



THE NEXUS BETWEEN BANK LENDING AND ECONOMIC PERFORMANCE IN NIGERIA

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Abstract: The paper evaluated the nexus between the bank lending and economic performance in Nigeria. Data were collected from CBN statistical bulletin for thirty nine (39) years. Expost facto design was employed for the study. Ordinary least square regression was used to analyze the data. The findings showed that commercial bank loan to Agriculture, Forestry and Fishery had significant effect on gross domestic product in Nigeria, commercial bank loan to Manufacturing had significant effect on economic performance in Nigeria and commercial bank loan to Mining and Quarrying had significant effect on economic performance in Nigeria. Based on the findings, we therefore recommend that commercial bank should grant more loans to the agriculture, forestry and fishery sector to boost the sector which will ultimately increase gross domestic product, government should encourage manufacturing sector by way of tax relief, subsidy, reduction of interest rate etc to boost their productions and ultimately increase the gross domestic product and commercial bank should also grant more loans to the mining and quarrying sector to encourage the sector to produce more goods and services and thereby increase the gross domestic product.

Keywords: Economic performance, Gross domestic product, Bank lending, etc

1. INTRODUCTION

Bank lending is granting of loan to individuals, organizations, companies, government etc. by bank under terms and conditions agreed by both parties for repayment with interest at specific period of time (Ihenetu 2021). Banks consider some basic principles before advancing their money to the customers such as i) character: This refers to the integrity, honesty, reliability, morality and the level of responsibility of the customer. It influences the willingness to repay debts and the strong desire to settle all obligations within the terms of the contract. ii) capacity to borrow: This means the legal

capacity to borrow.iii) capital: This refers to the financial position of the customer as depicted in its financial history. It could also be reduced to the networth of the business or the residual equity that is available for the repayment of the debt. Credit is usually not granted to a business unless capital has been supplied by the owners to support the debt. The capital resources of a business is one of the measures of its financial strength and reflects the prudence and resourcefulness of its management. Firms that have solid capital resources tend to show a high ability to repay outstanding obligations. iv) collateral: This represents forms of assets pledged by the

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borrower as security for the loan. Banks often ask for and take adequate collateral securities as a manifestation of the customer's confidence in his own project and as something upon which that bank can fall on if things go wrong and expected results are not achieved and v) economic conditions: Banks usually consider the impact of socio-economic trends on the activities of the customer. Economic conditions affect the ability of the borrower to repay financial obligations. Usually, these conditions are beyond the control of the borrower and the banker. Economic conditions are the environment under which businesses operate (Nzotta 2004).

Banks act as a catalyst and engine of growth that is responsible for being a life wire to every sectors of the economy. It is evident that no sector in the economy can flourish or prosper without the support and services of the banking sector. Agricultural sector, manufacturing sector, mining or even services sector can't do without banks. Banks provide and encourage savings. The establishment of bank especially in the rural areas makes savings possible, hence economic development is accelerated. Banks provide capital needed for development. Deficit spender unit obtain medium and short term loans and overdraft from banks to start a new industry or to engage in other development efforts. Therefore, there is correlation between banks and economic growth in the country (Ihenetu 2021).

Economic growth is the increase in goods and services such as output, income etc of a nation as a result of economic activities that take place over a period of time (Sanusi 2011). It is measured by gross national product, percapita income, gross domestic product etc.

These variables give signal to the government to know whether the economy is making progress or not. While the gross domestic product record the value of final goods and services produce in a country within a given period usually one year, gross national product is the money value of all the goods and services produce in a country in

a year in addition to receipts from abroad made as factors payment, domestically owned factors of production by national abroad whereas per capita income gives income per head or income per capita ie average income per head of the population of a given country within a period of time (Oruwari 2017).

When bank lend money, the borrower invest the money and employ workers and pay them for their services. The effect of these interaction precipitates high standard of living; high life expectancy; increase in human development; high rate of entrepreneurial growth; decrease in mortality rate; reduced sickness and diseases; low level of illiteracy; decrease in unemployment rate; decrease in social vices such as kidnapping, hostage taking, militancy, banditry; poverty reduction etc (Ihenetu and Worlu 2020).

A lot of researches have been conducted on bank lending and economic growth in Nigeria. Almost all concentrated on the activities of commercial bank such as loan, transfer and deposit mobilization. To the best of my knowledge, none use lending to the various sectors. This therefore constitutes the central problem of the study.

