Influence of Bank Credits on the Nigerian Economy

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Abstract
The aim of this study is to examine the influence of bank credits on the Nigerian economy using time series data covering the period from 1980 to 2017.Gross domestic product was used as proxy for the economy while credits to the private sector, public sector and prime lending rate were used as proxies of Banks credits. Unit root test was used to test stationary which reveals that all the variables were stationary at first difference. The regression analysis result shows that credit to the private sector have positive effect on Nigerian economy while credit to public sector and prime lending rate have negative effect on the Nigerian economy. The result of co-integration test presented reveals that there exist among the variables co-integration which means long-run analysis. It is recommended that, policy makers should focus attention on long-run policies to promote economic growth such as development of modern banking sector, efficient financial market, infrastructures.

Keywords: Financial institutions, Bank credits, Economic Growth, Economic Development , Resources

1. Introduction

Globally banks in developing countries are expected to play vital and effective roles in financing their economic projects and activities as their contributions in ensuring sustainable economic growth and development. As financial institutions, banks perform intermediation roles by allowing funds to be channeled from people who might not put them to productive use to people who will definitely do so within an economy. The intermediary roles of bank can foster economic growth through rising of savings, improving efficiency of loan-able funds and promoting capital accumulation. The importance of bank credit in developing economy has been acknowledge in Schumpeter (1934) who argue that banking sector facilitate technological innovation through their intermediary role. He emphasized on the efficient allocation of savings through identification and funding of entrepreneur as well as implementation of innovative production processes that are the main tools in order to achieve real economic performance. In the same vein, Shaw (1967) and McKinnon (1973) also agreed the fact that financial development facilitates economic growth by increasing savings, efficient allocation and investment of financial resources. These studies further explained that development of financial markets is an essential condition for rapid economic growth. The level of development and sophistication of a country's financial sectors could be relied on as one of the valuable indicators of economic growth.

Sustaining economic development has been the paramount objective of all successive government in the country since Nigeria independence in 1960. This led to the implementation of several national development plans and programmes aimed at boosting productivity and diversifying the economic base. The agenda necessitates the

intervention of financial sectors especially banking industry by providing financial resources for large scale production of industries and provision of other credit facilities within the economy. The role of financial intermediation in sustaining economic development cannot be over-emphasized; the development of this sector determines how it can effectively and efficiently discharge its major role of mobilizing fund from the surplus unit to the deficit unit within the economy.

According to Adekunle, Salami and Adedipe (2013), a well-developed financial system plays several roles to boost efficiency of intermediation through reduction of information, transaction and monitoring costs. It will also enhance investment by identifying and funding good business opportunities, mobilizes savings, encourage trading, hedging and diversification of risk as well as facilitating exchange of goods and services. All these resulted in more efficient allocation of resources, accumulation of physical and human capital and faster technological progress, which in turn leads to economic growth.

The attempt to strengthen the private sector (manufacturing sector inclusive) by the government led to the implementation of financial liberalisation policy in 1986 as part of the Structural Adjustment Programme (SAP). The Structural Adjustment Programme (SAP) was an economic reform programme aimed at restructuring the economy and averting economic collapse. The key objectives of SAP are to lay the basis for sustaining non-inflationary or minimal inflationary growth and improve the efficiency of the public and private sectors. Therefore, the financial liberalization (reform) policy entails the provision of an appropriate legal and regulatory framework for effective private participation in the economy.

The country also adopted a medium-term strategy, called the National Economic Empowerment and Development Strategy (NEEDS) in 2004, as a response to the numerous challenges facing the nation. Recently, the government approved vision 20-2020 for transforming the country into a modern economy, among the 20 leading countries in the world by 2020 (The Times of Nigeria 2008). The objective of the vision 20-2020 is in line with various studies and projections by Goldman Sachs that Nigeria will be the 20th and 12th largest economy of the World by 2025 and 2050 respectively ahead of Italy, Canada, Korea, among others(Skyscraper City 2006), and Africa biggest economy by 2050 (Business Economy, 2008). The vision 2020 is to be realized through the growth of the private sector.

