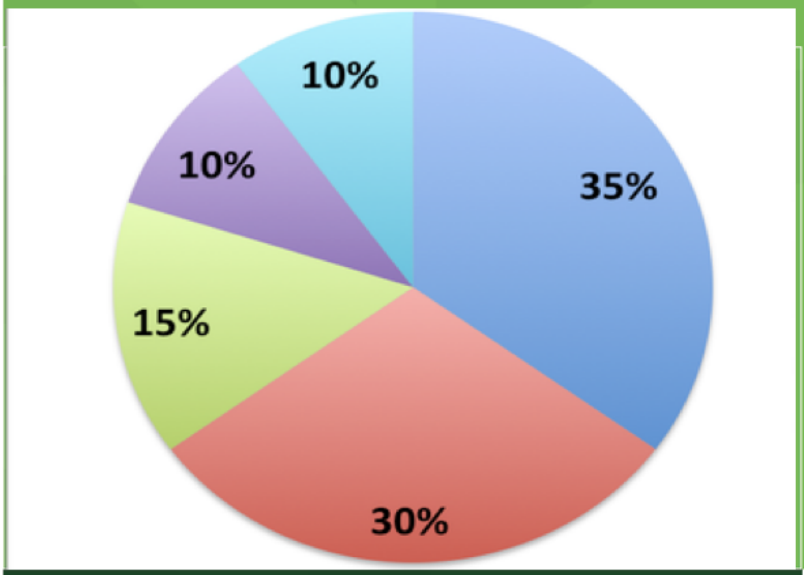
DBN Development Bank of Nigeria
...Financing Sustainable Growth

DBN JOURNAL OF ECONOMICS & SUSTAINABLE GROWTH

VOLUME 4, ISSUE 2, 2021



CREDIT FLOWS IN BUSINESSES AND CREDIT RATIOS: SECTORIAL DISTRIBUTION AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

The study was motivated to examine sectoral commercial bank loans and advances, as well as evaluate the performance of the Nigerian economy from 1990-2017. Time series data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin. The study used Gross Domestic Product (GDP) as the function of commercial banks' loans and advances to agriculture, manufacturing, mining and quarrying, external sector and total banks loans, as well as advances in the economy. Multiple regressions with E-views statistical package were employed in analyzing data methods. Findings of the study indicated that strong and significant relationship between commercial banks' lending sector and economic performance. Hence, the study recommends that government should embark on sectoral policy reforms to attract commercial banks' loans and advances for better performance of the Nigerian economy.

Keywords: Credit, economic growth, CBN, commercial banks, government, Nigeria

INTRODUCTION

Banks play intermediate roles in the economy; and entails deposit mobilization and credit allocation. Credit represents the supply side of financial intermediation and has great extent to which it affects the economy (Chodechai, 2004). Increase in bank credit has the capacity of raising aggregate demand thereby having the capacity to lead to inflation. This pro-cyclical effect of commercial banks' credit requires that the monetary authorities formulate policies, as well as to ensure equilibrium credit level in the economy. Credit is a financial market activity where financial institutions are empowered by law with credit functions to extend credit facilities to deficit economic units (Akani and Onyema, 2017). The monetary authorities use credit policies to achieve macroeconomic goals. For instance, credit policies are used to achieve growth in some sectors of the economy. Credit represents the bulk of the institution's assets, while interest on the credit represents the major source of income to the financial institutions. Sectorial distribution of commercial banks loans and advance is a strategic policy aim at channeling funds to sectors that are considered preferred to achieve the macroeconomic goals (Agbugba *et al.,* 2018).

Furthermore, the role of commercial banks in intermediating between the surplus economic units and deficit economic units cannot be over emphasized. They mobilize savings from surplus economic units and lend to deficit economic units which can be individual or corporate organization (Okereke, 2003). The economic objectives and importance of commercial bank sectorial distribution of loans and advances is for the better performance of the various sector of the economy. In appraising the sectoral distribution of commercial banks loans and advances, it is expected that lending to the various sectors will increase the productive capacity the sectors by creating employment thereby impacting positively to the general growth of the economy. However, the challenges facing commercial banks in effective distribution of credit are the marginalization of some sector of the economy. For instance, while some sectors are tagged preferred others are less preferred (Onoh, 2007). The typified harsh Nigeria's business environment led to loan default and the failure of the commercial banks for effective financial intermediation and results in huge amount of money outside the banking system (Isukul *et al.,* 2019).

