector on economic growth in Nigeria using GDPG as the dependent variable and the amount of credit given to the private sector, the interest rate, and the assets of deposit money banks as the independent variables from 1981 to 2021. Through data analysis, it was determined that there was a connection between private sector credit and economic growth, and that each independent variable had a positive and significant effect on growth. The conclusion that credit to private persons throughout the study period had a positive impact on growth, which in turn enhanced growth, is further supported by the fact that all of the regressors were statistically significant at the 5% level of significance. However, the variables considered in this study are essential components in shedding light on Nigeria's economic growth. The study's concluding finding is that credit has a big impact on Nigeria's economic development.

Based on the researcher's results, it is essential to provide a set of policy suggestions that would be suitable for the Nigerian economy. According to economic theory, the banking system should implement measures that will funnel more money into the economy's productive sectors, and the banks should function as efficient financial intermediaries to distribute financial resources to the most productive uses in order to reap and maximize the benefits of credit allocation. This is because all of the coefficients are statistically significant and show the right signs. As a result, the economy will expand at incredible rates. According to the conclusions surrounding interest rates, decision-makers should adopt long-term initiatives because a strong lending rate eventually depends on solid economic foundations. DMBs must focus on strategies including credit flow, large borrowers, and credit discipline in order to manage their asset quality. This will aid in the expansion of the Nigerian economy.

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