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Sectoral Distribution of Deposit Money Banks' Credits and Economic Growth in Nigeria

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Abstract:

Sequel to the uneven growth and development in the various sectors in Nigeria, this study seeks to examine the effect of Deposit Money Banks (DMBs) credits to various sectors on the economic growth in Nigeria within the periods of 1985 – 2014. The annual data was sourced from CBN statistical bulletin. The study adopted rigorous empirical analysis to analyse the data using Unit root test, Co-integration, Ordinary Least Squares and Error Correction Model. Result from the analysis reveal that Deposit money banks credits to both agricultural sector and manufacturing industry exhibited a positive relationship with Real GDP. While Deposit money banks credit to commerce and trade show an inverse relationship with Real GDP. We therefore recommend that the relevant authorities that influence the DMBs credits to various sectors should endeavour to improve the even distribution and effective channelling of the credits. Also savers confidence should be well guaranteed through effective intervention in the case of a distressed bank and creation of regular checks to reduce anomalies within Deposit Money Banks operation. Finally, policies that will revive the declining sectors in Nigeria should be pursued by the relevant authorities through establishment of infrastructures that will propel the effective and efficient operation of the sectors.

Keywords: *Deposit money banks, agricultural sector, manufacturing industry, commerce and trade, economic growth.*

1. Introduction

The contribution of a well financial system to the economic growth of a country has occupied a large academic literature (Ekineh, 1996; Ewah, et. al., 2009; Adeusi et. al., 2013). Although these studies focus on the importance of the security markets, the role of banks as financial intermediary in economies around the world has become another point of debate among scholars (Calomiri and Charles, 1991; Beck et al., 2006; Nwanyanwu, 2010).

After a decade of transformation of the banking sector in Nigeria, there is a need to assess whether this process has succeeded. The evidence of the success should not be limited to policy prescription been followed, but the extent to which the reformation has efficiently and effectively affected the entire system. Before the reform according to Soludo (2008) the banking system in Nigeria was characterised by negative features such as slow banking credit to the domestic economy, incessant systematic distress resulting to CBN bailouts, inadequate Capital base, poor collateral on loan transactions, among others.

The Nigerian economy was bitten by the second round effect of the world economic crisis as the stock market collapsed by 70% in 2008 – 2009 and many Nigerian banks sustained huge losses, particularly as a result of their exposure to the capital market and downstream oil and gas sector (Sanusi, 2012). This among other financial issues orchestrated a radical financial reform in the banking sector. However, a closer view on the Nigerian economy reveal that there is more to be done especially in the banking sector because of its crucial role in lubricating other sectors through mobilisation of investment fund needed to quicken their operations. Nigeria as a developing country must revive all sectors in the economy to achieve a desired level of even growth and development.

According to Isa et al (2013) sustainable development could be attained through critical assessment of all growth indices. To achieve this the economy must vouch for continuous provision of investment fund to viable projects in all sectors and ensure the adequate utilisation of such fund. The Nigeria economy has experience slow growth when compared with other nations with similar natural endowment. This could be attributed to the uneven growth and development within the various sectors in the economy (Aliyu et al., 2013). Hence, there is a growing concern about the state of the country's economy and how despite the financial reforms in the banking sector its benefit to the various sectors in the economy has not been significant. The need therefore arises to assess the effect of the DBMs credits to various sectors in Nigeria on the economic growth.

Past studies on the relationship between the various sectors and economic growth focus on the agricultural sector (Olajide, 2012), the power sector (Aliyu et al., 2013) construction sector (Isa et al., 2013) among others. Furthermore, a major weakness on regression analysis of past studies on economic growth was that such analysis was done without prior consideration of the stationarity problems of time series data. Evidence to support this argument could be traced to the empirical studies (Wolde-Rafeal, 2009; Ndako, 2010; Emeh and Chigbu, 2014) which show that economic proxy variables such as Gross Domestic Product may be non-stationary as was previously assumed. This study therefore examines the effect of Deposit Money Banks (DMBs) Credits to various sector on economic growth in Nigeria using time series data from 1985 – 2014. In view of the above identified problems, this study is carried out to fill this gap by adopting the Unit root test, Co-integration technique and Ordinary Least Squares to test for the stationarity status of the variables, and to examine the long and short-run relationship between the explained and explanatory variables. Also, all previous studies relate to a certain period and considering the dynamic nature of country's economy, there is a continuous need to fill the gap of what is known about the economy.

