

Implications of Commercial Bank Loans on Economic Growth in Nigeria (1986-2014)

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Abstract

This study is on the implications of commercial bank loans on economic growth in Nigeria. The role of the financial sector in economic growth has gain a pride of place and prominence in modern study on economic growth. Likewise, the debate on the direction of causality between financial development and economic growth has been comprehensively growing since 1980s in theoretical and empirical literature. The main objective of this study is to examine the implications of commercial bank loans on economic growth in Nigeria between 1986 and 2014. The study made use of secondary data sourced from the Central Bank of Nigeria statistical bulletin and the National Bureau of Statistics between 1986 and 2014. The model for the study has as its dependent variable the Gross Domestic Product (GDP) and its explanatory variables were commercial bank loans to key sectors like industrial, manufacturing, agriculture and the service sectors. Using the Ordinary Least Square (OLS) multiple regression techniques; the study revealed that only the agricultural sector have being enjoying much of Bank credit and it has been making positive impact on the Gross Domestic products (GDP) while others like Mining and Quarrying, Manufacturing and the Building and Constructions sectors have not being getting much attention in terms of bank credit to spur development in that sector. The study, therefore recommended that more credits should be channelled to other sectors like the mining, manufacturing, and the service sectors to have an inclusive sectoral growth that will power sustainable growth and development.

Keywords: implication, commercial bank, loans, economic growth

INTRODUCTION

The debate on the direction of causality between financial development and economic growth has been comprehensively growing since 1980s in theoretical and empirical literature. The existing literature provides conflicting views of this relationship. The view is that financial intermediaries are likely to push capital accumulation and economic factors' productivity growth, leading to economic growth. Subscribing to the belief that financial development is a key factor of economic growth, Levine (1997) notes that financial intermediaries improve risk management, making financial transactions, savings mobility and the exchange of goods and services easy to make. Ang (2008) finds that an efficient financial system positively contributes to economic growth. At the beginning of the 1990s, the endogenous growth literature stresses the significance of finance development for a long term economic growth. These studies seek to justify financial liberalization, reaching the same conclusion: the financial system should be liberalized to insure its good functioning, boost savings, encourage productive and profitable investments, push technology growth and sustain economic growth. The benefits accruable from a healthy and developed financial system relate to saving

mobilization and efficient financial intermediation roles (Gibson and Sakalotos, 1994). First, through the financial intermediation functions of the financial institutions, savers and borrowers are linked up and this reduces transactions and search costs. Second, they create liquidity in the economy by borrowing short-term and lending long term. Third, they reduce information costs, provide risk management services and reduce risk involved in financial transactions. Fourth, the intermediaries bring the benefit of asset diversification to the economy. Fifth, they mobilize savings from atomized individuals for investment, thereby solving the problem of individuality in financial transactions. Finally, mobilized savings are invested in most productive venture, irrespective of the source of the savings. The above benefits of financial intermediation translate into the economy-wide benefits which motivate financial reforms where the system is considered underdeveloped (Emenuka, 2006). Here and in this study, we are captivated by the fact that over the years in Nigeria, commercial banks loans have being going to various key sectors of th nation's economy, as such we want to examine if this sectoral distribution of

commercial bank loans as brought about growth in those sectors given the period of study.

Statement of the Problem

The role of the financial sector in economic growth has gain a pride of place and prominence in modern study on economic growth. Even the financial sector reform of the Structural Adjustment Programme (SAP) in 1986, which was meant to correct the structural imbalance in the economy and liberalize the financial systems, did not achieve the expected results. As Edirisuriya (2008) reported, financial sector reforms are expected to promote a more efficient allocation of resources and ensure that financial intermediation occurs as efficiently as possible. This also implies that financial sector liberalization brings competition in the financial markets, raises interest rate to encourage savings, thereby making funds available for investment, and hence lead to economic growth (Asamoah, 2008). Therefore, it is logical to assume that financial liberalization enhances funds mobilization and accessibility, which are required for firms' performance and economic growth.