However, the difficulty involved in appraising the achievements, as well as the importance of sectorial distribution of commercial banks loans and advance as source of capital continue thereby posing a challenge to the development of the various sectors of the economy. Since the abolition of the mandatory sectorial credit lending

in 1st October, 1996, commercial banks loans and advances to key sector of the economy has been on the decrease. For instance, commercial bank loans to agriculture and manufacturing sectors recorded 38.7% and 40.5% of total loans to the two sectors in 1994 compared with 16.2% and 14.8% in 2009, respectively. A critical examination of macroeconomic indicators can elucidate this fact. The contribution of the various sectors of the economy to the GDP continues to grow at a very low pace. For instance, while oil exports contribute 96% to GDP, non-oil exports contribute only 4% to GDP (Okoh, 2005). About 60% of the labour force is unemployed; inflation is at the peak of 28.7%. This has resulted in questioning the 7.8% GDP growth rate reported by the government. The study therefore, appraised sectorial distribution of commercial banks loans and advance and the effect on Nigeria economic growth.

LITERATURE REVIEW

Sectorial Credit Allocation

Theory of economic development which is propounded by Lewis saw agriculture as the basis for industrial growth and development. He saw agriculture as freeing disguised labour for industrial production and hence the engine of growth and development of any society must obviously start with agricultural production (Isiedu, 2008). In this sense, with heavy modernization and mechanization of agriculture, labour is free for industrial development (Agbugba and Binaebi, 2018). In developing countries where industrial production is at a minimal level, the need for agricultural development has been recognized in the following areas:

(a) Providing Food for the Teeming Population: Population growth in most developing countries is far more than agriculture sector growth. The fear of Malthus is becoming evident in these countries; hence, the need to develop agriculture to meet the food need of the people. This fear coupled with the fact that if food supplies fail to grow with increase in demand for it, then it becomes likely that food prices will raise. This effect could put pressure on workers' wages, which in turn, will result to wielding industrial profits, as well as investment and economic growth (Longe, 2008).

(b) Supply of Adequate Raw Materials to a Growing Industrial Sector: Agricultural development has been seen by many researchers as a requirement for industrial development because of its role in providing raw materials for industries (Mare, 2006; Idowu, 2005). It is in this direction that the need to increase agricultural productivity have be advocated and that it is more natural to increase domestic output rather than relying on the expansion of export to finance growing food export. Importantly, since agriculture is the dominant sector in developing countries, it makes a net

contribution to the overhead investment requirement for the industrial sector thereby reducing the foreign supply of raw materials by increasing the output produced locally.

(c) Constituting the Major Source of Employment in a Country. From a historical basis and with the roles of the agriculture sector in a developed economy clearly spelt-out, one can easily generalize that the process of human resources development in the agriculture sector must precede the process of economic transformation in a country. As a matter of fact, the agriculture sector provides employment for over 70% of the entire population in sub-Saharan Africa and other developing economies. This role in itself makes the sector the singular provider of jobs in developing countries (Nwankwo, 2000). However, it has been observed equally, that the major bottleneck facing most agricultural production in developing countries is acute shortage of high-level manpower. It is well known that scarcity of highly trained management personnel in agricultural production has militated against the rapid expansion of agricultural output and hence growth in the industrial production in Nigeria (Osabuohien, 2007).

(d) Constituting a Major Source of Foreign Exchange Earnings. Increments in the export of agricultural productions are a major option of increasing income and foreign earning in most developing countries (Adamopoulos, 2010). Substantial expansion agricultural export is usually a rational policy for enlarged foreign exchange earnings in the non-oil sector in most developing countries and a rational policy even when world supply demand conditions are unfavorable. Although some researchers like Longe (2008) argued that expansion in agricultural production for export is associated with higher risk of price decline and this tends to have a disincentive effect on farmers. Again, as income of individuals in the world increase the demand for agricultural products fall because of the nature of agricultural output.