2. PURPOSE OF THE STUDY

The general purpose of the study is to evaluate the effect of bank lending on economic growth in Nigeria, the specific objectives are:

- i. To determine the effect of commercial bank loan to Agriculture, Forestry and Fishery on economic growth in Nigeria.
- ii. To investigate the effect of commercial bank loan to Manufacturing on economic growth in Nigeria.
- iii. To evaluate the effect of commercial bank loan to Mining and Quarrying on economic growth in Nigeria.

3. LITERATURE REVIEW

We shall consider conceptual framework and theoretical framework.



a) Conceptual Framework

The concepts used for the work are thoroughly examined for the purpose of clarity.

i) Banks Lending

Bank lending is granting of loan to individuals, organizations, companies, government etc. by bank under terms and conditions agreed by both parties for repayment with interest at specific period of time (Ihenetu 2020)

It is an act of granting facilities to bank customers. The customers of the bank are those who have one form of business or the other with the bank. Going about as a supplier of credits is one of the chief errand for budgetary institutions, for instance, commercial banks (Ihenetu 2021).

ii) Canons Of Lending

The lending process considers many factors which some authors call Cs of credit analysis and other Ps of credit analysis before taking a final decision on whether to lend or not. In this case, five Ps or Cs of credit analysis are hereby considered. These are:

(a) **Character:** This is considered as the most important factor in bank lending. It refers to the integrity, honesty, reliability, morality and the level of responsibility of the customer, It influences the willingness to repay debts and the strong desire to settle all obligations within the terms of the contract.

(b) **Capacity to Borrow:** This refers to the legal capacity to borrow. A bank is interested not only in the ability of a borrower to repay but also in the legal capacity. Banks would usually not lend to a minor except the contract is co-signed by a parent or guardian and even at that, it must be used for essential purposes.

(c) **Capital:** This refers to the financial position of the customer as depicted in its financial history. It could also be reduced to the networth of the business or the residual equity that is available for the repayment of the debt. Credit is usually not granted to a business unless capital has been supplied by the owners to support the

debt. The capital resources of a business is one of the measures of its financial strength and reflects the prudence and resourcefulness of its management. Firms that have solid capital resources tend to show a high ability to repay outstanding obligations.

(d) **Collateral:** This represents forms of assets pledged by the borrower as security for the loan. Banks often ask for and take adequate collateral securities as a manifestation of the customer's confidence in his own project and as something upon which that bank can fall on if things go wrong and expected results are not achieved.

(e) **Economic Conditions:** Banks usually consider the impact of socio-economic trends on the activities of the customer. Economic conditions affect the ability of the borrower to repay financial obligations. Usually, these conditions are beyond the control of the borrower and the banker. Economic conditions are the environment under which businesses operate.

iii. Economic Performance

Economic performance is measured by the growth of the economy. It is the increase in income, output, goods and services in the economy as a result of the economic activities that take place in the economy within a period of time. Economic growth is measurable in quantitative terms. It could be in the growth of gross domestic product, gross national product, percapita income etc. The growth in the economy, all things being equal should translate to the welfare of the citizen such as reduction in unemployment rate, poverty reduction etc.

iv. Gross Domestic Product (GDP)

This is the value of final goods and services produce in a country within a given period of time usually one year. The goods and services are valued at their market prices and these are added together to get the GDP.

b) Theoretical Framework

The theories relevant to the subject of this study are:



i. Commercial Loan Theory

This was propounded by Adam Smith in 1776. The theory states that short-term loans advanced to finance businesses are the most liquid loans that banks can make. These are self-liquidating loans because the goods being financed will soon be sold. The loan finances a transaction and the transaction itself provides the borrower with the funds to repay the bank. The goods move quickly from the producers through the distributors to the retail outlet and then are purchased by the ultimate cash-paying consumer. The essence of the theory is that short term loans are preferred by banks as they will be repaid from the proceeds of transactions they facilitate and finance.

Banks give loans on a short term period to their customers, who invest the money, grow their business, boost their income and return the capital and interest back to the bank. The research work is anchored on this theory.

ii. The Financial Intermediation Theory

This theory was propounded by Gurley and Shaw in 1960. They said that if there is information asymmetry in the financial system, it will result into high cost of transaction, lack of complete information in useful time and in method of regulation, problem of adverse selection, concomitant moral hazard and market imperfection. The theory advocates that there should be a financial institution that will act as an economic agent to link those with surplus economic funds and deficit economic funds together to avoid information asymmetry in the system. Commercial bank provide fund at a low cost to the customer and useful information that they need to boost their businesses.

iii. The HarrodDomar growth Model

Harrod (1939) came up with the theory of investment and also Domar (1946). They are of the view that investment leads to growth. If the economy invest or give themselves to investments, then, there will be expansion in the economy. According to them, investment will encourage aggregate demand and aggregate supply. Aggregate

demand will help in economic expansion and aggregate supply will enhance capital formation and more production. All these will bring growth in the economy.