The study is specifically interested in answering the following questions. Has bank loans to varying sectors brought about commensurate growth in those sectors to the extent of boosting economic growth? Is there a significant relationship between bank loans and the output of some selected Sectors in Nigeria? Answering these questions will provide insights on the empirical relationship between commercial bank loans, sectoral output and economic growth, and assist the government in formulating accommodating policies to enhance sectoral production and economic growth. As such, the main objective of this study is to examine the implications of commercial bank loans on Economic Growth in Nigeria (1986-2014). The specific objectives includes; to examine whether bank loans have brought economic growth to various sectors in Nigeria and to determine if there is significant between Bank Loans and output of some selected sectors in Nigeria between 1986 and 2013.

Significance of the Study

Given the continuous clamour for the diversification of the Nigerian economy; doing a study on the implication of commercial bank loans to economic growth should be considered apt and necessary. As this will help to evaluate performance and also ascertain sectoral needs.

CONCEPTUAL FRAMEWORK

Commercial Banks Credits

Essang and Olajide (1974) define a commercial bank as a monetary institution owned by either government or

private businessmen for the purpose of profit. In pursuit of the profit, the bank undertakes a number of functions. One of these functions is the acceptance of deposits from the public, these deposits are in turn given as credit to trade industry, agriculture etc. which lead to more production and employment (see also Stephen & Osagie 1985, Ekezie 1997, Ijaiya and Abdulraheem, 2000). According to Aryeetey (1996), credit is the amount extended out with a future date of repayment. The NDIC prudential guidelines of 1990 however, provides a wider definition of credit, and this includes aggregate of all loans, advances, overdraft, commercial papers, bankers acceptance, bills discounted, leases and guarantees (NDIC, 1990).

The attempt to strengthen the private sector 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 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, and Africa biggest economy by 2050 (Business Economy, 2008). The vision 2020 is to be realised 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).

Following Arestis and Luintel (2004), the relationship between financial structure and economic development can be discussed based on competing theories of financial structure. These competing theories are the bank-based, the market-based and the financial services. We now examine them in brief in what follows.

Financial economists have debated the comparative importance of bank-based and market-based financial systems for over a century (Boot and Thakor, 1997; Allen and Gale, 2000; Demirguc-Kunt and Levine, 2001c). As discussed, financial intermediaries can improve the (i) acquisition of information on firms, (ii) intensity with which creditors exert corporate control, (iii) provision of risk-reducing arrangements, (iv) pooling of capital, and (v) ease of making transactions (Levine, 2002). These arguments are for well-developed banks but not reasons for favoring a bank-based financial system.

Based on the foregoing, the role of the financial system in catalysing the development process in the manufacturing sector and hence contribute to economic growth of the nation cannot be over-emphasised. Shaw (1973) opined that the financial sector of an economy does matter in economic development, and that it can assist in the break away from plodding repetition of repressed economic performance to accelerate growth. The benefits accruable from a healthy and developed financial system relate to saving mobilization and efficient financial intermediation roles (Gibson and Tsakalotos, 1994). First, through the financial intermediation functions of the financial institutions, savers and borrowers are linked up and this reduces transactions and search costs. Second, they create liquidity in the economy by borrowing short-term and lending long term. Third, they reduce information costs, provide risk management services and reduce risk involved in financial transactions. Fourth, the intermediaries bring the benefit of asset diversification to the economy. Fifth, they mobilize savings from atomized individuals for investment, thereby solving the problem of individuality in financial transactions.

Finally, mobilized savings are invested in most productive venture, irrespective of the source of the

savings. The above benefits of financial intermediation translate into the economy-wide benefits which motivate financial reforms where the system is considered underdeveloped (Emenuga, 2006).