(e) Providing Market Product for the Industrial Sector. There is conflict between the function of agriculture sector's contribution to the capital requirement for overall development and its role in increasing farmers' purchasing power. However, the role of agriculture as providing market product for the industrial sector is not debatable in literature (Change *et al,* 2010). In this vein, the interaction between agricultural development and economic development especially regarding the industrial development is vital for all economy.

Commercial Banks Credit, Agricultural Policies and Economic Growth in Nigeria

In the early 1950s and 1960s, agriculture played a vital role in stimulating economic growth and development in Nigeria (Agbugba and Binaebi, 2018). It provides

employment to millions of persons. Over 70% of the labour force mostly from rural areas were employed in agriculture. In the same period, agriculture contributes over 70% to our export earnings as indicated by CBN (Crowley, 2008). Indeed, agriculture provided the main stimulus to Nigeria's economic growth. despite the small farm holdings and primitive systems. The contribution of agriculture to the nation dominant others sectors contribution to GDP. However, in the early 1970s till date, agriculture sector contribution has been negligible, contributing to about 34% GDP in the year 2006 (Druscoll, 2007).

As a result of this decline in the percentage contribution to GDP, there have been a lot of measures in terms of programmes, strategies and policies to remedy the worsening situation in Nigeria. For example, in 1976, Operation Feed the Nation (OFN) programme was launched to encourage the people to pay greater attention in mobilizing internal resources for domestic agricultural production. This programme did not make any significant impact in increasing food production and GDP. It however increased awareness on the need for increased food production (Adam, 2005). In 1980, the Green Revolution Programme (GRP) was launched to replace the OFN, with the aim of food sufficiency in agricultural food production, reducing import food price inflation. This programme again failed to impact on the GDP and could not achieve its aims and objectives.

With the introduction of structural adjustment programme in 1986, a lot of policy packages and programmes were introduced such as the World Bank-assisted Agricultural Development Project (ADP), Directorate of Food, Roads and Rural Infrastructures (DFRRI) and National Agricultural Land Development Authority (NALDA). In addition to these programmes, a lot of schemes such as River Basin Development Authority were introduced. All these measures aimed at increasing agricultural production had little success in northern Nigeria but failed in southern part of the country (Mare, 2006). However, it was during this period of SAP that agricultural production attained the highest growth rate of 5.0 percent (Odowu, 2005).

Other measures aimed at increasing agricultural output were in terms of credit schemes which led to the establishment of the following agencies: Nigerian Agricultural Cooperative Bank (NACB) in 1973; and the Rural Banking Programme (RBP) in 1977. Importantly, the NACB is now the Bank of Agriculture (BOA), and these entire credit schemes were made to allocate more funds to rural farmers with the aim at increasing food supply. Still on this scheme, the CBN prescribed different lending rates for the agriculture sector with lower interest rate enjoyed by farmers. In the year 2004, the president of Nigeria together with some African countries' leaders launched New

Partnership for Africa's Development (NEPAD), whose objective was to reduce hunger and poverty. Agriculture was seen as the engine of growth to propel African economies out of hunger and poverty. The main instrument for achieving this was a Comprehensive African Agriculture Development programme (CAAP). This programme aimed at achieving higher growth rates through increase in farm output. It equally aimed at encouraging private public participation in agriculture production. For example, Abayomi (2006) expressed Ondo State Government willingness to attract foreign investment in the area of agriculture by collaborating with foreign firm in Thailand and Republic of China. This collaboration was in the area of establishing rice and cassava processing plants in the State. The indications are that other states governments are making move to attract foreign investors into agriculture.

Empirical Review

Adeyinka *et al.* (2015) examined the contributions of commercial banks in agricultural financing in Nigeria. It pointed out the roles of bank credits in agricultural development. The study discussed a number of challenges that affected agricultural financing in Nigeria with a view to shedding light on the relationship between banks and the agriculture sector and to evaluate the extent of banks involvement in agricultural financing. Secondary data (2002 -2014) on sectorial distribution of commercial banks' loans and advances to agricultural sector, liquidity ratio of commercial banks, cash reserve ratios of commercial banks and money market minimum rediscount rates, among other factors were sourced from various statistical publications of the CBN. Data collected were analyzed using multiple regression of ordinary least square to achieve its objectives. It was revealed that the parameter of cash reserve and discount rate is not statistically significant and the parameter of liquidity ratio is not statistically significant. It was also discovered that agriculture credit was found as a decreasing function of discount rate, liquidity ratio and cash reserve, this lower the volume of agricultural credit

