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DEPOSIT MONEY BANKS LOAN AND ADVANCES ON NIGERIA ECONOMIC GROWTH

(2000-2021)

DEPT: BANKING AND FINANCE

CHAPTER ONE

Introduction

1.1 Background to the study

In developing countries banks are expected to play important roles in financing economic projects and related activities as their contribution in ensuring sustainable economic growth. Generally, banks assume an intermediary role between surplus unit who want to let others to use money and the deficit unit who need money. Therefore, banks appear in economy typically as service businesses. Ideally, the key function of banks in an economy is to facilitate operation of credit extension in such efficient manner that will ensure increase in investments and enhance output growth in an economy (Korkmaz, 2015). One of the greatest debates in finance literature has been on the intermediary roles of the banking system in economic growth and development of developing economies. Notwithstanding the contentions, there appear to be a common understanding that intermediary functions of banks help greatly in stimulating economic growth and development. One of such key roles includes credit creation. Credit lubricates the engine of growth. Banks help in extending loans and advances especially to the private sector of the economy in order to boost economic activities hence enhancing economic growth. Akintola (2004) reflects on the conventional roles of banks include financing of agriculture, manufacturing and syndicating of bank credit to productive sectors of the economy. In the quest to drive growth and create viable economy, central Bank of Nigeria (CBN) has been playing a leading role by using direct control to control overall credit expansion, and also employing same in determining the amount of bank credit to the priority sectors of the economy (Akpansung and Babalola, 2008). Jayaratne and Strahan (1996) maintains that well-developed financial markets are necessary for overall economic advancement of less developed and emerging economies. The fundamental role of banks and other financial institution in economy is to mobilize savings from income holders and make same available to investors on interest. According to Kelly, McQuinn and Stuart (2013), there is strong positive correlation between the amount of credit provision in an economy and the level of deposits within the financial system. Banks traditionally convert the savings into loanable funds, which are channeled to investors who borrow to meet the financial need of their businesses. Investing the capital in the business will lead to the creation of goods and services (Tahir, et al 2015). Such increases in production often boost economic growth, which is usually measured in terms of the level domestic production in the economy. A common parameter for economic growth is gross domestic product (GDP). Driscoll (2004) posits that financial development can advance economic growth by raising savings, improving allocative efficiency of loanable funds and promoting capital accumulation. Building on the same thought, Jayaratne and Strahan (1996) explain that well-developed financial markets must be in place for overall economic advancement of less developed and emerging economies.

Atseye, Edim and Ezeaku (2015) highlight that while the fact that loan and advances of deposit money banks influences growth is largely undisputed, there still remains a gap in understanding the causal relationship between banking industry loan and advances and economic growth in developing economies. The need to fill this knowledge gap was necessitated this empirical study on the Nigerian case.

1.2 Statement of the Problem

It is instructive to note that the banking sector has stood out in the financial sector as of prime importance because in many developing countries of the world the sector is virtually the only financial means of attracting private savings on a large scale. According to Adekanye (1986) in making credit available, money deposit banks are rendering a great social service because through their activities, production is increased, capital investment are expanded and a higher standard of living is realized. However, in Nigeria as in many other developing countries, the ratio of bank credit to the private sector to GDP has not increased significantly.

The continuous dwindling naira value relative to other currencies and the high volatility of inflation rate has also hampered the ability of banks to grant credit. This is so, as the real value of money keeps falling thereby making the banking public to save less, the effect of this being the reduction in the volume of deposits and the loanable funds. Consequently, many business owners are unable to access funds for expansion and productivity. This in turn reduces the growth of the Nigerian economy. This study therefore, seeks to examine the effect of deposit money banks services on the growth of the Nigerian economy.

1.3 Objectives of the Study

The broad objective of this study is to examine the effect of deposit money banks loan and advances on Nigerian economic growth. The specific objectives of this study include:

i. To assess the effect of deposit money banks credits on the growth of the Nigerian economy.

ii. To examine the effect of deposit money banks interest rates on the growth of the Nigerian economy.

iii. To examine the effect of inflation rate on the growth of the Nigerian economy

1.4 Research Questions

Based on the above stated objectives, the following research questions were formulated:

i. To what extent do deposit money banks loans and advances affect the growth of the Nigerian economy?

ii. What is the effect of deposit money bank interest rates on the growth of the Nigerian economy?

iii. To what extent does inflation rate affect the growth of the Nigerian economy?

1.5. Research Hypotheses

The following research hypotheses were relevant for this study:

H_{O1}: Deposit money banks loans and advances do not have any significant effect on the growth of the Nigerian economy;

H_{O2}: Interest rates do not have any significant effect on the growth of the Nigerian economy;

H_{O3}: Inflation rate do not have any significant effect on the growth of the Nigerian economy.

1.6 Significance of the Study

The study is significant in a number of ways as follows:

- To economic watchers and the interested public, it will provide some insight into the performance of business.
- To investors in general, it will expose the relationship existing between relevant variable used in the study.

1.7 Scope of the Study

The study is limited to the impact of deposit money banks, loan and advances on Nigerian economic growth. The study covers the period 2000 to 2021.

1.8 Limitations of the Study

The limitation of this study is related to the acquisition of information from the Banks. The oath of secrecy sworn annually makes staff adamant to release operational information to non-staff members. This study is also limited in scope.

1.9 Definition of Operations Terms

Bad Debts: They are losses which are incurred by banks when some of its customers fail to pay part or all the money being owed to the firm.

Credit Management is the process of controlling and collecting payments from customers. This is the function within a bank or company to control credit policies that will improve revenues and reduce financial risks.

Lending Practice: These are laid down principles which guide the lending practice of banks. These principles could be due to external or internal factors. These principles act as a blue print to measure the effectiveness of commercial banks lending activities.

Profitability: This is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities.

Lending: A process by which a Bank customer is funded for specified purpose and specified period of time with a promise to repay the amount borrowed and applicable interest.