THEORETICAL LITERATURES

The **theory of bank-based financial system** stresses the positive role of banks in development and growth, and, also, emphasizes the drawbacks of market-based financial systems. The theory opines that banks can finance development more effectively than markets in developing economies, and, in the case of state-owned banks, market failures can be overcome and allocation of savings can be undertaken strategically. In a way those banks that are not impeded by regulatory restrictions, can exploit economies of scale and scope in information gathering and processing (Levine, 2002 and Beck and Levine, 2002 provide more details on these aspects of bank-based systems). In fact, bank-based financial systems are in a much better position than market-based systems to address agency problems and short-termism (Stiglitz, 1985; Singh, 1997). In particular, the free-rider problem inherent in atomistic markets in acquiring information about firms is emphasized by Stiglitz (1985). But well-developed markets quickly reveal information to investors at large and thereby dissuading individual investors from devoting resources toward researching firms. Thus, banks can make investments without revealing their decisions immediately in public markets and this creates incentives for them to research firms, managers, and market conditions with positive ramifications on resource allocation and growth. Additionally, Rajan, and Zingales (1999) stress that powerful banks with close affinity to firms may be more effective at exerting pressure on firms to re-pay their debts than atomistic markets.

The bank-based theorist also stresses the shortcomings of market-based systems by asserting that it reveals information publicly, thereby reducing incentives for investors to seek and acquire information. Information asymmetries are thus emphasised, more so in market-based rather than in bank-based financial systems (Boyd and Prescott, 1986). Thus, distortions that emanate from asymmetric information can be alleviated by banks through forming long-run relationships with firms, and, through monitoring, to contain moral hazard. As a result, bank-based arrangements can produce better improvement in resource allocation and corporate governance than market-based institutions (Stiglitz, 1985; Bhidé, 1993).

On the contrary, **the market-based theory** underscores the importance of well-functioning markets, and

accentuates the problems of bank-based financial systems. Generally, big, liquid and well-functioning markets foster growth and profit incentives, enhance corporate governance and facilitate risk management (Levine, 2002, and Beck and Levine, 2002). On the contrary, bank-based systems may involve intermediaries with a huge influence over firms and this influence may manifest itself in negative ways. For instance, once banks acquire substantial, inside information about firms, banks can extract rents from firms and firms must pay for their greater access to capital. In terms of new investments or debt renegotiations, banks with power can extract more of the expected future profits from the firm than in a market-based system Hellwig, (1991). This ability to extract part of the expected payoff to potentially profitable investments may reduce the effort extended by firms to undertake innovative, profitable ventures (Rajan, 1992). Furthermore, Boot and Thakor (2000) model the potential tensions between bank-based systems characterized by close ties between banks and firms and the development of well-functioning securities markets.

The inherent inefficiencies of powerful banks are also stressed, for they “can stymie innovation by extracting informational rents and protecting firms with close bank firm ties from competition ...may collude with firm managers against other creditors and impede efficient corporate governance” (Levine, 2002). Market-based financial systems reduce the inherent inefficiencies associated with banks and are, thus, better in enhancing economic development and growth. A related argument is that developed by Boyd and Smith (1998), who demonstrate through a model that allows for financial structure changes as countries go through different stages of development, that countries become more market-based as development proceeds. An issue of concern, identified by a World Bank (2001) study in the case of market-based financial systems in developing countries, is that of asymmetric information. It is argued that “the complexity of much of modern economic and business activity has greatly increased the variety of ways in which insiders can try to conceal firm performance. Although progress in technology, accounting, and legal practice has also improved the tools of detection, on balance the asymmetry of information between users and providers of funds has not been reduced as much in developing countries as it has in advanced economies, and indeed may have deteriorated”.

Despite embracing bank-based and market-based views, the third theory, the financial services view (Merton and Bodie, 1995; Levine, 1997), downplays their

importance in the sense that the distinction between bank-based and market-based financial systems matters less than was previously thought. It is financial services themselves that are by far more important than the form of their delivery (World Bank, 2001). The issue is not the source of finance in the financial services view, but the creation of an environment where financial services are soundly and efficiently provided.