Udoka *et al.* (2016**)** examined the effect of commercial banks' credit on agricultural output in Nigeria. Four research hypotheses were formulated to guide and direct the study. The ex-post facto research design was adopted for the study. Data for the study were collected from published articles and the CBN Statistical bulletin. To estimate the specified equation, the ordinary least squares regression technique was employed. Based on the findings, the results showed that there was positive and significant relationship between agricultural credit guarantee scheme fund (AGCSF) and agricultural production in Nigeria. This meant that an increase in AGCSF could lead to an increase in agricultural production in Nigeria; there was a positive and significant relationship between commercial banks credit to the agriculture sector and

agricultural production in Nigeria. This result indicated that an increase in commercial banks' credit to agricultural sector led to an increase in agricultural production in Nigeria. Again, there was a positive and significant relationship between government expenditure on agriculture and agricultural production in Nigeria and a negative relationship between interest rate and agricultural output also confirmed theoretical postulations.

Anifowose and Ladanu (2016) reviewed the role of commercial banks in agricultural growth within the period of 2010 and 2014. The study further reviewed the work and view of eminent scholars; and their views were diverse with most of them sharing views in agreement, while the rest disagreed. Some scholar realized the role of the agriculture sector in economic development but was short sighted toward the fact that there was a great importance, about developing this sector scholars bear in mind the role, problems and importance of the sector and found it necessary to develop the agriculture sector, if it is to play its role in economic development. These scholars went further to detect important variables or catalysts or prerequisites for the development of the sector which allows for other factors like technology and research. More so, the study considered an overview of the impact of commercial banks as safe keepers and channeling of funds to the agriculture sector, among other sectors where needs are identified. In conclusion, the study indicated that Deposit money banks (DMBs) have actively been playing quite a major role under the policies of the apex regulatory body. In order to justify the hypothesis of the study that if one of the major factors that aid the agriculture sector which finance, in form of credit service from the DMBs, is channeled into this promising sector that the sector will develop and also increase its output and play its role effectively in economic development.

Obilor (2013) aimed at evaluating the impact of commercial banks' credit to agriculture sector under the ACGSF in Nigeria. Until the mid-seventies, agriculture was the primary foreign exchange earner for Nigeria. Now it has lost its prime position to the mineral sector. Among other factors, inadequate capital is considered as the single most important factor affecting the performance of the sector. It therefore, empirically examines the impact of ACGSF, agricultural product prices, government fund allocation and commercial banks' credit to agriculture sector on agricultural productivity. The result indicated that ACGSF and government fund allocation to agriculture produced a significant positive effect on agricultural productivity, while the other variables produced a significant negative effect.

Zuberi, (1989) discovered that about 70% of the overall credit to the agriculture sector was employed in fertilizer and seed purchases and submitted that the majority of the

increased agricultural production could be attributed to changes in the quality and quantity of fertilizer and seed.

Siddiqi and Baluch (2004) reported that the flow of fund assessed by farmers was found to have increased input demand for the sole aim of increasing crop production. On the other hand, irrigation, elasticity of credit amount, use of agrochemicals such as pesticides. fertilizer and number of tractors etc with respect to agricultural income as the dependent variable on per cultivated as well as per cropped acre basis revealed that credit for production and tube wells has a significant and positive impact at 95 per cent level of confidence. The use of fertilizer and number of tractors was insignificant with positive contributions. This was due largely on the inappropriate use of tractors and fertilizer.

Afangideh (2006) on the investigation of the several networks by which financial development is being channeled to the agriculture sector and also examines the effect of the financial sector development on the output and investment of the agriculture sector using aggregate data from 1970-2005. He adopted the Johansen co-integration and Engel-Granger Two-Step (EGTS) approaches. The empirical result from this study shows a significant and positive relationship between bank lending to agriculture, as well as agriculture sector real output. The paper revealed that, emphasis on investment in the agriculture sector should top the agenda of financial sector development as a primary focus on economic diversification by Nigerian governments. The lesson from this study maintained that, the performance of the Nigerian agriculture sector is enhanced by the development of the financial sector.