Credit: This involves giving (receiving) goods or purchasing power now in return for a promise to receive or re-pay the goods or purchasing power later. It is the sale of goods, services or money claims in the present in exchange for promise to pay (usually money) in the future. It includes a power to repay both principal and interest instalmentally or in lump – sum in the future.

Bad and Doubtful Debt: This may be defined as a loan or debt, which has become irrecoverable at date of maturity. A loan may be termed bad or doubtful on event of borrower's failure to repay the loans in accordance with terms and conditions of the agreement.

Financial Intermediation: This is defined as financial transactions, which bring savings surplus units together with savings deficit units so that savings can be redistributed into their most productive uses.

Collateral Security: This is any security deposited by a third party to secure the indebtedness of the customer with the advantage that in the event of bankruptcy or liquidation of the borrower, the value of such securities may be ignored in the proof of dividend against the real estate.

Economic Growth: Economic growth is the increase in the amount of goods and services produced by economy overtime. It is conventionally measured as the percent rate of increase in real gross domestic product or real G.D.P.

Deposit Money Banks: These are financial institutions that give out loans and advances to their customers

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

2.1.1 Deposit Money Bank

Deposit money banks are resident depository corporations and quasi-corporations which have any liabilities in the form of deposits payable on demand, transferable by cheque or otherwise usable for making payments.

Deposit money banks have traditionally played an important role in financing various sectors of the economy especially in developing nation like Nigeria. This is because deposit money banks involved in financial intermediation process which entails chanelling funds from the surplus units to the deficit units of the economy, thus transforming bank deposits into loans or credit (Ujah & Amaechi ,2005). Deposit money banks function in various dimensions in economy which include: acceptance of deposit from customers for safekeeping, lending to customers, provision of loans and overdraft, discounting bills of exchange. It is important to state that of all these functions mentioned, deposit money banks major operation is the acceptance of deposits and granting of loans to customers. An efficient financial intermediation function of deposit money bank will boost the micro-economic growth process which is the productive capacity of the economy. Aliyu and Yusuf (2013) reasoned that a developed financial sector should reflect the ease of entrepreneurs with sound projects to obtain financial resources and the confidence with which investors anticipate adequate returns.

2.1.2 Deposit Money Bank Loans

Fapetu and Obalade (2015) defined a loan as a written or oral agreement for a temporary transfer of a property, usually cash in cash form, from its owner called the lender to a borrower who promises to return it according to agreed terms. The terms involve interest, time of repayment and the pattern of the repayment. If the loan is a term loan, it is repayable when the lender demands for its repayment. If it is an instalment loan, the repayment will be based on the agreed monthly instalments. In case the lender requires a lump sum to be made at the end of the time agreed, then this type of loan is a time loan. Banks also classify their loans into categories such as, consumer loans, commercial loans, industrial loans, construction and mortgage loans, secured and unsecured loans, etc.

In this study the adopted meaning of commercial bank loans is that used by Ghosh, (2015) in which commercial bank loans were the sum of all the loans issued. Commercial bank loan is therefore any type of loan issued out to any type of borrower by a registered commercial bank in Nigeria. Credit is the extension of money from the lender to the borrower. Credit implies a promise by one party to obtain money or monies worth from another party with a view to refunding at a determined future date (Akpansung and Babalola , 2012).

Credit cannot be divorced from the banking sector as banks serve as a conduit for funds to be received in form of deposits from the surplus units of the economy and passed on to the deficit units who need funds for productive purposes. Banks are therefore debtors to the depositors of funds and creditors to the borrowers of funds. According to the Central Bank of Nigeria, the amount of loans and advances given by the banking sector to economic agents constitute bank credit. Credit is often accompanied with some collateral that helps to ensure the repayment of the loan in the event of default. Credit facility channels savings into investment thereby encouraging economic growth. Thus, the availability of credit allows the role of intermediation to be carried out, which is important for the growth of the economy.

2.1.3 Economic Growth

The term economic growth is a term that is not easy to define, though it connotes changes in quantity. Economic growth can simply be defined as the sustained increase in the monetary value of the total output or productivity of an economy.

Economic growth is simply defined as increase in a nation's total wealth. However, this definition ignores the effect of the population on the wealth. It could be viewed as the continuous improvement in the capacity to satisfy the demand for goods and services, resulting from increased production scale, and improved productivity.

This study assumes a statistically simplified definition of economic growth provided by (Ogege & Shiro, 2013) that economic growth is the process of increasing the sizes of national economies as indicated by macro-economic indicators especially the GDP per capita, in an ascendant but not necessarily linear direction.

2.1.4 Deposit Money Banks (DMBs) and Economic Development

Deposit money banks (DMBs) plays important role in accelerating the growth in a small open economy, like Nigeria. These institutions perform roles that are pivotal in ensuring that adequate funds flow between economic entities, especially in servicing the activities of the deficit sides of an economy (Ogege & Boloupremo, 2014). Deposit money banks perform series of specified functions to stimulate the development of an economy. They are also expected to meet the finance needs of some preferred sectors, such as the: industrial, agricultural, communication, trade and commerce, and other productive sectors; they therefore should serve as an untiring force in providing funds that meet the financial needs of the private-public sectors. In this 21st century, the key functions performed by deposit money banks are fast becoming more customer-centered, therefore these banks are widening their primary and secondary functions. It now seems clearer that it is impossible to separate the development of banking institutions from the growth of modern economies, because not until the fall of the seventh-century, there was no record anywhere in the world which affirms the existence of any modern banking institution, since there was also no modernly developed economy at that time. The availability of natural resources endowment, technical know-how, supply of skilled manpower and labour and, of course, capital resources are factors that determine the level of development of an economy (Ogege & Shiro, 2013). Capital resources is, of course a critical factor required in economic development process, whether it is real or financial capital. Undoubtedly, they are both instrumental to any meaningful economic development, and this underscore the importance of banking institutions, most especially the deposit money banks. DMBs serve as an intermediary between the savers' side and the spenders' side in any economy who intends to channel the funds they acquired to investment opportunities, and into what open the door for economic development.