However, as Solanke (2007) argued, the state of the private sector, its characteristics, disposition and resilience would determine in substantial respects how far the lofty objectives of repositioning Nigeria's economy can be achieved. Accordingly, the Nigeria government has also adopted the public private partnership (PPP) strategy. PPP schemes are designed to lead to dramatic improvement in quality, availability and cost-effectiveness of services. These include Service Contracts; Management Contracts; Leases; Build, Operate and Transfer; and Concessions. As a compliment to the various programmes of the government to accelerate the rate of growth of the economy, it has been suggested that the level of dependence on the oil sector should be reduced, while concentration should be on the manufacturing, energy, transport and agriculture (Hale, 2002). This means that efficient allocation of funds to the real sector have high tendency of improving the economy.

In the mid-80s, the direct control of credit allocation and regulated interest rate structure was used to channel banks credit to the real sectors of the economy by that arrangement, banks were statutorily required to allocate most of the loan-able funds to the key sectors like agriculture, manufacturing, sold minerals, housing at low rate of interest which would result in high investments and outputs and invariably growth of the domestic economy, however, the weakness that characterized the policy in September 1986 to eliminate inefficiency and enhance effective mobilization and utilization of resources which ultimately would translate to a sound and stable banking system. Hence, the Central Bank of Nigeria has made concerted effort via several banks reforms especially from the wake of last decade through effective surveillance and prudential guidelines, a more stringent procedure for licensing and increase in the capitalization base among others to ensure a sound and stable banking system capable of providing effective intermediation that would stimulate growth, encourage medium and long-term lending to the real sectors capable of diversifying the productive base of the economy (Iwedi & Igbanibo 2015). It would be recalled that the banking crisis in Nigeria in the 1990s was associated with sharp increases in interest rate, large currency depreciation and devaluation and lasting decline in the supply of credit. It is worth knowing that access to bank credit allows firms to increase production, output and efficiency and in turn increases the profitability of banks through interest earned and improves economic growth (Adeniyi 2015).

Abubakar and Gani, (2013) also agreed that the real sector in Nigeria still face difficulty in the accessibility of financial resources especially from the commercial banks that hold about 90% of the total financial sector assets and high rate of interest rate causing many firms to avoid bank-borrowing. Other formidable financing challenges include concentration of bank credit to the oil and gas, communication and general commerce sectors to the disadvantage of the core real sectors such as agriculture and manufacturing sectors. Also, banks are more disposed to financing government financial need as almost 50% of their assets are tied up by government debt.

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Basically, the Nigerian commercial banks dominate the financial sector and account for a large proportion (above 90%) of transactions within the system. This is measured as percentage of total assets of the commercial banks to other financial institutions within the system. The above clearly shows that the deposit money banks dominate the Nigerian banking scene. It therefore becomes very important to study the effectiveness of these banks on the Nigerian economy. There has been a renewed interest globally into the study of credit and its ability to generate growth and the position of this country makes it somehow important to see the contribution of the financial sector to the spate of growth within the economy. This study shall examine the influence of bank credit on the Nigeria economy using credit to private sector, credit to public sector and prime lending rate as the independent variables while real gross domestic products as dependent variables.

Series of empirical studies has been conducted on the subject matter from both developed and developing countries for example; (Akpansung, 2011; Murty, Sailaja & Dismissie, 2012; Muhsin & Eric, 2000; Mishra, Das & Pradhan 2009; Aliero, Abdullahi & Adamu, 2013; Hassan, Sanchez & Yu, 2011; Eatzaz & Malik, 2009; Debray, 2003; Aurangzeb, 2012; Ekpenyong & Ikechukwo, 2011;). However, some studies found positive relationship between commercial bank credit and the economy (Ahmed, 2008; Akpansung and Babalola 2011; Aurangzeb, 2012;) among others, while others found a negative relationship between commercial bank credit and economy (Nuno, 2012; Debray, 2003; Ekpenyong & Ikechukwo, 2011; Hassan et al. (2011), Levine (1997) and Levine, Loayza & Beck, 2000). However, the divergence in previous findings may be attributed to differences in methodologies, economic factors and time frame among others. In the same way, the study by Mushin and Eric (2000) showed that the effect runs from economic growth to financial development and not otherwise.