Enya and Alimba (2008) examined the effect of commercial bank funding on Nigeria's agriculture sector from the year 1986 to 2005. From the Ordinary Least Square (OLS) multiple regression results, it showed that the agriculture sector repayment ability, cash reserve ratio and interest rate have the theoretical signs indicating that an increase in interest rate and repayment ability of the agriculture sector causes an increase in the amount of credit by commercial banks to the agriculture sector, while cash reserve ratio increases tend to decrease commercial bank funding to Nigeria's agriculture sector. This means that a percentage increase in lending and repayment ability caused a 0.0014 per cent decrease in the supply of agricultural credits, while a percentage increase in cash reserve ratio will result in 0.06 per cent decrease in the supply of credit by commercial banks to Nigeria's agriculture sector during the period of study.

Udah and Obafemi (2011) undertook an empirical investigation of the financial sector reforms effect on the Nigerian manufacturing and agriculture sectors by employing annual time series data between 1980 and 2007. The estimation techniques of impulse response and variance decomposition were employed in the estimation of the

equation. Results showed that credit to private sector positively impacts the agriculture and manufacturing sector of the economy and capacity utilization. This implied that domestic investment would be facilitated with an increased credit to the private sector. Furthermore, results indicated that currency outside banks had a negative effect on the actual output of agriculture and manufacturing sectors in the short run. Also, currency outside banks boosted agriculture and manufacturing sectors, as well as capacity utilization in the long run. However, gross domestic savings impacted negatively on capacity utilization and a positive influence on manufacturing and agricultural outputs. Nevertheless, political instability declined agricultural and manufacturing outputs in the short-run period and both sectors experienced increase in outputs in the medium and long-run periods. The results further showed that political instability caused expansions in capital utilization in the short-run, while contractions were experienced in subsequent terms.

From his study on the relationship between the growths recorded in Nigeria's agriculture sector, macroeconomic policy and institutions, the results indicated that there is a significant relationship in sustenance of the hypothesis that institutions are more critical in economic growth particularly in Nigeria's agriculture sector growth (Omojimite, 2012). The study recommends that, interest rate should be liberalized to the agriculture sector thereby strengthening institutional supports in areas of extension services to farmers and subsidized inputs.

Amassoma *et al.* (2011) examined the nexus of lending rate, deregulation of interest rate and agriculture productivity in Nigeria using annual data spanning 1986 to 2009. The researchers employed OLS econometric estimation technique and co-integration procedures, with Error Correction Model in the long-run relationship presenting the interaction of the variables and the dependent variable from the co-integration test, while the ECM showed that there is a significant relationship between interest rate deregulation and agricultural productivity. The study further recommends that, interest rate should be market determined, so as to serve as catalyst for improved agricultural productivity. It is therefore, expected that government must make it possible for the financial sector to carry-out policies that will guarantee available credits to the preferred sector, especially some selected farmers and not the bigger borrowers unlike the government alone for the sole aim of boosting the productivity of Nigeria's agriculture sector (Agbugba *et al.,* 2018).

From his results, Kolawole (2013) empirically investigated the effect of interest rate and some macroeconomic variables on the performance of Nigeria's agriculture sector using time-series annual data from 1980-2011. The study employed the ECM within the framework of OLS regression estimation. A long run relationship was revealed among the variables and the ECM found out that there was an inverse relationship between

interest rate and agricultural productivity. The results further said there was a negative relationship between exchange rate and agricultural productivity. This means that assuming the interest rate trend levels and exchange rate is increased, there will be a decline in the degree of agricultural value-added in the country.

Nafisat (2009) examined the impact of the expenditure of Nigerian government on output using the OLS estimation technique for the period 1977-2006. The results show that agricultural output does not respond significantly to government expenditure on agriculture. It confirms that the government contribution to agriculture is not enough for its development. The study therefore suggested that the unique role of agriculture is recognized so that the sector can obtain its right share of government expenditure.

Iganiga and Unemhilin (2011) conducted a study on the impact of agricultural expenditure of government and other determinants of agricultural output on the value of the Nigeria's agriculture output. From their study, they specified that Cobb Douglas growth model will accommodate food importance, annual average rainfall, commercial credit to agriculture, GDP growth rate, and consumer price index and population growth rate. The ECM results showed that the capital expenditure of government had a positive relationship with agricultural output.