Therefore, these banks pool together the funds of the scattered savers, and make it available for the users of funds, that are investment ready. Consequently, it is possible for qualified investors to access a substantial stock of funds which exist in temporary residence with DMBs, and invest such in large physical projects (Ogege & Shiro, 2013). They added that the intermediary activities of these banks in aggregating savings and investment are economically very rewarding. Unsurprisingly, the quantum of purchasing power available for the investment and consumption expenditures can be influenced by these banks. They do this through their credit contraction power, and by their established policies, they also can affect the direction of funds to alternative uses, through the prices of the various financial claims. In addition, they also make choice of whether their credits are available for financing investment in some preferred sectors of an economy or consumption purpose, however, their choice in this regard tells about what become of a nation's pattern of development. DMBs differ from other financial intermediaries, in that they have a "high degree of liquidity" against their demand deposits. They also as a system of banks have the ability to "create" and "destroy" money. A greater proportion of the supply of money in a modern economy is created by these institutions from the customers' deposit with them. They also as a group serve as the principal supplier of the medium of exchange in an economy. However, deposits money banks face a myriad of problems that may impede their contributions to economic development in a nation, and these problems can be classified into those that create internal or external threats to their survival. To mention a few are: bad management, board room crisis, risk asset portfolio, weak capital bases, unstable economic and political environment, legal problems, international financial crisis, and financial distress among others.

2.2 Theoretical Framework

There are several theories in economics and finance literature that offers theoretical explanation on the link between deposit money banks and economic growth. These theories are discussed as:

Theory of Savings Mobilization

Financial institutions perform savings mobilization as one of the major functions. As banks in an economy mobilize savings from the savers’ side in their millions, it is also important that they channel same to the deficit spending units. This will in a way, enhance economic growth and development. One major determinant of the development process (in terms of the relations between output growth rate and capital stock) is capital accumulation (Saint-Paul, 1992). He added that capital plays the dual role of increasing production capacity and effective demand.

Solow (1956) and Swan (1956) assumed separately that capital stock (investment) equals saving. A continuous increase in income level largely determines the increase in investments, and what savings will be (Harrod, 1939). However, the savings of some economic agents is what serve as banks' credit.

Theory of Financial Repression

The path-breaking works of Cameron, Crisp, Patrick and Tilly (1973); McKinnon (1973) and Shaw (1973) discussed that financial development will contribute more laudably to economic growth in a nation where the authorities have no interference in the operations of the financial institutions. Interference, which can come in the form of interest rate regulation, ceilings on deposit and loan rates, guidelines on lending operations or any other official guidelines is responsible for the poor performance of some banks and other financial institutions. A low and often negative real rate of return on financial assets, and also on the deficient savings being mobilized and channeled into investment projects is frequently the result of several interference (Agu, 1988). The proponents of financial repression theory, therefore advocated a positive real interest and financial liberalization. The reckoning forces of a free market can ensure the presence of an optimal financial structure, the elimination of market fragmentation and some attendant distortions to the proper operation of the mechanisms which exist in the market. Based on the financial repression hypothesis, government legislations and policies distort the operation of the market mechanisms in the determination of the "prices" of financial resources. Financial repression majorly results in limited savings, and savings are limited due to interest ceilings. The hypothesis can be ultimately reduced to official interest rate policies. Portfolio regulation and oligopolistic financial markets, are also recognized as what might result in other forms of financial repression (Galbis, 1982). The attention of the financial repression hypothesis is also drawn to the interest accrued on the savings instruments available to the public and how inflation also affects it. However, a positive real rate of interest is a pointer to financial deepening, and not financial repression.

Supply-Leading Hypothesis

Schumpeter (1911) propounded the "supply-leading hypothesis", and the hypothesis was espoused by Calderon and Liu (2003); Gurley and Shaw (1967); King and Levine (1993); and McKinnon (1973). The hypothesis strongly believe that financial development positively affects economic growth and/or development. The hypothesis holds that as capital accumulation, savings and investments rate increases, financial development also deepens, and this is closely followed by an increased economic growth. However, because entrepreneurs can easily access supply-leading funds, they have their expectations increasing. They can blow up existing standards in order to open up new horizons (possible alternatives), thereby challenging them to "think broadly"; hence this represent the basic tenet of the hypothesis.

Demand-Following Hypothesis

The demand-following hypothesis was pioneered by Robinson (1952). This Keynesian theory holds that changes in the real sectors affect financial development. This theory asserts that with an expansionary fiscal policy, financial deepening occurs. The belief is that full employment can be reached by injecting money into the economy through increase in government spending. When the level of income and aggregate demand in an economy are instigated, the demand for money also increases and all is the result of an increased government spending (Mckinnon, 1973). An indispensable need for increased economic growth is what makes demand to increase in the financial sector (Robinson, 1952). In this same view, higher demand for using money is driven by improvements in the economy, it consequently stimulate developments in the financial sector. In a different way, an increase in the demand for the services of operators in the financial markets by a growing real sector will result in the development and progress of the markets. Therefore, an increase in the demand for financial services is triggered by rising economic growth, and this is the corollary result of an expanded financial sector (Goldsmith, 1969; Jung, 1986; Kar & Pentecost, 2000; Lucas, 1988; Ndlovu, 2013; Omotor, 2007; Robinson, 1952).

The feedback, mutual dependence or interdependence hypothesis which was championed by Patrick (1966) is one of the two other hypothesis which exist between the supply-leading and demand-following hypothesis. It states the existence of a mutual effect between financial development and economic growth, hence it establishes reciprocity. The neutral hypothesis expressed most prominently by Lucas (1988) is the second hypothesis, and it asserts the absence of any relationship at all between financial development and economic growth.