4. METHODOLOGY

According to Ihenetu (2008), research design is a blue print, framework for collecting and analyzing data. The researchers employed ex post facto design. The fact that the data was original from CBN statistical bulletin and adopted for the study necessitated the choice of the design. Furthermore, the researchers want to evaluate the effect of bank lending on economic progress in Nigeria.

The data were purely from secondary sources. CBN statistical bulletin, CBN Quarterly Report and CBN Financial Statistics (2019) provided the instrument for the data.

Purposive sampling method was employed for the work. The sample size is 39 years (1981-2019). Since there is enough data in this area, it becomes apparent to apply judgmental sampling to select a reasonable sample size.

The researcher employed ordinary least square multiple regression for the analysis.

Ordinary least square multiple regression test the effect of bank lending on economic progress in Nigeria.

The model specification is given as:

$GDP = f(CLAFF, CLM, CLMQ)$. This functional model was trans- modified into the mathematical form by the introduction of the constant α , β and error term μ as:

$$GDP = \alpha + \beta_1 CLAFF + \beta_2 CLM + \beta_3 CLMQ + \mu$$

Where GDP = Gross Domestic Product

CLAFF = Commercial bank loan to Agriculture, Forestry and Fishery

CLM = Commercial bank loan to Manufacturing

CLMQ = Commercial bank loan to Mining and Quarrying

α = constant variable

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$, = Coefficient of independent variables

μ = error term.

5. DATA PRESENTATION

The data used for the work is presented below:



Table 4.1. Gross Domestic Product (GDP), Commercial bank loan to Agriculture, Forestry and Fishery (CLAFF), Commercial bank loan to Manufacturing (CLM) and Commercial bank loan to Mining and Quarrying (CLMQ) in Naira (1981 – 2019).

| Years | GDP | CLAFF | CLM | CLMQ |
|-------|-----------|--------|--------|--------|
| 1981 | 144.83 | 0.59 | 2.66 | 0.09 |
| 1982 | 154.98 | 0.79 | 3.04 | 0.09 |
| 1983 | 163.00 | 0.94 | 3.05 | 0.12 |
| 1984 | 170.38 | 1.05 | 3.08 | 0.17 |
| 1985 | 192.27 | 1.31 | 3.23 | 0.24 |
| 1986 | 202.44 | 1.83 | 4.48 | 0.21 |
| 1987 | 249.44 | 2.43 | 4.96 | 0.25 |
| 1988 | 320.33 | 3.07 | 6.08 | 0.23 |
| 1989 | 419.20 | 3.47 | 6.67 | 0.27 |
| 1990 | 499.68 | 4.22 | 7.88 | 0.36 |
| 1991 | 596.04 | 5.01 | 10.91 | 0.54 |
| 1992 | 909.80 | 6.98 | 15.40 | 0.76 |
| 1993 | 1,259.07 | 10.75 | 23.11 | 1.42 |
| 1994 | 1,762.81 | 17.76 | 34.82 | 0.00 |
| 1995 | 2,895.20 | 25.28 | 58.09 | 12.07 |
| 1996 | 3,779.13 | 33.26 | 72.24 | 15.05 |
| 1997 | 4,111.64 | 27.94 | 82.82 | 20.61 |
| 1998 | 4,588.99 | 27.18 | 96.73 | 22.85 |
| 1999 | 5,307.36 | 31.05 | 115.76 | 24.68 |
| 2000 | 6,897.48 | 41.03 | 141.29 | 32.29 |
| 2001 | 8,134.14 | 55.85 | 206.89 | 70.48 |
| 2002 | 11,332.25 | 59.85 | 233.47 | 70.17 |
| 2003 | 13,301.56 | 62.10 | 294.31 | 95.98 |
| 2004 | 17,321.30 | 67.74 | 332.11 | 131.06 |
| 2005 | 22,269.98 | 48.56 | 352.04 | 172.53 |
| 2006 | 28,662.47 | 49.39 | 445.79 | 251.48 |
| 2007 | 32,995.38 | 149.58 | 487.58 | 490.71 |
| 2008 | 39,157.88 | 106.35 | 932.80 | 846.94 |

| | | | | |
|------|------------|--------|----------|----------|
| 2009 | 44,285.56 | 135.70 | 993.46 | 1,190.73 |
| 2010 | 54,612.26 | 128.41 | 987.64 | 1,178.10 |
| 2011 | 62,980.40 | 255.21 | 1,053.21 | 1,295.30 |
| 2012 | 71,713.94 | 316.36 | 1,068.34 | 1,771.50 |
| 2013 | 80,092.56 | 343.70 | 1,179.69 | 2,155.86 |
| 2014 | 89,043.62 | 478.91 | 1,647.45 | 18.22 |
| 2015 | 94,144.96 | 449.31 | 1,736.19 | 11.71 |
| 2016 | 101,489.49 | 525.95 | 2,215.74 | 21.28 |
| 2017 | 113,711.63 | 528.24 | 2,171.37 | 25.25 |
| 2018 | 127,736.83 | 610.15 | 2,230.15 | 20.69 |
| 2019 | 144,210.49 | 772.38 | 2,622.54 | 11.31 |