Atseye, Edim and Ezeaku (2015) highlight that despite the fact that credit influences the economy there still remains a gap in understanding the causal relationship between commercial bank credit and its impact in developing economies. The influence of such types of credit on economic growth has received little attention from researchers. Admitting the existence of such gap, Tuuli (2002) states that of course there have been a few empirical findings on the determinants of growth in developing economies, but the relationship between bank credit and the economy has however been neglected. For this reason, the need to fill this gap necessitated this empirical study on the Nigerian case.

This study will be able to answer the following empirical questions; does bank credit to the private sector affect the Nigerian economy? Does bank credit to the public sector affect the Nigerian economy? Does prime lending rate of bank credit influence the Nigerian economy?

The study sought to achieve the following specific objectives: to determine how bank credits to the private sector affects the Nigerian economy, to determine how bank credits to the public sector affects the Nigerian economy and to establish the extent to which prime lending rate of commercial bank credits affect the Nigerian economy.

The outline of the study is as follows: section one discussed the introduction of the paper, section two discussed the literature review, section three outlines the methodology, section four presents the data analysis and discussion of results and lastly, section five recommendations and conclusion

2. Literature Review
2.1 Concept of Economic Growth
According to Dewett (2005) as cited in Nwanyanwu (2010), economic growth is an increase in the net national product in a given period of time. He explained that economic growth is generally referred to as a quantitative change in economic variables, normally persisting over successive periods. He added that determinants of economic growth are availability of natural resources, the rate of capital formation, capital-output ratio, technological progress, dynamic entrepreneurship and other factors.

2.2 Concept of Bank Credits
CBN briefs (2003) define bank credits as the amount of loans and advances given by the banking sector to the various economic agents. CBN Monetary policy circular (2010) identifies such bank credit facilities to include loans, advances, commercial papers, bankers' acceptance, bill discounted with a bank credit risk. Bank credit is often accomplished 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. According to Nzotta (2004), 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.

Bank credit affects and alters the level of money supply in an economy or country. It is the most important source of bank income and it promotes the activities of banks and non-bank financial institution and this influences the level of growth of production, the level of entrepreneurship and the realization of aggregate economic performance, development and growth. It could thus be said with absolute assurance that banking industry credit is of crucial importance both to the bank, the monetary authorities, business community and the economy in general.

Credit to private sector, credit to public sector and prime lending are used as independent variables for this study for the following reasons; One of the indications or signs (but not the only one), of economic development and prosperity is the development and increasing share (role) of private and public sector in the national economy or GDP of a certain country. Referring to data from the world Bank, an economic measure of so called domestic credit to private sector (% to GDP) means that financial resources like loans and non equity securities are provided to the private sector by financial institutions like banks and other financial corporation's all measured as percentages with respect to GDP (or national size of economy) . The higher this measure is, the higher financial resources or financing is to private sector in a country and so the greater opportunity and space for the private sector to develop and grow. The better the private sector gets and bigger role it has in national economy, the better is generally the health and development of the economy of this country. More so, public sector credit are needed to stimulate economic growth in spite of the deficiencies shown overtime in the public sector credit, private sector credit has been a good predictor of economic growth

2.3 Empirical Literature review

Most scholars have agreed that there is relationship between bank credit and economic growth. However, scholars have differed on the direction of causality between bank credit and economic growth (Oluitan, 2009). In order to examine the relationships that exist between bank credit and economic growth, previous studies have used several analytical approaches.