The emphasis is on the creation of better functioning banks and markets rather than on the type of financial structure. Simply put, this theory suggests that it is neither bank nor markets that matter, but both. They are different components of the financial system; they do not compete, and as such ameliorate different costs, transaction and information, in the system (Boyd and Smith, 1998; Levine, 1997; Demirguc-Kunt and Levine, 2001). Under these circumstances, financial arrangements emerge to ameliorate market imperfections and provide financial services that are well placed to facilitate savings mobilization and risk management, assess potential investment opportunities, exert corporate control, and enhance liquidity. Consequently, as Levine (2002) argues, “the financial services view places the analytical spotlight on how to create better functioning banks and markets, and relegates the bank-based versus market-based debate to the shadows”. The law and finance view, initiated by Laporta, Lopez-de-Silanes, Shleifer, and Vishny (1998, 1997), emphasizes the role of creditor and investor rights for financial intermediation. In countries where the legal system enforces these rights effectively, the financial system also becomes more efficient in providing services to the private sector.

Consequently, the quality of the legal system is a strong predictor of financial development. Empirically, this view suggests a positive relationship between economic performance and the component of financial development identified by the legal environment. Evidence from cross-country growth analysis supports this view (Levine 1999, 1998; Laporta *et al.* 1998, 1997). The implication of the law and finance view is that the establishment of an appropriate legal environment will facilitate the development of banks and stock markets, which enhances economic performance.

EMPIRICAL LITERATURE

Most scholars have agreed that there is relationship between bank lending and economic growth. However, scholars have differed on the direction of causality between bank lending and economic growth (Oluitan, 2009). Obamuyi (2010) assesses the impact of Nigeria's financial liberalisation policy for fostering private sector

development. Relevant data relating to the influence of the policy on macro-economic performance and private sector development were obtained from primary and secondary sources. The analyses were descriptive and quantitative in perspective. The findings provided insights on the overall impact of financial liberalisation policy on the private sector. It shows that financial liberalisation has led to increased manufacturing capacity utilisation necessary for economic growth, but needs to be complimented by an increased flow of funds to the private sector for investment in the real sector of the economy. This is because, credits to private sector were not found to have a positive impact on economic growth in Nigeria. This implies that credits to private sector were used for commerce (buying and selling), or diverted to some unproductive ventures, rather than production activities, or at least too small to positively impact on economic growth. However, poor infrastructure, high level of corruption, political and economic instability, and high cost of funds were found to have constrained the contribution of the private sector to economic development. The policy implication is that the private sector in Nigeria could only be a positive force for growth, if the government would sincerely provide the needed conducive environment and the private sector efficiently utilises banks' credits for industrial development. This study will assist policy makers in fine-tuning their liberalisation policy and the private sector to adopt a value re-orientation approach to enhance the performance of the economy, especially in developing countries (Obamuyi, 2010).

Lemo (2005) posits that the primary objective of the reforms was to guarantee an efficient and sound financial sector. He said that the Nigerian financial reforms were designed to enable the banking industry develop the required resilience to support the economic development of the nation by efficiently performing its function of financial intermediation. He further stressed that a fundamental objective of the programme was to ensure the safety of "deposited" money, position banks to play active development roles in the Nigerian economy, and became major players in the sub-region, region and global financial markets.

The financial sector reforms were components of the Structural Adjustment Programme (SAP), which kicked off in 1986. The introduction of the programme was on the heels of the rejection of the IMF loan package with its conditionality, a decision that reflected the consensus of a national debate.

Financial systems have long been recognised to play an important role in economic development. This recognition dates back to Goldsmith (1955), Cameron

(1967), McKinnon (1973) and Shaw (1973), which demonstrated that the financial sector could be a catalyst of economic growth if it is developed and healthy. The benefits accruable from a healthy and developed financial system relate to savings mobilisation and efficient financial intermediation roles (Gibson and Tsakalotos 1994).

In same vein, a study by Obamuyi, Edun and Kayode (2011) investigates the effect of bank lending and economic growth on the manufacturing output in Nigeria. Times series data covering a period of 36 years (1973-2009) were employed and tested with the cointegration and vector error correction model (VECM) techniques. The findings of the study show that manufacturing capacity utilization and bank lending rates significantly affect manufacturing output in Nigeria. However, the relationship between manufacturing output and economic growth could not be established in the country. These results, therefore, call for concerted effort by the government, manufacturers and the lending institutions to reviewing the lending and growth policies and provide appropriate macroeconomic environment, in order to encourage investment-friendly lending and borrowing by the financial institutions (Obamuyi, Edun and Kayode, 2011).