Adofu *et al.* (2012) examined the impact of budgetary provision of government to the agriculture sector on its performance employing annual data from 1995-2009. Employing the OLS multiple regression model, the findings indicated that the relationship existing between budgetary provision to agriculture sector and Nigeria's agricultural production was found to be significant, strong and positive. The recommendations made from the study were that the allocation from the budget to the agriculture sector should be increased and monitored to achieve employment, food security; and ultimately, enhanced growth and development of Nigeria's economy.

Idoko *et al.* (2012) used data from 1975 to 2010 when studying the effect government expenditure has on Nigeria's agricultural output. In this study, the variables included foreign direct investment (FDI) on agriculture sector, annual rainfall, government expenditure on agriculture sector, ACGSF, and commercial bank loans and advances to the agriculture sector. The result of the estimated OLS model revealed that, the relationship that existed between government expenditure on agriculture and Nigerian agriculture sector output was found to be significant and positive during the evaluation period. Uger (2013) studied the effect of government expenditure on agriculture sector using annual time series data from 1991 to 2010. Employing the OLS model, the findings showed that a positive but insignificant relationship existed between agricultural financing (expenditure) and output in Nigeria.

Cooray (2008) investigated the impact of the efficiency of the financial sector on the growth of the economy comprising the middle- and low-income countries. Employing the financial augmented model, the study found support for a significant positive effect on economic growth by financial capital. Further investigation of the impacts of the activity, size and efficiency of the financial sector on the growth of the economy revealed that efficiency, size and activity are critical for the growth of the economy. Also, the study showed that the evidence of interaction between the activity and size of the financial sector submitted that the financial sector is a greater efficiency contributed to the productive usage of financial capital of a country thereby resulting in higher economic growth.

Mishra *et al.* (2009) investigated the development of the credit market and the causality direction that runs between the development of the credit market and Indian economic growth from 1980 to 2008. The study showed that the development of the credit markets enhances Indian economic growth. It also showed a significant and positive relationship between the development of credit markets and Indian economic growth. Furthermore, Oni (2009) opined that the structure of Nigeria's agriculture sector identified three distinct phases namely: period of agricultural discrimination (1960-1970); period of government intervention (1970-1970); and the period of the structural adjustment programme (1986 till date).

Adegeye and Ditto (2008) described agricultural credit as the process of obtaining control over the use of money, goods and services in the present in exchange for 'Sine crucial rate of interest rate and credit in agricultural production and development can also be appraised from the perspective of the quantity of problems emanating from the lack of it. In modern farming business in Nigeria, provision of agricultural credit is not enough but efficient use of such credit has become an important factor in order to increase productivity. From the l987 budget announcement of the then president (General Ibrahim Babangida), it was observed that the pegging of interest rate contrary to expectation, has not achieved its desired goal of stimulating new investments neither did it result in an increase capacity utilization of industry; hence, the resolve for deregulation.

Mackinnon (2005) and Fry (2007) have shown evidence to support the hypothesis that interest rate determines investment. Thus, there are two transmission channels through which interest rate affect investment. They relate to investment as cost of capital. They also opined that interest rate encourages loans (external finance). Many studies have investigated these transmission mechanisms, which tails with interest rate policy regimes articulated in Nigeria prior to and after the 1986 derogation.

In their study, Khat and Bathia (2007) used non-parametric method in analyzing the relationship between interest rates and other macro-economic variables, including savings and investment. They grouped 64 developing countries including Nigeria into three (3) regions based on their level of real interest rate. They further computed the economic rate among which were gross savings, income and investment for countries. Applying the Mann-Whitney test, they justified that the impact of real interest rate was not significant for the three groups. However, this method of study was criticized by Balassa (2008), that a relationship has been established by the use of regression analysis. On the other hand, Agu (2007) reviewed the determinants and structure of real interest rates in Nigeria between 1970-1985; and demonstrated that the negative effect of low real interest rate on savings and investment using the usual Mackinnon financial repression between real interest rate, savings and investment.