2. Conceptual and Theoretical Framework

In view to achieve the objective of this study, the conceptual framework is based on the intermediary role of banks in mobilization of funds from surplus economic units and channelling them as credits to various sectors within the economy with viable developmental projects to increase economic growth. Economic growth theories can be traced back to the classical economist of the eighteenth and nineteenth century, and the neoclassical economics first developed by Solow (1956). According to Solow (1956) long-run economic growth will be achieved through capital accumulation, growth in labour, and increase in productivity which he referred to as technological progress. Other supportive theoretical studies accept the link between financial intermediation and economic growth (Goldsmith, 1969; and Shaw, 1973). Shaw in his study argued on the importance of the financial institutions in a transition economy, that they help in break away from repetitions against the economic development process. To Goldsmith (1969), the structure of the financial system in an economy is important as this will determine the extent to which it accelerate the economic growth through fund mobilization and intermediation. Bello (2005) noted that achievement of sustained growth requires a shift from microeconomic unit operation to macroeconomic operation. Although there are voluminous growth models in literature there is no consensus as to which strategy will achieve the best result (Yakubu and Affoi, 2014).

On the concept of credit, Nwanyanwu (2010) opined that credit is the money given to borrower from a lender. Banks and Credits are financial twins that influence each other. Banks act as a channel for fund from surplus economic units to deficit sectors with productive investment opportunities. In Nigeria Deposit Money Bank (DMBs) is a generic name for commercial and merchant banks operating in the country since the commencement of universal banking in 2001 (Ndifong and Ubana, 2014). Deposit Money Banks credits is the borrowing ability of these universal banks to provide loans to individual, government, or organisation.

2.1. Empirical Review

Past studies on bank lending, advocates for an efficient payment system. Looking at bank constraints in granting loan, Ojo (1978) identified interest rate and liquidity ratio as the determining factor to loan supply in Nigeria. But study by Adegboye et al (2013) reveal that deposit money banks are volatile and fragile in nature, and this is not caused by either internal or external factor hence, therefore require supervision and regulation. According to Jayarante and Stranhan (1996), although financial development impacts positively on economic growth, this impact is only achievable in a quality improved bank lending. The study established that the rate of real per capital income significantly increased after the US banks reform, but concluded that the increase is accredited to the improved quality of bank operation. Banks must mobilize and allocate funds efficiently and prudently to encourage savings and investment as output is significantly associated with real expansion of bank lending (Steven and Anita, 2002). In the study by Allen and Gale (2004) on the relevance of financial markets and intermediation, there has been unprecedented propagation of non-monetary payment forms in some developing economies, although this has not been pursued by some industrialized market economies.

Mohammed (2014) examine bank reforms and financial intermediation of Deposit Money Banks (DMBs) in Nigeria, and concluded that recent bank reforms has not achieved the desired significant impact on the intermediary function of the deposit money banks, and recommended that relevant authorities should strive to create enabling environment for banks' smooth operation.

Loayza and Ranciere (2002) in a study to relate various literatures of the effect of financial intermediation on economic growth of countries, established that a positive long-run relationship exists between economic growth and financial intermediation although short-run relationship might be negative.

On the role of banks credit, Ademu (2006) opined that in the event of natural disasters like; diseases, flood and drought credit can be used to prevent total collapse of the economic activities. Deposit Money Banks (DMBs) helps to provide these credits by mobilising surplus funds from savers and channelling these funds to investors who need them for viable and profitable investments (Nwanyanwu, 2010).

According to Nwaru and Okorontah (2014), the impact of banks credit to private sector although positive is insignificant on the economy's output and concluded that real output triggers economic development.

Shittu (2012) adopted unit root test, co-integration and error correction model to examine the impact of financial intermediation on economic growth in Nigeria, the study conclude that credits through deposit is a determinant of economic growth in Nigeria. This is in agreement with the study of Yakubu and Affoi (2014) which conclude that commercial banks credit impact positively and significantly on the economic growth in Nigeria.