Mohd and Osman (1997) broadly categorized the causality into demand-following relationship and supply following relationship. The proponents of demand-following hypothesis argued that economic growth is a causal factor for bank lending, not the reverse. Robinson (1952) maintains that economic growth propels banks to finance enterprises. Gurley & Shaw (1969) also argued that as the economy expands and grows, the increasing demand for financial services stimulates banks to provide more credit.

Similarly, Oluitan (2009) is of the opinion that policy makers should focus less on measures leading to increase in bank lending and concentrate more on legal, regulatory and policy reforms that boost the functioning of markets and banks. Muhsin & Eric (2000) in their study on Turkey concluded that economic growth lead to financial sector development. However, the proponents of supply-leading hypothesis are of the belief that bank lending is a veritable tool for attainment of economic growth and development. The hypothesis was originally credited to the works of Schumpeter (1934). Schumpeter strongly believed that efficient allocation of savings by means of identification and funding of entrepreneurs who invest such funds in innovation and production of goods and services, thus leading to economic growth. This view was supported

by other scholars like McKinnon (1973), Shaw (1973), Fry (1988), and Greenwood & Jovanic (1990).

Studies conducted across countries and continents have also supported the postulations of the supply-leading hypothesis. King and Levine (1990) conducted a study involving seventy-seven countries made of developed and developing economies using cross-country growth regression. The objective of the study was essentially to find out the correlation between bank lending, capital accumulation, economic growth and efficiency. The result of the study indicated that bank lending leads to economic growth and efficiency. Similarly, Diego (2003), came out with similar result from his study of fifteen European Union economies, using panel estimation technique to assess the mechanisms through which policy changes have influence the economic growth of the countries.

Habibullah and Eng (2006) conducted causality testing analysis on 13 Asian developing countries and also found that bank lending promotes economic growth. Similarly, the IMF 2008 Global Financial Stability Report indicated a statistically significant impact of credit growth on GDP growth.

Specifically, it was revealed that “a credit squeeze and credit spread evenly over three quarters in USA will reduce GDP growth by about 0.8% and 1.4% points year-on-year respectively assuming no other supply shocks to the system” (Oluitan, 2009). In addition studies were conducted to test the old Schumpeterian hypothesis, for example; Jao (1976) used cross-section data averaged over 1967-72 in 44 developing countries and 22 developed economies, to study the relationship between bank lending and economic growth. The study found that the money balance-GDP ratio and growth of per capita real money balances (proxy of financial intermediation variables) had a strong positive relationship with economic growth (Tang, 2003).

Fritz (1984) examined the direction of causation between economic development and financial intermediation. Using data from the Philippines, the study discovered that financial intermediation brings about economic development at the early stage of economic growth/development and the direction of causation was reversed at a later stage. This assertion is supported by the work of Rousseau and Wachtel (1998), who examined the links between the intensity of financial intermediation and the economic performance of five industrialized countries. The duo discovered that intermediation played an

important role in the rapid industrial transformations of those countries (Tang, 2003).

According to Lang and Nakamura (1995) bank lending alone cannot lead to economic growth. They believe that other monetary policies of central banks are equally important in making bank loans to make the desired impact on economic growth. This is an important contribution to the discourse on supply-leading hypothesis. A more recent research work by Swiston (2008) conducted in USA detected quantitatively, the significance of bank lending on economic growth. He posited that credit availability is an important driver of the business cycle, accounting for over 20% of the typical contribution of financial factors to growth. He further argued that a net tightening in lending standards of 20% reduces economic activity by 0.75% after one year and 1.25% after two years. The key findings of all the studies are that financial intermediaries (proxy deposit money banks (DMBs)), have significant positive impact on productivity of factors of production which leads to increase in real GDP and economic growth.