Modebe, Ugwuegbe and Ugwuoke (2014) investigated the impact of bank credit on the growth of Nigerian economy for the period of 1986-2012; the result of the OLS regression showed that there is a negative and significant relationship between GDP and TBCPS in the long run. M2 which was used as control variable has a positive and significant impact on GDP at the long run. The short run dynamics of the variables indicates that TBCPS also have a negative and insignificant impact on GDP at the short-run. The result of the granger causality test reviles that causation runs from GDP to TBCPS and not the other way round, a case of unidirectional causality. The result also showed bidirectional causality between TBCPS and M2. Evaluating the relationship between financial development and economic growth (Eatzaz & Malik, 2009) found that bank credits to the private sector significantly increase the productivity of workers (output per worker) and as such, facilitates long-run economic growth with respect to Nigeria. In the same way, study by (Aliero, Abdullahi & Adamu, 2013) over the period 1974-2010 examined the impact of bank credit on economic growth. The result from Autoregressive distributed lag bound approach showed that private sector had significant positive effect on economic growth in Nigeria. Kiran, Yavus and Guris (2009) apply ratios of bank credits to the GDP and private sector credit to the GDP and find a positive and statistically significant relationship between bank credits and economic growth. Murty, Sailaya and Demissie (2012) by using multivariate Johansen co integration approach examined the long run impact of the bank credit on economic growth of Ethiopia. The study found a significant long-run relationship between bank credits and economic growth in Ethiopia. Nuno (2012) applies a dynamic panel data (GMM-System Estimator) technique to evaluate the nexus between bank credits and economic growth in the European Union. The study found that savings promotes growth while inflation and bank credits negatively impacts on economic growth. Akpansung and Babalola (2011) found significant long-run relationship between private sector bank credits and economic growth in Nigeria. The causality runs from GDP to private sector bank credits and also from industrial production to GDP, lending rate are found to impede economic growth. Hassan, Sanchez and Yu (2011) assert that rapid bank credit expansion negatively impacts on economic growth. The studies argue that rapid and uncontrolled expansion in bank credits has the tendency to discourage domestic savings and investments. Mulhsin and Eric (2000) carried out a study on Turkish economy; it was found that bank deposits, private sector credit or domestic credit ratios are alternatively used as proxies for financial development; causality runs from economic growth to financial development. Their conclusion was that growth seems to lead financial sector development. Shittu (2012) adopted unit root test, co-integration and error correction model to examine the impact of financial intermediation on economic growth in Nigeria, the study conclude that credit through deposit is a determinant of economic growth in Nigeria. This is in agreement with the study of Yakubu and Affoi (2014) which conclude that commercial banks credit impacts positively and significantly on the economic growth of Nigeria. Ogege and Boloupremo (2014) employ ADF, Johansen co-integration and ECM, the study concludes that only credit allocated to production sector is having a significant positive effect on growth. Akpansung & Babalola (2009), 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. Marshal, Igbanibo and Onuegbu (2015) did study in Nigeria and found strong positive correlation between banks credit and GDP and concluded that there is unidirectional relationship running from GDP to banking sector credit. Orji, A. (2012) investigated the determinants of bank savings in Nigeria as well as examined the impact of bank savings and bank credits on Nigeria's economic growth from 1970- 2006. The empirical results showed a positive

relationship exists between the lagged values of total private savings, private sector credit, public sector credit, interest rate spread, exchange rates and economic growth.

2.4 Theoretical Framework

Few theories on credit have been propounded by scholars but for the purpose of this study, the Quantitative Easing theory propounded by Richard Andreas Werner was used to explain banking system credit. Richard Andreas Werner is a monetary and development economist, he proposed the term Quantitative Easing as well as the expression "QE2" referring to the need to implement true quantitative easing as an expansion in credit creation. He has developed a theory of money creation called the quantity theory of credit which is in line with Schumpeter's credit of money. Werner has argued since 1992 that the banking sector needs to be reflected appropriately in the macroeconomic models since it is the main creator and allocator of the money supply, through the purpose of credit creation by individual banks.

3. Methodology

The aim of the research is to examine the effect of bank credits (such as credit to private sector, credit to public sector and prime lending rate) on the Nigerian economy (proxied by GDP) using annual data covering the period from 1980 to 2017.

3.1 Research Design

This study employed correlational research design. The choice of this research design is due to the time series nature of the data collected from the period 1980-2017, this types of research design studies the relationship between the dependent variable and independent variables.