3. Methodology

3.1. Data Analysis method

This study employ time series data from 1985 - 2014 sourced from the CBN statistical bulletin to design a research method in order to determine the nature, extent and economic implication of DMBs credits to various sectors in Nigeria. The methodological approach build extensively on the neoclassical growth model. This approach has been used by many researchers (Levine and Sara, 1996; Ehigiamusoe,2013; and Owolabi and Ajayi, 2013).

The study been quantitative and explanatory in nature focuses on finding out the extent to which DMBs credits to various sector affect economic growth in Nigeria. It employed a time series data, and adopt Ordinary Least Squares as the data analysis method. However, following the characteristics of time series data, it will incorporate Unit root test and Co-integration. The unit root test is to ascertain the stationarity status of the variables, then the long-run characteristics of the data will be tested through the co-integration. The econometric software used for the analysis is Eviews 8.

3.2. Model Specification

In line with the above discussion, the model adopted by this study is specified as follows:

$$RGDP = f(DMBCAS, DBMCCT, DMBCMS)..... (1)$$

The mathematical form is thus:

$$RGDP = \beta_0 + \beta_1DMBCAS + \beta_2DMBCCT + \beta_3DMBCMS..... (2)$$

The equation is stated in econometric form to account for the stochastic variables:

$$RGDP = \beta_0 + \beta_1DMBCAS + \beta_2DMBCCT + \beta_3DMBCMS + \mu..... (3)$$

By Linearization we have the equation thus:

$$RGDP = \beta_0 + \beta_1LogDMBCAS + \beta_2LogDMBCCT + \beta_3LogDMBCMS + \mu.....(4)$$

Where:

RGDP = Real Gross Domestic Product

DMBLAS = Deposit Money Bank Credits to Agricultural Sector

DMBCCT = Deposit Money Bank Credits to Commerce and Trade

DMBCMS = Deposit Money Bank Credits to Manufacturing Sector

μ = Stochastic variable

β_0 = Intercept

$\beta_1, \beta_2, \beta_3$ = Coefficients

Appriori Expectation

The appriori expectation is that all the independent variables, DMBCAS, DBMCCT and DMBCMS will have a direct positive relationship with the dependent variable RGDP. That is the dependent variable will increase as the independent variable increase by a unit.

This is stated thus; $\beta_1, \beta_2, \beta_3 > 0$.

4. Results Presentation and Discussion

Variables	Augmented Dickey-Fuller t-statistic value	Critical Value at 5%	Remark
RGDP	3.3227	-2.9677	Non-stationary
DMBCAS	4.3181	-2.9718	Non-stationary
DMBCCT	1.7922	-2.9918	Non-stationary
DMBCMS	2.7750	-2.9677	Non-stationary

Table 1.a UNIT ROOT TEST (AT LEVEL)

Source: Author's Computation (Eviews 8)

The Table above show the result from the Unit Root test of the variables at levels. From the Table, the result show that RGDP has ADF value of 3.3227 with a critical value of -2.9677 at 5% level of significance, this means that RGDP is not stationary at levels I(0). This supports the unit root test in Oke and Adeusi (2012). The ADF test statistics value for DMBCAS is 4.3181, with a critical value of -2.9718 at 5% level of significance. This shows that DMBCAS is not stationary at levels. i.e.I(0) at 5%. Also, DBMCCT has ADF test statistics value of 1.7922 with critical values -2.9718 at 5% levels of significance. This show non-stationarity at levels. i.e. I(0) at 5%. The ADF test statistics value for DMBCMS is 2.7750 with a critical value of -2.9718 at 5% level of significance. It shows that DMBCMS is not stationary at levels. i.e. I(0).