Toby and Peterside (2014) in a study covering 1980 to 2010 use descriptive and inferential statistics. The descriptive results show that Nigeria's commercial and merchant banks are more active in financing manufacturing than agriculture even though the later contribute more to GDP. Investigating intermediation role of banks on economic growth in Nigeria, Ogege and Boloupremo (2014) employ ADF, johansen cointegration and ECM. The study concludes that only credit allocated to production sector is having a significant positive effect on growth even though the report in table 3 shows the variable is not significant but credits to other sector is. Akujuobi and Chimajemr (2012) examine the effect of commercial bank credit to the sub sectors of the production on growth between 1960 and 2008. The study confirms long run relationship and while credits to agriculture, forestry and fishery, manufacturing, mining and quarrying and real estate and construction are negative and insignificant, credit through the mining and quarrying sub-sector have significant positive contribution on growth. From the inferential results, it is evident that a significantly weak and strong correlation exists between commercial bank and merchant bank lending respectively and agricultural sector's contribution to GDP. Uzomba, Chukwu, Jumbo and Nwankwo (2014) investigate the impact and the determinants of Deposit Money Banks' loans and advances granted to agricultural sector in Nigeria from 1980 to 2011. Multiple OLS regression, Stationarity Test, Co-integration test, Parsimonious Error Correction

Mechanism and Granger Causality Test are employed. The study concludes that there is positive impact of deposit money banks' loans and advances on the agricultural sector. Ebi and Emmanuel (2014) investigate the impact of commercial bank credit on Nigeria industrial subsectors between 1972 and 2012. Using Econometric Error Correction Model (ECM) and conclude that, an increased bank credit to industrial sector is significant in determining industrial sector growth in Nigeria. Yushau (2011) compare accessibility to financing by small entrepreneurs before and after the bank reform using primary and secondary sources. The study concludes that informal institutions are better able to meet the financial need of entrepreneurs than formal whose conditions are stiff. Nwaeze, Michael and Nwabekee (2014) explore the extent to which financial intermediation impact on the economic growth in Nigeria during 1992 to 2011. Relying on Ordinary Least Squares (OLS) regression technique, they conclude that both total bank deposit and total bank credit exert a positive and significant impact on the economic growth in Nigeria for the period. Also, the values of GDP per capital (PCY), Financial Deepening (FSD), Interest Rate Spread (IRS) and negative influence of Real Interest Rate (RIR) and Inflation Rate (INFR) have positive influence on the size of private domestic savings while the lagged values of total private savings, private sector credit, public sector credit, interest rate spread and exchange rates relate positively with economic growth. Orji (2012) submits using Distributed Lag-Error Correction Model (DL-ECM) and Distributed Model.

Ekpenyong and Acha (2011) examine the contribution of banks to economic growth using correlation analysis, regression, diagnostic tests, Augmented Dickey-Fuller test and cointegration. While Nigerian banks are not contributing significantly to economic growth, there is Positive and significant impact of private sector credit on growth. Obademi and Elumaro (2014) re-examine the financial repression hypothesis in order to determine the impact and direction of causality between banks and economic growth during intensive regulation, deregulation and guided deregulation regime. Ordinary least square regression and Causality test conclude that banks have significant positive impact on growth in Nigeria especially during deregulation. Nevertheless, banks appear to be passive to growth in terms of causality.

Nwakanma, Nnamdi, and Omojefe (2014) evaluate the long-run relationship and the directions of prevailing causality between bank credits to the private sector and the nation's economic growth. The study conclude based on the Autoregressive Distributed Lag Bound (ARDL) and Granger Causality that bank credits have

significant long-run relationship with growth but without significant causality in any direction.

Ogege and Shiro (2013) in a study covering 1974 to 2010 use co-integration and error correction model, discover a long-run relationship and conclude that commercial credits contribute positively to growth but it is significant in the long run. Shittu (2012) examines the impact of financial intermediation on economic growth in Nigeria between 1970 and 2010 using the unit root test and cointegration test and the error correction model. The paper concludes that financial intermediation notably deposit mobilisation is significant in determining economic growth in Nigeria. Nwaru and Okorontah (2014) investigate banks credit versus output and conclude that credit to the private sector is positive but insignificant and that real output causes financial development, but not vice versa.