2.3 Empirical Review

Were, Nzomoi and Rutto (2012) examined the impact of access to bank credit on the economic performance using sectoral panel data for Kenya. They find that a positive and significant impact of credit on sectoral gross domestic product measured as real value added and recommended that the banking sector, which is the main source of credit to the private sector, is an important channel of financial intermediation through which financial resources can be mobilized for productive investment needed for the realization of the high economic growth. Consequently, policies towards deepening of the financial sector and reducing the cost of credit which is currently considered to be high are important.

Avinash and Mitchell-Ryan (2009) assessed the impact of the sectoral distribution of deposit money bank credit on economic growth and development in Trinidad and Tobago. They noted that in Trinidad and Tobago, commercial bank credit plays an important role in the way in which businesses and individuals finance economic transactions. They employs a vector error correction model to firstly assess the relationship between credit and investment, and secondly to determine the casual directionality of the relationship (if any). The model found that overall, credit and growth tends to demonstrate a demand following“ relationship. However, further analysis revealed a „supply leading“ relationship between credit and growth within key sectors of the nonoil economy.

Imoughele and Ismaila (2013) investigated the impact of deposit money bank credit accessibility and sectoral output performance in the Nigerian economy for the period which spanned between 1986 and 2010. An augmented growth model was estimated via the Ordinary Least Square (OLS) techniques to ascertain the relationship between various commercial bank credits and sectoral output growth. The variables were tested for stationarity and co-integration analysis was also carried out using the Augmented Dickey-Fuller test. Also error correction test was performed. The study found that the various commercial bank credit supply and other included variables has a long run relationship with sectoral output performance i.e agricultural, manufacturing and services sector output and the main demand for credit facility in the Nigerian economy is the manufacturing sector. The study also reveal that commercial bank credit has direct and insignificant impact on sectoral output performance but cumulative supply and demand for credit in the previous period has direct and significant impact on the growth of agriculture, manufacturing and the services sectors output. This findings was attributed to the vital position of credit facility as an input in the production process and persistent inflow to the manufacturing, Agriculture and services sectors have the capacity to induce the growth and development of the sectors which also induce exportation of goods and services. The study concluded that continuous credit accessibility in a deregulated financial market economy has the capacity to induce the nation sectoral output performance which will promote economic performance.

Yakubu and Affoi (2019) analyzed the impact of the commercial banks credit on economic growth in Nigeria from 1992 to 2017. In order to examine the role of commercial bank credit to the economy, the commercial bank credit to the private sector of the economy is used to estimate its impact on Nigeria's economic growth, which is proxy by gross domestic product. Using the ordinary least square it was found that the commercial bank credit has significant effect on economic growth in Nigerian. They recommended that better and stronger credit culture should be promoted and sustained; there should be strong and comprehensive legal framework that will continue to aid in monitoring the performance of credit to private sector and recovery debts owed to banks; bank should share among themselves information on bad debt; and preferred sectors like agriculture and manufacturing should be favoured in terms of granting loans.

On the effect of deposit money bank credit on export, Gupta and Keshari (2019) evaluated export trade financing in India with particular reference to commercial banks in terms of providing financial resources for promoting exports by providing both pre and post shipment finances. Using the Ordinary least Square, the study finding shows that increasing in the flow of bank credit to export sector, restructuring the interest rates enhances export performance and calls for the need for coordination between banks and financial institutions in the country in financing export sector. However, much attention has not been given to impact of deposit money bank credit on Nigeria aggregate export performance. Most scholar focus attention on how it affects non-oil export for instance,

Ningi (2019) noted that non-oil export contributes 4% to the Nigerian economy and the growth of Nigerian export sector is very low as a result of insufficient access to deposit money bank finance. Using questionnaires which was distributed to

120 non-oil exporting firms. Mean and standard deviation, multiple regression methodology was used for data analysis. The multiple regression indicates that non-oil exports financing by banks significantly accounts for slightly 16% of variance in non-oil exports performance, similarly beta coefficient reveals that firm" perception of banks attitude to risk of financing non-oil exports has the highest beta value followed by cost of bank finance, in the case of exchange rate fluctuation effects and volume and access to credit facility they present insignificant relationships with the non-oil exports and concluded that there is need for governments to develop financial sectors of their economies for improved exportation of goods and services.

Elechi, Kasie and Chijindu (2016) examine the contribution of the Nigerian banks to the promotion of non-oil exports. The study employs econometric time series analysis to examine the contribution of Nigerian deposit money banks credit to non-oil exports performance. Using unit root, co-integration and granger causality test, in which changes in non-oil exports performance was regressed against commercial banks credit to non-oil exports, interest rate and inflation using annual series data for the period 1990-2013. The result of the analysis showed that Nigerian banks have not adequately contributed toward the promotion of non-oil exports. The study also finds that there is a long run relationship between deposit money banks credit to non-oil exports and the performance of non-oil exports but no causality between Nigerian banks credit to non-oil exports. They recommended that the Central Bank of Nigeria should reduce the current monetary policy rate of 14% to a range of 5%-8% so that when commercial banks add up processing, transaction and other administrative fees, credit would be extended to non-oil exporters at a rate lower than 15%. Also the Central Bank of Nigeria should as an operational guideline, impose commercial banks to set aside a certain amount of money from their yearly profit for financing of non-oil export as it is the case for small and medium scale enterprises equity scheme.

Iyoboyi and Abdelrasaq (2015) examined the impact of policy and institutions on non-oil exports in Nigeria for the period 1961-2012. The Autoregressive Distributed Lag (ARDL) framework was employed for analysis and found a long-run relationship between non-oil exports and the associated variables. In both the long and short run, broad money supply and exchange rate were found to have direct and significant impact on non-oil exports. Both the short and long run results indicate that fiscal deficit, interest rate, and openness are inversely related to non-oil exports and statistically significant with the exception of fiscal deficit and concluded that increased in money supply and proper exchange rate management are means of driving non-oil exports and also there is need to reduce fiscal deficit and interest rate. A reduced fiscal deficit can ease the pressure on the market for loanable fund and consequently the crowding out of private investment.