Abiodun (2005) believed that deregulation of interest rate is like a double-edged sword, which will either stimulate the economy or mar it. He asserted that the deregulation of interest rate will lead to an increase in interest rate, which will have a positive effect, as savings will be increased. However, he further stated that high interest rates might not bring about cost-push inflation because borrowers will pass high cost of borrowing to the customers by including it in their cost of production. He further stressed that high cost of borrowing will slow down investment, as borrowing will be greatly reduced. Hence, investment in new businesses will reduce while existing ones may not be able to compete favorably for scarce finance due to high cost of borrowing. He opined that free markets should serve as checks and balances and that some measures of control of interest rate will be beneficial if they deliberately channel investment into the preferred sectors.

Vazakidis and Adamopoulos (2009) employed a Vector Error Correction Model (VECM) in investigating the relationship between credit market development and economic growth for Italy within the period, 1965-2007 taking into account the effect of inflation rate on credit market development. The empirical results indicated that economic growth had a positive effect on credit market development, while inflation rate had a negative effect.

Shan and Jianhong (2006) examined the impact of financial development on economic growth in China. From the findings, they reported that financial development comes as the second force (after the contribution from labor input) in leading economic growth in China. Their study supports the view in the literature that financial development and economic growth exhibit a two-way causality; hence, it is against the so-called "finance-led growth" hypothesis.

In his study, Liang (2007) employed the Generalized Method of Moment (GMM) technique to empirically examine the relationship between banking sector development and economic growth as the case may be. The Banking Sector Credit and Economic Growth in Nigeria: An Empirical Investigation Akpansung and Babalola of China. Empirical results showed that, without an effective and well-developed legal system, banking sector development only partially contributed to Chinas economic growth.

Mishra *et al.* (2009) examined the direction of causality that runs between credit market development and the economic growth in India for the period 1980 to 2008. In the VAR framework the application of Granger Causality Test provided the evidence in support of the fact that credit market development spurs economic growth. The empirical investigation indicated a positive effect of economic growth on credit market development of the country.

Using a multivariate VAR model, Mukhopadhyay and Pradhan (2010) examined the causal relationship between financial development and economic growth of seven (7) Asian developing countries which are Thailand, Indonesia, Malaysia, the Philippines, China, India and Singapore during the last 30 years. The study concludes that no general consensus can be made about the finance-growth relationship in the context of developing countries. A number of empirical studies were also carried out to assess the impact of financial sector development and economic development in Nigeria. Odedokun (1989), for instance, tested the causality between financial variables and economic development. Among other findings, his results showed a rather weak unidirectional causation from the GDP to the broader money when Sims procedures were used, thereby indicating contrary estimates for Granger causality.

METHODOLOGY

In this section, the methodology employed to generate the desired result shall be discussed. However, the study employed the use of secondary data from the Central Bank of Nigeria (CBN) Statistical Bulletin and the multiple regressions were used to examine the relationship between sectorial credit allocation and Nigeria's economic growth.

Model Specification

The formulation of the model used in this study is based on exogenous growth model, theories, empirical studies, and conceptual analysis of commercial banks credit and economic growth
The following model is specified in this study:

GDP = f (BLA, BLM, BLQ, BLE, BLT)

GDP = $\alpha_0 + \alpha_1 \text{BLA} + \alpha_2 \text{BLM} + \alpha_3 \text{BLQ} + \alpha_4 \text{BLE}, \alpha_5 \text{BLT} + U$

Where:

GDP = Nigerian Gross Domestic Products (proxy for measuring economic performance)

BLA = Distribution of commercial banks loans and advance to agriculture sector

BLM = Distribution of commercial banks loans and advance to Manufacturing sector

BLQ = Distribution of commercial banks loans and advance to Quarrying and Mining sector

BLE = Distribution of commercial banks loans and advance to External sector

BLT = Total commercial banks loans and advance

U = Error term

α_0 = The regression intercept

Data Analysis Techniques

The method of data analysis to be used in this study is the simple linear regression using OLS method with econometric view. This approach, which is a quantitative technique, includes frequency tables and the test for the hypotheses formulated by using OLS.