Mamman and Hashim (2014) examine the impact of bank lending on economic growth in Nigeria for the period 1987 to 2012. The study employs multiple regression models and concludes that bank lending is significant in determining growth. In a similar study from 1992 to 2012 using the same method, Yakubu and Affoi (2014) conclude that the commercial bank credit has significant positive impact on the economic growth in Nigerian.

Theoretical Framework

The **theory of bank-based financial system** stresses the positive role of banks in development and growth, and, also, emphasizes the drawbacks of market-based financial systems. The theory opines that banks can finance development more effectively than markets in developing economies, and, in the case of state-owned banks, market failures can be overcome and allocation of savings can be undertaken strategically. In a way those banks that are not impeded by regulatory restrictions, can exploit economies of scale and scope in information gathering and processing (Levine, 2002 and Beck and Levine, 2002 provide more details on these aspects of bank-based systems). In fact, bank-based financial systems are in a much better position than market-based systems to address agency problems and short-termism (Stiglitz, 1985; Singh, 1997). In particular, the free-rider problem inherent in atomistic markets in acquiring information about firms is emphasized by Stiglitz (1985). But well-developed markets quickly reveal information to investors at large and thereby dissuading individual investors from devoting resources toward researching firms. Thus, banks can make investments without revealing their decisions immediately in public markets and this creates incentives for them to research firms, managers, and

market conditions with positive ramifications on resource allocation and growth. Additionally, Rajan, and Zingales (1999) stress that powerful banks with close affinity to firms may be more effective at exerting pressure on firms to re-pay their debts than atomistic markets.

There is no gainsaying the fact that loanable funds to finance long-term projects are usually scarce relative to the demand for them. It is also true that it is often difficult to finance projects solely with own funds usually because large-scale projects require ample funds. In this study, we see the financial intermediary role as mainly the duty of commercial banks so as to provide credit for the key sectors of the economy. It is upon this theoretical base that we build our study.

METHODOLOGY

Research Design

The study adopts a survey type of research design. There are two variables: independent and dependent. The dependent variable is economic growth in Nigeria. The independent variables are the commercial bank loans to key sectors like industrial, manufacturing, agriculture and the service sectors. In addition to the above, the study equally seeks to examine the relationship between bank loans to selected sectors and economic growth in Nigeria.

Source of Data

Based on the nature of the study, data collection will be based on secondary data. The study will source data from Statistical Bulletin of the Central Bank of Nigeria (CBN), Federal Office of Statistics (FOS) and Annual Abstract of Statistic of the National Bureau of Statistic (NBS). The source of data for the study is secondary source because it requires the time series data of the GDP and the selected sectors for the period between 1986 and 2014.

Population of the Study

The population of the study constitutes the entire sectors of the Nigerian economy. However, the impossibility of including all the members of the population makes sampling imperative. As a result, the study concentrated on the key sectors like industrial, manufacturing, agriculture and the service sectors.

Model Specification

Given the propositions stated that commercial banks could serve as a source of credit for desiring sectors of the economy. In this study, we are examining the contribution of commercial banks loans to key sectors in the economy so as spur economic development.

As such, in specifying our model, our dependent variable shall be the Gross Domestic Product (GDP), while our explanatory variables shall be the annual time series data of the commercial bank loans to key sectors like industrial, manufacturing, agriculture and the service sectors. Therefore, our multiple regressions model can be specified as thus;

$$GDP = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + U$$

Where

GDP = Gross Domestic Product

X_1 = Credit to Mining and Quarrying sector

X_2 = Credit to Manufacturing sector

X_3 = Credit to Agricultural sector

X_4 = Credit to Building and Construction sector

U = the stochastic error term

$b_0, b_1, \dots, b_4$ are parameters

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).

Technique for Analysis

We shall use the Ordinary Least Square (OLS) technique to estimate the values of the parameters B_0, B_1, B_2, B_3 , and B_4 . Besides, we will use the student's t-values obtained to determine the statistical significance of the parameter estimates and the test of goodness of fit for the model using the R^2 technique. This will enable us to know the percentage of variations between the dependent variable and the explanatory variables. Then, the f-statistic test to determine the overall significance of the multiple regression models and the Durbin – Watson test for the presence or absence of auto-correlation.