Enoma and Isedu (2011) observes that the Nigerian economy has been a mono- product economy relying more on oil export and this has had an adverse effect on non- oil export supply. Equally observed are the various financial sector reforms embarked upon by the Central Bank of Nigeria (CBN) in boosting the productive capacity of the economy. Given these facts, they empirically examined the impact of current financial sector reforms on non- oil export in Nigeria and estimated non-oil export supply model. The results obtained from the estimated error correction model reveals that interest rate, exchange rate and broad money supply have direct and significant impact on non-oil export in Nigeria and recommended that financial sector reforms should be improved upon and sustained by the monetary authorities to induce exportation.

Arikpo and Adebisi (2017) examined the effects of deposit money banks financing on real sector output in Nigeria. The study specifically assessed the effect of private sector credit, interest rate spread, deposit mobilization and banks" holding of treasury bills on trade and agricultural sectors outputs in Nigeria. The study used the Vector Error Correction Mechanism (VECM) for data analysis and revealed that deposit money banks financing have a long term significant effect on the trade sector but does not have any long run effect on the agricultural sector in Nigeria and interest rate spread has an inverse effect on the trade sector output but a positive effect on the agricultural sector output. The study therefore recommended that the spread between lending and deposit rates should be narrowed to trigger savings and enhance banks" loan supply and real sector loan demand which consequently will boost productivity in the real sector.

Nyasha and Odhiambo (2018) employed a revisionist approach to a previously authored paper, to re-investigate the nexus between financial development and economic growth in Kenya.

They find that nexus we talk about here varies over time, and also per country. Their study concluded that whatever is used as proxy in capturing financial development; coupled with the estimation method applied are significant determinants of the nexus between the variables in question.

Utilizing an alternate approach and a dataset from 24 developed economies, Swamy and Dharani (2018) also explored the causal relations between financial development and economic growth over the period 1983-2013. It found using panel Granger causality tests that the feedback hypothesis exist.

By adopting the Toda-Yamamoto augmented Granger causality test, Karimo and Ogbonna (2017) investigated the causality between financial deepening and economic growth in Nigeria over the period from 1970-2013. Their results revealed that financial deepening-growth nexus in Nigeria follows the supply-leading hypothesis.

Over the period from 1981-2014, Okafor, Ezeaku and Ugwuegbe (2016) evaluated the nexus between deposit money banks' credit and the economic growth in Nigeria. The results of the vector autoregressive (VAR) Granger causality test used in the study showed that financial development is sine-qua-non for economic growth in Nigeria, hence the study supports the supply-leading hypothesis.

In Saba (2016), the causal effect of bank activities on economic growth was investigated in Pakistan from 1961-2013. The study which employed co-integration and Granger causality test in its analysis revealed that bank activities has no significant impact on economic growth, and that saving and lending activities result in no significant benefits.

Ihemeje and Ikwuagwu (2016) studied the effect of sectorial credits from deposit money banks on the economic growth in Nigeria within the period from 1985-2014. The regression results revealed that credits to the agricultural and manufacturing sectors have positive effect, while those advanced to commerce and trade showed an inverse relationship with economic growth.

Iwedi, Igbanibo and Onuegbu (2015) empirically investigated the impact of banks' domestic credits on Nigeria's economic growth. Gathering time series data for the period from 1980-2013, the co-integration result should a weak long run relationship between banks' domestic credit indicators and gross domestic product of Nigeria. The study recommended that the monetary authorities should devise appropriate policies that will enhance mutual dependence response between the banking sector development and the real sector growth.

In Akakabota (2015), the effect of financial sector reforms on economic growth in Nigeria over the period from 1986-2012 was examined. The regression technique employed showed that credit claims of deposit money banks affects economic growth in a positive way while interest rate charge by banks for lending has negative relationship with economic growth.

Fapetu and Obalade (2015) also investigated the impact of sectoral allocation of banks' credit on economic growth in Nigeria for the periods of intensive regulation, deregulation and guided deregulation. The ordinary least square technique employed for the three regimes revealed that credits allocated to private and public institutions have significant positive contributions on economic growth during period of intensive regulation, but otherwise in the deregulation era.

Neelam (2014) studied the impact of bank credit on economic growth in Nepal for the periods from 1975 to 2013. The analysis done via Johansen approach to Co-integration approach and error correction model showed that bank credit to the private sector has positive effects on the economic growth in Nepal in the long run.

In a study for the effect of deposit money banks intermediation role on economic growth in Nigeria for the 1973-2011 period, Ogege and Boloupremo (2014) found that credit allocation to the production sectors has significant impact on economic activity.

Balago (2014) examined the causal link between bank credit and economic growth in Nigeria for the periods from 1983 to 2012 by establishing VEC models. The result of the study showed that causality runs from bank credit to the real GDP.

Employing regression technique, Ogege and Shiro (2013) examined the role of banks deposit money in the growth of Nigerian economy for 1974-2010 period. The study found a co-integrating relationship between economic growth and role of banks in the Nigerian economy.

Taking 10 banks as sample, Aurangzeb (2012) also investigated the contributions of banking sector to economic growth of Pakistan for the periods from 1981 to 2010. The regression results indicated that banks deposits, investments, advances, profitability and interest earnings have significant positive impact on economic growth of Pakistan. The study also confirmed a bidirectional causal relationship of deposits, advances and profitability with economic growth, and a unidirectional causal relationship running from investments and interest earnings to economic growth.

The association between credit in banking sector and economic growth in Nigeria was examined by Akpansung and Babalola (2012) for the period from 1970 to 2008 utilizing the two-stage least squares approach and Granger causality test. The study establishes evidence that credit in private sector positively affected on economic growth while lending rate slows down economic growth., while evidence of unidirectional causal relationship from GDP to private sector credit (PSC) and from industrial production index (IND) to real GDP.

Okwo, Mbajiaku and Ugwunta, (2012) investigated the effect of bank credit to the private sector on economic growth in

Nigeria for the periods from 1981 to 2010. The co-integration result of the study showed that bank credit to private sectors has a strong positive and significant relationship with economic growth.