Variables	Augmented Dickey-Fuller t-statistic value	Critical Value at 5%	Remark
RGDP	-3.6103	-2.9718	Stationary
DMBCAS	-4.0760	-2.9718	Stationary
DMBCCT	-3.5797	-2.9718	Stationary
DMBCMS	-3.8597	-2.9718	Stationary
ECM	-6.9116	-2.9718	Stationary

Table 1.b UNIT ROOT TEST (AT 1st DIFFERENCE)

Source: Author's Computation (Eviews 8)

Table 1b show the result of the first difference of Unit Root Test for all the variables. From Table, the result show that RGDP has ADF value of -3.6103 with the critical value of -2.9718 at 5% level of significance, this means that RGDP is stationary at first difference I(1). This supports the unit root test in Atoyebi et al (2013). The ADF test statistics value for DMBCAS is -4.0760, with a critical value of -2.9718, at 5% level of significance, this show that DMBCAS is stationary at first difference. i.e.I(1) at 5%. Also, DMBCCT ADF test statistics value of -3.5797 with critical value -2.9718 at 5% levels of significance, show stationarity at levels. i.e. I(1) at 5%. The ADF test statistics value for DMBCMS with a value of -3.8597 and a critical value of -2.9718 at 5% level of significance, show that DMBCMS is stationary at levels. i.e. I(1). The table also show the unit test result of the ECM with ADF value of -6.9116 with a critical value of -2.9718. Hence, all the variables are stationary at first difference.

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.961322	161.8597	47.85613	0.0000
At most 1 *	0.726620	70.79009	29.79707	0.0000
At most 2 *	0.606890	34.47707	15.49471	0.0000
At most 3 *	0.257445	8.334432	3.841466	0.0039
Trace test indicates 4 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.961322	91.06965	27.58434	0.0000
At most 1 *	0.726620	36.31302	21.13162	0.0002
At most 2 *	0.606890	26.14264	14.26460	0.0004
At most 3 *	0.257445	8.334432	3.841466	0.0039
Max-eigenvalue test indicates 4 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Table 2: Unrestricted Cointegration Rank Test (Trace)

Source: Author's Computation (Eviews 8)

Table 2 show the unrestricted co-integration result of the variables. This was done after establishing the stationarity status of the variables, and to ascertain the existence of long-run relationship between the regressors and the regress and. Both trace test and the eigenvalue test indicates four (4) co-integration equations at 5% level of significance, this denotes the existence of long-run relationship between the dependent and independent variables.

Dependent Variables: RGDP(-1) LONG RUN ESTIMATES					
REGRESSORS	ESTIMATES	STANDARD ERROR	T-VALUE		
Ln DMBCAS(-1)	0.4776	0.0235	20.3131		
Ln DMBCMS(-1)	0.6918	0.0200	34.5675		
Ln DMBCCT(-1)	-0.0822	0.0081	-10.0803		
C	4.1781	0.0421	99.1986		
SHORT RUN ESTIMATES					
REGRESSORS	C	ECT	Ln DMBCAS	Ln DMBCMS	Ln DMBCCT
COEFFICIENTS	3.8296	-0.1152	0.5666	0.6146	-0.0798
T-VALUES	24.2906	9.9784	4.1650	5.7249	-1.4058
R ² = 0.88 Adjusted R ² = 0.87 Sum squared resid. = 1.184					
F-stat. 841.34 Loglikelihood = 5.915					
Source: Authors computation. (Eviews 8)					

Table 2: Summary of Ordinary Least Squares and Error Correction Model

Table 3 above shows the summary result of Ordinary Least Squares and Error Correction Model. It captures the long-run and short-run behaviour of the independent variables on Real Gross Domestic Product (RGDP) which is the dependent variable. From the table, the coefficient of determination R^2 is 0.88 which means that the independent variables can account for about 88% variations in the dependent variable using the model, and the adjusted R^2 is 0.87. From the short run and the long estimates, it was observed that DMBCAS and DMBCMS exhibited a positive relationship with RGDP. The result shows that a unit increase in DMBCAS and DMBCMS in the long run will increase the RGDP by 0.477 and 0.691 respectively, while DMBCAS and DMBCMS short run coefficients are 0.566 and 0.614 respectively. The finding is in accord with the a priori expectation of positive coefficient. DMBCCT related negatively with RGDP in the short run and the long run, with a coefficient of -0.079 and -0.082 respectively, which is not in accord with the a priori expectation of positive coefficient.