3.2 Study Data

Study of this nature demands the use of time series secondary data, relating to each of the study's variables – gross domestic product, credits to private sector, credits to public sector and prime lending rate, spanning a period of 37 years (1980-2017). All data regarding the variables were obtained from the Central Bank of Nigeria (CBN) statistical bulletin and National Bureau of Statistics of various years under study

3.3 Empirical model

The regression technique is an important tool in econometrics. In general, a regression is concerned with examining the linkages between a given variable and one or more other variables. It is an attempt to describe changes in a variable. It is an attempt to describe changes in variables by reference to changes in other variables. The regression model is stated as

$$R= \infty +B1X1+ B2X2+-----------BxXx +\varepsilon \dots\dots\dots\dots\dots\dots\dots\dots \ (1)$$

This regression model can be interpreted whether a set of bank credits factors has a linkage with economic growth, where R is economic growth proxies by GDP and X's represents the bank credit variables used in this study. ∞ is the intercept of the regression that is, constant term, B1-Bx are the coefficient of variables, and ε is the error term. The model was modified as follows;

$$Log\ GDP = \infty +B1\ Log\ CPS + B2\ Log\ CPR + B3\ Log\ PLR + \varepsilon \dots\dots\dots\dots\dots\dots\dots\dots \ (2)$$

These variables were so chosen because they are majorly the key sectors that could spur economic development. As such, their positive contribution should lead to increase in Gross Domestic Product (GDP).

Table 1: Operational definition of the variables and prior expectation

VARIABLES	MEASUREMENT	SOURCE	EXPECTATION
GDP	Real GDP at constant price	CBN statistical bulletin	NIL
CPS	Credits to private sector by banks	CBN statistical bulletin	Positive
CPR	Credits to public sector by banks	CBN statistical bulletin	Positive
PLR	Prime Lending Rate	CBN statistical bulletin	Negative

Source: Researchers' Compilation, 2018

4. Presentation and Discussion of Results

Table 2: Summary result of Stationarity Test

Variables	1st Difference (P-value)	Null Hypothesis	Integration Order
Log GDP	0.0000	Rejected	1(1)
Log CPS	0.0009	Rejected	1(1)
Log CPR	0.0000	Rejected	1(1)
Log PLR	0.0000	Rejected	1(1)

Source: computation of result summary from E-view 10 student edition output.

From the result, all the study variables are stationary after differencing once (P-values less than 5% significant level), this indicates that the variables are all integrated of order 1(1), a necessary and compulsory pre-condition for the use of VECM, at the first difference where the variables are stationary.

4.1 Optimal Lag Selection

In the adoption of econometrics approach such as co-integration test and VECM estimation, the choice of optimal Lag is non-negotiable for a reliable result. Optimal Lag selection can be done with the aid of several criteria individually or combined such as Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Information Criterion (SIC). The AIC is adopted by this study because according to (Sarah, 2008), it yields better results. According to AIC selection Criterion, the lower the test statistics, the better the model, this study therefore selecting optimum lag of 2.

4.2 Co-integration Test

This is an important analysis that helps to test for a long-run stable relationship among the variables of interest in a study, when a linear combination of variables that is of order 1(1) produces a stationary series than the variables may need to be co-integrated (Olokoyo, 2011).

Table 3: Trace Statistics and Max-Eigen Co-integration Test
Unrestricted Co-integrated Rank Test (Trace)

Hypothesized No. CE(s)	Eigen Value	Trace Statistics	0.05 Critical Value	Prob.	Max-Eigen Statistics	0.05 Critical Value	Prob.
None*	0.926858	117.7923	47.85613	0.0000	86.30680	27.58434	0.0000
At most 1*	0.505747	31.48553	29.79707	0.0317	23.25536	21.13162	0.0248
At most 2	0.148484	8.230172	15.49471	0.4411	5.304336	14.26460	0.7030
At most 3	0.084845	2.925836	3.841466	0.0872	2.925836	3.841466	0.0872
Trace test indicates two cointegrating equations at the 0.05 level							

Source: Output from Eview 10 Student Edition

From Table 3 above, both trace and max-eigen criteria agree on the existence of a number of co-integrating equations, which is another necessary pre-condition for the estimation of VECM. The trace and max Eigen value suggested 2 co-integrating equations at the 5% significant level. These results imply that the variables of the study in the long run move together.

4.3 Vector Error Correction Model Estimates

With the variables confirmed to be integrated of order 1(1), optimal lag 2 selection made and results of co-integration recommending two co-integrating equation, the estimation of the VECM, using the ordinary least square method to establish the influence of bank credit on the Nigerian economy. The results of the VECM are summarized in Table 4.