Eregha (2010) explored variations in interest rate and investment determination in Nigeria for the period 1970-2002 using dynamic model of two equations and found that inverse relationship exists between interest rate and investment.

In Romanian, Albu (2006) found positive and significant relationship between interest rate and economic growth using tow partial models.

In support, using ECM, Nwachukwu and Odigie (2009), Rasheed (2010) opined that positive relationship existed between real interest rate and economic growth and statistically significant within the estimated model. However, Obute, Asor and Itodo (2012) reported no relationship between the real bank lending rate and economic growth.

Onyishi and Ifiorah (2015) examined the impact of interest rate reform on agricultural finance and growth in Nigeria employing OLS and ARDL methods. They found that interest rate has significant effect on agricultural sector and economic growth.

Onwumere, Okore and Ibe (2012) found no relationship between interest rate, savings mobilization and economic growth. Majority of the studies spanned between 1980 and 2012. Furthermore, findings from previous studies on the relationship between bank lending rate-economic growth are still debatable in literature due to divergent views. Moreover, it is an attempt to explain the divergent views positive and negative on the relationships between bank lending rate-economic growth nexus has led to consideration of Greenwood-Jovannovic hypothesis which predicts an inverted U-shaped relationship between bank lending rate and economic growth, which previous studies failed to consider. Thus, this study seeks to fill the gap by examining the relationship between bank lending rate–economic growth nexus in Nigeria using DOLS method for the period 1980-2016.

Stolbov (2015) examined causality between credit depth and economic growth among 24 OECD countries using Breitung-Candelon causality tests in the frequency domain. The study ascertained that as economic development progresses, financial development shifts from a supply-leading to demand-following pattern.

Abu-Bader and Abu-Qarn (2008) examined the causal relationship between financial development and economic growth for six Middle East and North Africa countries (Algeria, Egypt, Israel, Morocco, Syria and Tunisia) with a quadvariate vector autoregressive framework. They employed four different measures of financial development and applied the augmented vector autoregression (VAR) methodology to test the Granger causality. The empirical results strongly support the hypothesis that finance lead to growth in five out of the six countries. Only in Israel was weak support found for causality running from economic growth to financial development but no causality in the other direction.

Gazdar and Cherif (2012) in their study examined the effects of institutional quality on the finance-growth nexus. An empirical model with linear interaction between financial development and institutional quality was estimated. They observed that while most indicators of financial development have a significant negative effect on economic growth, the indications of the coefficients of interaction variables were significantly positive, which confirmed that institutional quality mitigates the negative effect of financial development on economic growth.

Cevik and Rahmati (2013) carried out a study which aimed at investigating the causal relationship between financial development and economic growth in Libya during the period 1970-2010. The empirical results varied with estimation methodology and model specification, but indicated that there is no long-run relationship between financial intermediation and output growth.

Cappiello, Kadareja, Sørensen and Protopapa (2010) sought to find out if bank loans and credit standards have an effect on output. Using the framework derived by Driscoll (2004), the paper provided empirical evidence to underscore the existence of a bank lending channel of monetary policy transmission in the euro area. In addition, they found that in the euro area, changes in the supply, volumes and standard of credit to enterprises do have significant effects on real economic activity. This further buttresses the need to make the monitoring of credit developments an integral of monetary policy and supports the argument behind giving monetary and credit analysis a key role in the monetary policy strategy.

Christopoulous and Tsionas (2004) investigated the long-run relationship between financial depth and economic growth. They utilized the data in the most efficiently via panel unit root tests and panel co-integration analysis. The long run relationship was projected using fully modified OLS for 10 developing countries, the empirical results strongly support for the hypothesis that there is a single equilibrium relation between financial depth, growth and additional variables, and that the single co-integrating relation implies undirectional causality from financial depth to growth.

Güryay and Şafakli (2007) looked into the relationship that exists between financial development and economic growth in Northern Cyprus, covering the period 1986 -2004. The Granger causality test revealed that financial development does not cause economic growth; whereas economic growth Granger causes financial development.

Sanusi, Mo'osin and Kusairi (2012) examined the relationship between financial development and economic growth in ASEAN countries by using the static panel approach. In view of the study, the paper analyzed the evidence on financial depth for ASEAN countries, while disaggregating measures of financial depth covering the financial inequality development. It was found that there is a long-run relationship between financial development and economic growth for ASEAN countries.

Chakraborty (2008) investigated the impact of developments in the financial sector on economic growth in India in the post-reform period. The paper extended the models of Pagano (1993) and Murinde (1996) to formalize the relationship between financial development and economic growth in the structure of an endogenous growth model. The results showed that investment-output ratio has a positive effect on real rate of growth of GDP, irrespective of the stock market development indicator.

Eatzaz and Malik (2009) analyzed the position of financial sector development in stimulating economic growth. Their study confirmed that domestic credit to private sector is instrumental in increasing output per head, hence promoting economic growth in the long-run. This finding is in line with the findings of Levine (2004) and Franklin and Oura (2004) which revealed that there exist a long run relationship between bank credit and economic growth.

King and Levine (1993) examined seventy seven countries made up of developed and underdeveloped economies used cross-country growth regression. The aim of the research was to find out whether higher levels of financial development are significantly and robustly correlated with faster economic growth. The result showed that finance not only follows growth; finance seems important to lead economic growth. Moreover, economic growth is no longer believed to happen for exogenous reasons; instead government through appropriate policies particularly with regards to financial market can influence it.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

This study adopted descriptive research design. Descriptive research is the type of enquiring that deals with the collection and analysis of data for the purposes of describing and interpreting existing conditions and also to make discovery and explanation of past events. Descriptive research is utilized because it enables exploring relationships between two or more variables. Also, it is appropriate for testing the hypotheses of the study and help to answer the research questions concerning the capital market and the economy which are crucial concern of this study.