The Error Correction Term (ECT) is used to assess the degree of short-run correction mechanism behaviour of the variables arising from deviation from its long-run relationship. The value of the coefficient of the error correction term 0.115 measures the rate in magnitude at which the dependent variable adjust to equilibrium following a change in the independent variables. This implies that deviations from equilibrium are corrected at about 11.5% per year.

5. Conclusion and Recommendations

Consequential to uneven growth and development in the various sectors in Nigeria, this study was orchestrated to investigate the effect of Deposit Money Banks (DMBs) credits to various sectors on economic growth in Nigeria proxy by Real Gross Domestic Product (RGDP). The study covers 1985 to 2014 and employed rigorous analytic methods in the data analysis. The result from the study reveals a positive effect and a long-run relationship between Deposit Money Banks (DBMs) credits to agricultural sector and economic growth. This agrees with the study by Uzoba et al. (2014) which show a positive impact of Deposit Money bank credits to agricultural sector on economic growth. Also, the study show a positive effect of DBMs credits to Manufacturing industry on economic growth. This is in favourable conclusion with Yakubu and Affoi (2014) that banks credit should be shared among various sectors and extended in manufacturing industry because of its impact on economic growth.

Conversely, the result also indicated a negative relationship between DMBs credits to commerce and trade, and economic growth in Nigeria. This calls for further investigations.

5.1 Recommendations

The study reveals the effect of Deposit Money Banks credit on economic growth through the various sectors in Nigeria. The finding of this study indicates that out of the three variables examined, only one (DMBs credits to commerce and trade) exhibit a negative relationship with the economic growth proxy by RGDP, while other two (DMBs credits to agricultural sector and DMBs credits to manufacturing Industry) were found to exhibit a positive and statistically significant relationship with economic growth.

Hence, the study has shown that Deposit Money Banks (DMBs) remain an important source of fund for investment purposes in a developing economy like Nigeria.

Sequel to the findings of this study, the following recommendations were made:

Firstly, the relevant authorities that influence the Deposit Money Banks credits to various sectors should endeavour to improve the even distribution and effective channelling of the credits.

Secondly, the savers confidence should be well guaranteed through effective intervention in the case of a distressed bank and creation of regular checks to reduce anomalies within Deposit Money Banks operation.

Finally, policies that will revive the declining sectors in Nigeria should be pursued by the relevant authorities through establishment of infrastructures that will propel the effective and efficient operation of the sectors.

These recommendations we believe if consciously followed, will enhance the utilisation of these loans and further improve the state of the various sectors in the Nigerian economy.

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Appendix

YEAR	RGDP (N' Billion)	DMBCAS (N' Billion)	DMBCMS (N' Billion)	DMBCCT (N' Billion)
1985	134.6	1.3	3.2	0.1
1986	134.6	1.8	4.5	0.3
1987	193.13	2.4	5	0.5
1988	262.29	3.1	6.1	0.5
1989	382.26	3.5	6.7	0.6
1990	472.65	4.2	7.9	0.7
1991	545.67	5.0	10.9	0.9
1992	875.34	7.0	15.4	1.3
1993	1089.6	10.8	23.1	1.6
1994	1399.7	17.8	34.8	7.6
1995	2907.36	25.3	58.1	19.4
1996	4032.3	33.3	72.2	33
1997	4189.25	27.9	82.8	16.4
1998	3989.45	27.2	96.7	29.8
1999	4679.21	31.0	115.8	18.8
2000	6713.57	41.0	141.3	25.3
2001	6895.2	55.8	206.9	34.5
2002	7795.76	59.8	233.5	26.7
2003	9913.52	62.1	294.3	34.5
2004	11411.07	67.7	332.1	31.3
2005	14610.88	48.6	352	26.4
2006	18564.59	49.4	445.8	52.7
2007	20657.32	149.6	487.6	66.6
2008	24296.33	106.4	932.8	75.2
2009	24794.24	135.7	993.8	45.9
2010	54204.8	128.4	987.6	44.8
2011	63258.58	255.2	1053.2	36.2
2012	71186.53	316.4	1068.3	65.6
2013	80222.13	343.7	1179.7	39.0
2014	89043.62	478.9	1647.5	1045.2

Source: CBN 2014 Statistical bulletin.