Table 1: Regression Results Analysis

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	28855.09	34266.31	4.842083	0.4071
C(2)	0.335883	1.244800	3.073171	0.2927
C(3)	0.154821	0.026553	5.830651	0.0000
C(4)	0.032070	0.015606	2.055016	0.0497
C(5)	0.438920	0.910031	4.198205	0.0131
C(6)	0.251001	2.522130	2.875124	0.3017
R-squared	0.903554	Mean dependent var		179915.5
Adjusted R-squared	0.892838	S.D. dependent var		419390.0
S.E. of regression	137289.8	Akaike info criterion		26.61749

Sum squared resid	5.09E+11	Schwarz criterion	26.80252
Log likelihood	-408.5711	Durbin-Watson stat	0.927032

Source: Computed from Field Survey Data, 2019

The estimated regression results presented above showed the relationship between the dependents and the predictor variables in the study. The positive coefficient of beta by 28855.09 indicates that there is positive relationship between the dependent variable and the explanatory variables. The R^2 and adjusted R^2 of 0.903 and 0.892 indicate that 90.3% and 89.2% variation in GDP can be explained by variation in the explanatory variables. The large coefficient of determination explained the importance of explanatory variables to dependent variables. The Durbin Watson Statistics of 0.927 indicates that there is an absence of autocorrelation between the variables in the time series. The t-statistics indicate that $\beta_0, \beta_1, \beta_2, \beta_3, \beta_5, \beta_6,$ are statistically significant while β_4 is statistically not significant at 5% level of significance.

The result further showed that commercial banks' distribution of loans and advances to the various sectors of the economy examined in the study indicated a positive relationship with the growth of the economy. The positive coefficient of 0.335CBLA, 0.154CBLM, 0.032CBLMQ, 0.438CBLE and 0.251TBL indicate that a unit increase in the variables will increase GDP by 3.35%, 1.54%, 0.3%, 4.38% and 2.51%. This finding confirms the prior expectation of the study. More so, it confirms other empirical studies such as that of Udoffiong and Udoka (2006). The little impact of commercial banks credit to mining and quarrying on economic growth might be as a result of long-time neglect in the sector.

The findings indicated that GDP grows as commercial banks loan and advance to the various sector of the economy increase (as shown in Table 1). The economic implication of this finding implies that banking institutions impacts on lending functions to the achievement of macroeconomic objective of growth in output and full employment while the policy implication might be the various banking reform aimed at repositioning the banking sector for effective intermediation such as the consolidation reform in 2005.

CONCLUSION AND RECOMMENDATIONS

The study focused on commercial banks sectorial lending and the effect on Nigeria economic growth; thereby confirming that bank lending is a major and principal function of commercial banks. Therefore, how well banking system performs its lending function has a great deal to do with the economic growth of the country. Sectorial distribution of commercial banks loans and advance is one of the monetary policy instruments used to achieve growth to some sectors of the economy tagged preferred sector. From the findings, the study that credit to agricultural sector recorded positive

but no significant effect on the growth of Nigeria's economy. Also, credit to manufacturing sector indicated a positive but no significant effect on the growth of the economy, while credit to mining and querying sector indicated a positive and significant effect on the growth of Nigeria economy. Moreover, credit to external sector recorded a positive, as well as significant effect, while credit to transport and communication sector had a positive and significant effect on Nigeria's economic growth. Since the study did not consider sectorial credit allocations of other banking institutions such as microfinance and development banks, there is therefore a need for further studies considering the effect of microfinance sectorial credit allocation on economic growth.

From the study findings, the study recommends the following:

- Re-introduction of mandatory sectorial credit policy: Prior to 1st October 1996, there was mandatory sectorial credit policy. In that vein, the study recommends a re-introduction of the policy to strengthen commercial banks loans and advances to key sectors of the economy.

- Expansionary monetary policy: The study also recommend for expansionary monetary policy to enable commercial bank expand its lending to the sector of the economy.

- Overhaul in bank lending policies: commercial bank lending is a major function of its lending environment. Therefore, the study recommends an overhauling in some banks' lending rules.

- Overhaul in the business environment: Since economic performance and bank lending is the function of the business environment, the study recommends establishment of a better business environment.

- Overhaul in the sectoral policies to attract bank credit: Since some of the sectors of the economy are very unattractive to bank investment, the study therefore, recommends overhaul in the sector to attract commercial bank lending.

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