3.2 Population of the Study

The target population for this study was drawn from statistics of banks in Nigeria. The target population was twenty – one (21) Money deposit banks in Nigeria.

3.3 Sampling/Sample Size

The sampling size for this study was determined using a purposive sampling technique. For the purpose of this study, deposit money bank loan and advance, interest rate and inflation rate vis-à-vis Nigerian economy proxy for economic growth is chosen as the sample size for this study for the period of (2000 - 2021).

3.4 Sources of Data

The data for this study was obtained mainly from secondary sources particularly from Central Bank of Nigeria (CBN) Statistical Bulletin.

3.5 Method of Data Analysis

The study employed ordinary least square (OLS) Multiple Regression analysis techniques to determine the effect of independent variables on the dependent variable and was measured through Correlation coefficient be used to investigate how the independent variables inter-relate with the dependent variable.

3.6 Model Specification

simple regression equation is stated thus;

GDP = DMBLA + INTR + INFR + Ut……………………………………….(i)

EXPT = β_0 + DMBLA β_1 + INTR β_2 + INFR β_3 + Ut…………………. (ii)

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF REGRESSION RESULTS

4.1 Data Presentation and Analysis

YEAR	RGDP	INFR	INTR	DMBLA
2000	23,688.28	14.5	10.44	587,999.90
2001	25,267.54	16.5	10.09	844,486.20
2002	28,957.71	12.2	15.57	948,464.10
2003	31,709.45	23.8	11.88	1,203,199.00
2004	35,020.55	10.0	12.21	1,519,242.70
2005	37,474.95	11.6	8.68	1,991,146.42
2006	39,995.50	8.5	8.26	2,609,289.40
2007	42,922.4	6.6	9.49	4,820,695.70
2008	46,012.52	15.1	11.95	7,799,400.11
2009	49,856.10	13.9	12.63	9,667,876.68
2010	54,612.26	11.8	7.19	9,198,173.06
2011	57,511.04	10.3	6.30	9,614,445.80
2012	59,929.89	12	7.63	10,440,956.33
2013	63,218.72	7.96	6.72	11,543,649.93
2014	67,152.79	7.98	9.89	13,179,598.11
2015	69,023.93	9.55	8.26	13,568,543.70
2016	67,931.24	18.55	5.46	16,500,150.26
2017	68,490.98	15.37	7.73	16193858.35

2018	69,810.02	11.40	7.99	15438603.87
2019	71,897.90	12.12	7.99	1651111.09
2020	70,014.37	15.35	8.20	1661234.80
2021	73,987.12	16.50	8.50	168123.87

Source: CBN Statistical Bulletin, 2021

This section deals with the data analysis and interpretation of regression results.

4.2 Interpretation of Result

Table 4.2 below presents the descriptive nature of variables showing the coefficient, standard error, t-statistic, probability, R-square, adjusted R-square, F-statistic and Durbin – Watson, of the following variables: Real Gross Domestic Product (RGDP), Inflation Rate (INFR), Interest rate (INTR) and Deposit money bank loans and advances (DMBLA)

Variable	Coefficient	Standard Error	t-Statistics	Probability Value
Constant	38556.88	3197.640	12.05792	0.0000
INFR	-527.0135	224.1720	-2.350933	0.0328
INTR	-6.414323	16.46399	-0.389597	0.7023
DMBLA	1.988334	0.209008	9.513208	0.0000

Source: Data Computation, 2022

RGDP = 38556.88 -527.0135INFR-6.414323INTR+1.988334DMBLA

T–Statistic = (12.057) (-2.350) (-0.389) (9.513)

R^2 = 0.953823

Adj R^2 = 0.944588

F – Statistics = 103.2794

Durbin Watson statistics = 1.982580

The estimate of β_0 is 38556.88. This implies that if all independent variables are held constant, the dependent variable Real Gross Domestic Product (RGDP) will become 38556.88.

The estimate of β_1 is -527.0135. This shows there is an inverse or negative relationship between Inflation rate (INFR) and Real Gross Domestic Product (RGDP). This further implies that a decrease in inflation rate (INFR) will bring about increase or improve performance of Real Gross Domestic Product (RGDP), for every unit change in Inflation rate, it will bring about -527.0135 changes in Real Gross Domestic Product (RGDP).

The estimate of β_2 is -6.414323. This means there is an indirect or inverse relationship between interest rate (INTR) and Real Gross Domestic Product (RGDP). This further implies that a decrease in interest rate (INTR) or relatively stable interest rate will bring about increase or improve performance of the economy Real Gross Domestic Product (RGDP).

The estimate of β_3 is 1.988334. There is a direct or positive relationship between Deposit Money Banks Loan and Advances (DMBLA) and Real Gross Domestic Product (RGDP). Both M Deposit Money Banks Loan and Advances (DMBLA) and Real Gross Domestic

Product (RGDP) move in the same direction. In other words, Increase in Deposit Money Banks Loan and Advances (DMBLA) will lead to sustained increase in Real Gross Domestic Product (RGDP) by extension, increase in the growth of the Nigerian economy.

The results of statistical tools revealed that the coefficient of determination (R^2) as used to measure the success of the regression in predicting the value of the dependent variable Real Gross Domestic Product (RGDP) within the sample and tests the goodness of fit, is considered high in this study over 95% while 5% was taken care by the error (disturbance) term showing that the model was a good one. The adjusted R-square the Durbin-Watson Statistic and the entire regression test is statistically significant including the F-test. All results were obtained empirically and the test was conducted at five (5%) percent level of significance.

The DW- statistic is 1.9 from the statistical table (at 5%), this shows that there is absence of autocorrelation. Hence, we reject the null hypothesis (H_o).

4.3 Test of Hypotheses

Hypothesis one

H_{O1}: Deposit money banks credit (loan and advances) has no significant effect on the growth of the Nigerian economy.

Variable	Coefficient	Standard error	T – statistic (Cal)	T – statistic (table value)	p-value
DMBLA	1.988334	0.209008	9.513208	0.05	0.000

Source: Researcher's compilation 2022.