DATA PRESENTATION AND ANALYSES

Data Presentation

In the analysis of our model, in which the Gross Domestic Product (GDP) served as the dependent variable while the Mining and Quarrying, Manufacturing, Agriculture and the Building and Construction serve as the independent or explanatory variables, we obtained the following results for the Ordinary Least Square (OLS) multiple regression models. Please note that the result presented below have their details in software form at the appendices.

Ordinary Least Square (OLS) Results

The OLS multiple regression result is as presented below:

$$\begin{aligned} RGDP &= b_0 + b_1MNQR + b_2MNFC + b_3AGRC + b_4BNCN \\ RGDP &= -1.40 - 13853MNQR - 4231MNFC + 341371.7AGRC - 43461.52BNCN \\ S.E &(3.83) (1554.27) (4111.19) (41536.73) (3250.52) \\ T &- 3.65 - 8.91 - 1.03 8.22 - 13.37 \\ R^2 &= 0.99, \quad F\text{-stat} = 575.08, \quad d\text{-w} = 0.57, \quad N = 26 \end{aligned}$$

ANALYSIS OF RESULTS

Ordinary Least Square (OLS) Multiple Regression Results

The empirical results generated from the ordinary least square multiple regressions as presented above are quite revealing and very interesting. All the explanatory variables except the agricultural sector were negatively related with the Gross Domestic Products. In spite of being negatively signed both the Mining and Quarrying and Building and Construction were statistically significant using the rule of thumb of 2. Furthermore, only the Agricultural sector was found to be positively related and statistically significant justifying its contributions to the GDP over the years. This explained the nature of relationship between commercial bank loans and economic development in Nigeria.

FINDINGS

Based on the multiple regression result, it suggested that only the agricultural sector have being enjoying much of Bank credit and it has making positive impact on the Gross Domestic products (GDP) while others like Mining and Quarrying, Manufacturing and the Building and Constructions sectors have not being getting much attention in terms of bank credit to spur development in that sector. This also reflected in their contributions to the GDP which on the low side given the period of study. Whereas, true economic growth cannot be attained if these sectors are not operating at their fullest capacity neither can sustainable development be guaranteed as well.

CONCLUSION

This research is on the Sectoral Distribution of Commercial Bank Loans impact on economic growth in Nigeria (1986-2014). Our main aim is to investigate whether the Commercial bank loans to some selected sectors have been able to add to Economic Growth in Nigeria. Using the loans advancement to Mining and Quarrying, Manufacturing, Agriculture and Building and Constructions sectors as a basis; our study via the results obtained shows that there has being no corresponding impact of the loans to these sectors, except that of agriculture on economic growth in Nigeria. Even though these credit provisions are available at these banks yet it has not been explored by the sectors. This is evident of the development in these sectors in terms of their contribution over the years to the Gross Domestic Products (GDP). Evidently, the achievement of sustainable economic growth can be made possible through loans and advancement of Commercial Banks in Nigeria. Despite the availability of these credits, our study showed that loans accessed by these selected sectors have not been growing at the pace of the Gross Domestic Products. This is also

evident in their contributions to the GDP as well. That is, the poor performance of these sectors can be traceable to their inability to access the loanable fund at the commercial banks. However, the Agricultural sector was found to be positively related and statistically significant justifying its contributions to the GDP over the years. In as much as all these sectors of the economy plays important role in promoting economic growth; their neglect have proved otherwise. This has accounted for the reason for the mono-economic nature of the Nigerian economy due to over reliance on the oil sector over the years.

RECOMMENDATIONS

Based on the findings of the study, the following recommendations were made;

- i. That more credits should be channelled to other sectors like the mining, manufacturing, and the service sectors to have an inclusive sectoral growth that will power sustainable growth and development. In addition, the government must as a matter of urgency embarks on programmes and policies that will revamp these sectors so that they will be able to compete at par with the other performing sectors.
- ii. Also, the practice of concentrating on one sector development at the expense of others as evident in the focus on the oil sector is not in the overall interest of true economic growth and sustainable development.

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