Table 4: Vector Error Correction Estimates

Variables	Coefficient	Standard Error	t-statistics
Log C	0.215603	0.08551	2.52150
Log CPS	0.037639	0.27170	0.13853
Log CPR	-0.141843	0.24555	-0.57765
Log PLR	-15467.28	106279	-0.14553
R-square	0.769828		
Adj. R-square	0.665204		
F-statistics	7.358058		
ECM (-1)	-10.454		

Source: Output from Eview 10 Student Edition

From the regression results in the Table 4 above, the adjusted R^2 is 0.665204. This shows that independent variables (Log CPS, Log CPR and Log PLR) specified in the model explained only about 66.52% of the variations in the dependent variables (Log GDP) over the observed years while the remaining 33.48% are explained by all other factors that are not included in our model estimates.

The ECT (error correction term) or the speed of adjustment towards long run equilibrium with the value given as 104.54, the implication of this is that whenever there are deviations on the Nigerian economy (measured by GDP) from an equilibrium path, the model corrects itself at the rate of 104.54% annually. Long run causality from the

three explanatory variables (CPS, CPR, and PLR) to the criterion variable (GDP) is deemed to have arisen where the ECT is both significant and the sign preceding it is negative. The result in table 4 indicates that ECT is negative, in other words there is a long run causality running from the bank credits to the Nigerian economy.

The coefficient of credit to private sector (Log CPS) is 0.037639. This shows credit to private sector has positive influence on Nigerian economy measured by Log GDP. The result reveals that credit to private sector has significant influence on the economy given the value of t-statistic (0.13853< 1.96) at two tails. The finding further shows that a unit percent increase in credit to private sector will bring about 3.7639% increase in GDP holding all other factors constant. This finding is in line with the work of (Aliero, Abdullahi & Adamu, 2013) (Orji, 2012).

The coefficient of credit to public sector (Log CPR) is -0.141843. This shows public sector credit has negative influence on Nigerian economy measured by Log GDP. It also revealed that credit to public sector has insignificant influence on the Nigerian economy, given the value of t-statistic (-0.57765<1.96) at two tails. The finding further shows that a unit percent increase in credit to public sector will bring about 14.1843% decrease in GDP holding all other factors constant. This finding is in line with the work of (Ibrahim, Akano & Kazeem, 2015).

The coefficient of prime lending rate (Log PLR) -15467.28 shows that prime lending rate has influence of about 15467.28% on the Nigerian economy measured by GDP during the observed years. This implies that a unit percent increase in prime lending rate will bring about 1546% decreases in the economy measured by GDP. This finding is in line with the work of (Akpansung & Babalola, 2011). The result further shows that tabulated t-statistic (-0.14553<1.96) less than calculated value at 5% level of significance.

Table 5: Summary of Diagnostic test

Test	P-value	Centered VIF
VIF		2.85, 2.94, 1.21
Jarque-Bera	0.29	

Source: Output from Eview 10 Student Edition

The variance inflation factor was performed to support the validity of the regression results. Since the values 2.85, 2.94 and 1.21 are less than 5, it was therefore concluded that there were no multicollinearity among the variables of the model.

Jarque-Bera test was used to check for the normality of the data. The result shows that the study data are normally distributed given the p-value greater than 5% significance level.

5. Recommendations and Conclusion

Credit is an important link in monetary transmission as it finances production, consumption and capital formation, which in turn affect economic growth. Especially in developing countries like Nigeria, it caters resources need for economic growth. The Central Bank of Nigeria and the government have adopted many links and programs to increase economic growth through the use of bank credit. However, the relationships between private sector credit, public sector credit, prime lending rate and economic growth have not yet been assessed properly in the Nigeria context.

Applying regression approach, the study found that the bank credit to private sector have positive influence on Nigeria economy while public sector credit and prime lending rate have negative influence on Nigeria economy and also exhibit two cointegration relationship i.e. long run relationship among the variables under study. The empirical results imply that, policy makers should focus attention on long-run policies to promote economic growth such as development of modern banking sector, efficient financial market, infrastructures so as to increase private sector credit and public sector credit which are instrumental to promote growth in the long-run.

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