Decision Rule: Reject the Null hypothesis if the F–Statistic is greater than the T-Statistic calculated.

From the above results the F–Statistic is greater than the T-Statistic calculated (ie 103.2794 > 9.513208). Therefore, we reject the null hypothesis (H_0) and conclude otherwise that Deposit money banks loan and advances has significant positive effect on the growth of the Nigerian economy.

H_{O2}: Interest rates has no significant effect on the growth of the Nigerian economy;

Variable	Coefficient	Standard error	T – statistic (Cal)	T – statistic (table value)	P-value
INTR	-6.414323	16.46399	-0.389597	0.05	0.7023

Source: Researcher's compilation 2022.

From the above results the F–Statistic is greater than the T-Statistic calculated (ie 103.2794 > -0.389). Therefore, we reject the null hypothesis (H_0) and conclude otherwise that there is a negative significant relationship between interest rate and Real Gross Domestic (RGDP) though not statistically significant.

H_{O3}: Inflation rate has no significant effect on the growth of the Nigerian economy.

Variable	Coefficient	Standard error	T - Statistic (Cal)	T – statistic (table value)	p-value
INFR	-527.0135	224.1720	-2.350933	0.05	0.000

Source: Researcher's compilation 2022.

From the above results the F–Statistic is greater than the T-Statistic calculated (ie 103.2794 >-2.350933). Therefore, we reject the null hypothesis (H_0) and conclude otherwise that there is a negative significant effect between inflation rate and Real Gross Domestic (RGDP) though not statistically significant.

CHAPTEER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

Based on the objectives of the study, the following are the summary of findings:

i. Deposit money banks loans and advances has positive significant effect on the growth of the Nigerian economy.

ii. Interest rate has a negative significant effect on the growth of the Nigerian economy.

ii. Inflation rate has a negative significant effect on the growth of the Nigerian economy.

5.2 Conclusion

This study investigated the impact of deposit money banks loan and advances on economic growth in Nigeria over the period (2000-2021). The causal relationship between the variables were established using the ordinary least square regression technique. The analytical results indicated that DMBs' loans and advances leads economic development in Nigeria. On the overall, the study draws conclusion that the relationship between economic development and credits to private-public sectors by DMBs' lends credence to the "feedback hypothesis".

5.3 Recommendations

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

i. The monetary authorities should regulate the activities of deposit money banks to ensure that they gear up the growth of credits to private sectors by examining factors, such as lending interest rate which can possibly undermine lending to the private sectors, which serves as key engine of economic development in any developing economy.

ii. Nigerian government should device a suitable inflation rate and interest rate that can directly impact on the Nigerian economy

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Appendix

YEAR	RGDP	INFR	INTR	DMBLA
2000	23,688.28	14.5	10.44	587,999.90
2001	25,267.54	16.5	10.09	844,486.20
2002	28,957.71	12.2	15.57	948,464.10
2003	31,709.45	23.8	11.88	1,203,199.00
2004	35,020.55	10.0	12.21	1,519,242.70
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2011	57,511.04	10.3	6.30	9,614,445.80
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Source: CBN Statistical Bulletin, 2021

Abstract

The study examined the deposit money banks, loans and advances on economic growth in Nigeria. The main objective of this study is to determine the relationship between deposit money banks loans and advances on economic growth in Nigeria. The study employs ordinary least square regression techniques. The empirical findings showed that deposit money banks loans and advances have positive significant effect on the growth of the Nigerian economy. The study recommends that the monetary authorities should regulate the activities of deposit money banks to ensure that they gear up the growth of credits to private sectors by examining factors, such as lending interest rate which can possibly undermine lending to the private sectors, which serves as key engine of economic development in any developing economy.

DEPOSIT MONEY BANKS LOAN AND ADVANCES ON NIGERIA ECONOMIC GROWTH

(2000-2021)

MORKOR EBIDEN ROSSEMARY

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THE DEPARTMENT OF BANKING AND FINANCE
SCHOOL OF BUSINESS STUDIES,
AUCHI POLYTECHNIC AUCHI, EDO STATE

NOVEMBR, 2022

DEPOSIT MONEY BANKS LOAN AND ADVANCES ON NIGERIA ECONOMIC GROWTH (2000-2021)

MORKOR EBIDEN ROSSEMARY
SBS/2282070456

PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND)
IN BANKING AND FINANCE
SCHOOL OF BUSINESS STUDIES,
AUCHI POLYTECHNIC AUCHI, EDO STATE

CERTIFICATION

We, the undersigned certify that this research work titled **DEPOSIT MONEY BANKS LOAN AND ADVANCES ON NIGERIA ECONOMIC GROWTH** was carried out by **MORKOR EBIDEN ROSSEMARY** with **MAT NO/SBS/2282070456** in the Department of Banking and Finance, School of Business Studies, Auchi Polytechnic, Auchi, We also certify that the work is adequate in scope and content in partial fulfillment of the requirements for the award of Higher National Diploma (HND) in Banking and Finance.

Mr.Okolie Sylvester **Project Supervisor**	**Date**

Mr. Musa Abdulai **Date**
Head of Department

DEDICATION

This project work is dedicated to Almighty God who created the universe for His mercies and protection and for also seeing me through in my academic pursuit in Auchi Polytechnic and to my lovely parents.

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unending love, understanding, prayers and financial support to complete this research work.

Abstract

The study examined the deposit money bank, loans and advances on economic growth in Nigeria. The main objective of this study is to determine the relationship between deposit money banks loans and advances on economic growth in Nigeria. The study employs ordinary least square regression techniques. The empirical findings showed that deposit money banks loans and advances have positive significant effect on the growth of the Nigerian economy. The study recommends that the monetary authorities should regulate the activities of deposit money banks to ensure that they gear up the growth of credits to private sectors by examining factors, such as lending interest rate which can possibly undermine lending to the private sectors, which serves as key engine of economic development in any developing economy.

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