Source: CBN Statistical bulletin 2019

Aprior expectation: A positive significant effect is expected between Commercial bank lending variables such as CLAFF, CLM, CLMQ and economic development (GDP).

6. ANALYSIS AND DISCUSSION

The data were analyzed to answer research questions and achieve the stated objectives. In all, three hypotheses were tested for the study. Ordinary least square multiple regression was used for the analysis. The result of the analyses is summarize below:

Table 2. Ordinary Least Square Multiple Regression

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--------------------|-------------|-----------------------|-------------|----------|
| CLAFF | 87.26864 | 13.10550 | 6.658932 | 0.0000 |
| CLM | 29.80140 | 3.500614 | 8.513193 | 0.0000 |
| CLMQ | 7.042207 | 1.106681 | 6.363358 | 0.0000 |
| R-squared | 0.993478 | Mean dependent var | | 30559.51 |
| Adjusted R-squared | 0.993116 | S.D. dependent var | | 41655.36 |
| S.E. of regression | 3456.228 | Akaike info criterion | | 19.20755 |
| Sum squared resid | 4.30E+08 | Schwarz criterion | | 19.33551 |
| Log likelihood | -371.5472 | Hannan-Quinn criter. | | 19.25346 |
| Durbin-Watson stat | 1.885285 | F-statistic | | 1777.304 |

Source: Eview version 9

From table, commercial bank lending to agriculture, forestry and fishery had significant effect on gross



domestic product in Nigeria under the period of the study. The probability of the t-statistics 0.000 is less than 0.05 power of test. The coefficient 87.26864 showed positive signifying that 1% increase in commercial bank lending to agriculture, forestry and fishery will increase the gross domestic product by N87.23. This is in line with our apriori expectation. This is not unconnected with the crusade by the federal government to go back to farm to boost agricultural production. Secondly, the analysis also showed that commercial bank lending to manufacturing had significant effect on gross domestic product in Nigeria. The probability of t-statistic 0.000 is less than 0.05 power of test. The coefficient 29.80140 showed that 1% increase in commercial bank lending to manufacturing increases the gross domestic product by N29.80. This is in line with our apriori expectation. This is not unconnected with the tax relief, subsidy etc given by the federal government to boost the manufacturing industry in Nigeria.

Finally, the analysis also confirmed that commercial bank lending to mining and quarrying had significant effect on gross domestic product in Nigeria. The probability of the t-statistic 0.000 is less than 0.05 power of test. The coefficient 7.042207 showed that 1% rise in commercial bank lending to mining and quarrying increases the commercial bank lending to mining and quarrying by N7.04. This is in line with our apriori expectation. This is not unconnected with the assistance given by the federal government to boost the productive industry in Nigeria.

The r^2 0.99 implies that variation in all the explanatory variables account for 99% of the variation in gross domestic product. F – Statistic measures the overall significance of the model. The F-statistic is 1777.304 and the probability of F-statistic is 0.000 is far less than 0.05 power of test. This means that commercial bank lending has positive and significant effect on economic development in Nigeria. 1.885258 Durbin Watson shows the absence of autocorrelation.

This result showed that the commercial bank lending has contributed immensely to the growth and development of the economy.

7. CONCLUSION AND RECOMMENDATIONS

The researchers therefore concluded that commercial bank lending to agriculture, forestry and fishery, commercial bank lending to manufacturing and commercial bank lending to mining and quarrying have a positive and significant effect on gross domestic product with their coefficients conforming to the apriori expectation.

Based on the findings of the study, the following recommendations have been made to guide the policy of government:

1. Commercial bank should grant more loans to the agriculture, forestry and fishery sector to boost the sector which will ultimately increase gross domestic product.
2. Government should encourage manufacturing sector by way of tax relief, subsidy, reduction of interest rate etc to boost their productions and ultimately increase the gross domestic product.
3. Commercial bank should also grant more loans to the mining and quarrying sector to encourage the sector to produce more goods and services and thereby increase the gross domestic product.

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