BANKING SYSTEM CREDIT AS AN INSTRUMENT OF ECONOMIC GROWTH IN NIGERIA (1983 - 2012)

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ABSTRACT

The study investigated banking system credit as an instrument of economic growth in Nigeria. The purpose of carrying this research work was to identify the reasons why bank lending or access to credit to the poor and Small and Medium Scale Enterprises (SME) has remained low, to examine the reasons why banking habit is low in Nigeria and to identify the factors or criteria that ensures diligent and prudent credit approval. Time series data collected from the Central Bank of Nigeria (CBN) Statistical Bulletin between periods of (1983-2012) was used to regress the model using the Ordinary Least Square (OLS) technique. Findings showed that banking system credit is indeed an instrument of economic growth in Nigeria. The research study concluded that, when the size of saving is increased, enough credits or loans will be available for individuals, government, entrepreneurs, private and public sector which will enhance economic growth. To this end therefore, there is need to develop our financial intermediaries towards greater effectiveness and efficiency because a sound financial system instills confidence among savers such that resources are effectively mobilized to increase productivity in the economy. The more liquid money is made available in an economy, the more opportunities exists for continued growth.

Keywords: Credit, instrument, economic growth, Nigeria.

INTRODUCTION

Financial intermediation is an important activity in the economy because it allows funds to be channeled from people who might otherwise not put it to productive use to people who will. In this way financial intermediation helps to promote a more efficient and dynamic economy. According to Gerschenkron (1962), banks more effectively finance industrial expansion than any other form of financing in developing economies. In Nigeria, banks are the largest financial intermediaries in the economy. Financial intermediaries help to bridge the gap between borrowers and lenders by creating a market with two types of securities, one for the lender and the other for the borrower (Vane and Thompson, 1982). However, the extent to which this could be done depends on the level of development of the financial sector as well as the savings habit of the populace. The availability of investible funds is therefore regarded as a necessary starting point for all investment in the economy which will eventually translate to economic growth and development (Uremadu, 2006).

Early economists such as Schumpeter in 1911 identified banks' role in facilitating technological innovation through their intermediary role. He believed that efficient allocation of savings through identification and funding of entrepreneurs with the best chances of successfully implementing innovative products and production processes are tools to achieve this objective. Several scholars thereafter (McKinnon 1973, Shaw 1973, Fry 1988, King & Levine 1993) have supported the above postulation about the significance of banks to the growth of the economy. In assessing the relationship, a large number of recent studies have

relied on measures of size or structure to provide evidence of a link between financial system development and economic growth.

Globally, banks in developing countries are expected to play very vital and effective roles in financing their economic projects and activities as their contribution in ensuring sustainable economic growth. This expectation is as a result of the fact that there is acute shortage of capital in the developing countries of the world. For many years, theoretical discussions about the importance of credit development and the role that financial intermediaries play in economic growth have occupied a key position in the literature of developmental finance. According to Shaw (1973), Financial or credit development can foster economic growth by raising savings, improving efficiency of loan-able funds and promoting capital accumulation. Banking system credit in Nigeria assumed a new dimension and was transformed by the recapitalization and consolidation of banks which restructured them for better performance. Access to bank credit or financing improved commensurately in response to competing and the healthy state of soundness of the bank attained.

It would be recalled that the banking crisis in Nigeria in the 1990s was associated with major macroeconomic descriptions such as sharp increases in interest rate, large currency depreciation and devaluation and lasting decline in the supply of credit. The availability of bank credit allows firms to increase production, output and efficiency and in turn increases the profitability of banks through interest earned. Modern economy is said to be a credit economy because of its importance in the financing of commerce and industry and in helping to stimulate economic viability, ensuring growth and development.

Several types of credit facilities are available to a Banking Service Provider (BSP) for Financing business projects and investments. These credit facilities are obtained by means of financial documents or credit instruments and the credit facilities commonly obtained include:
  i. Overdraft.
  ii. Loans.
  iii. Commercial bills and bills of exchange.

Access to financial services is important for growth and poverty reduction. The opportunity to credit enables an individual to accumulate funds in a secured place over time, strengthen productive assets by enabling investment in micro-enterprises, new tools, equipment or fertilizers, or in education or health, all of which can play an important role in improving their productivity and income. However, in many developing countries like Nigeria, commercial bank lending or access to formal financial services for the poor majority and SMEs have remained very low. Credit is the main channel through which savings are transformed into investments. However, not all savings are used to finance investment despite high demand for credit because the credit market in Nigeria is rationed i.e. limited (Soludo, 1987; Azege, 2007). Indeed, the lack of credit has been cited by firm managers in Africa as their most important constraint (Bigstein and Soderbom, 2005). Lack of funds has made it difficult for firms to invest in modern machines, information technology and human resources development which are critical in reducing production costs, raising productivity and improving competitiveness. Low investments have been traced largely to banks unwillingness to make credits available to manufacturers, owing partly to the mismatch between the short-term nature of banks' funds and the medium to long term nature of funds needed by industries. In addition, banks perceive manufacturing as a high risk venture in the Nigerian environment, hence they prefer to lend to low-risk ventures, such as commerce, in

which the returns are also very high. Even when credit is available, high lending rate ,which was over thirty percent (30%) at a time, made it unattractive; more so when returns on investments in the sub–sector have been below ten percent (10%) on the average (Nwasilike, 2006). In fact, some "watchers" of developments in the industry have accused banks of enjoying abnormal profits by charging high rates on credits whilst paying considerably lower rates on deposits. Bankers on their own part have argued that the perceived high spread is necessitated by the high costs of running banking business arising from regulating costs as well as those induced by the environment where they operate such as costs of power and infrastructural decays, etc. Afolabi, Ogunleye and Bwala, (2003).

For ease of carrying out of this investigation, the research questions arising from the above issues are as follows:
  i.   why has bank lending or access to credit to the poor and Small and Medium Scale Enterprises remained low?
 ii.   why is banking habit low in Nigeria?
iii.   how can credit be classified based on its terms?
 iv.   what are the factors that ensures diligent and prudent credit approval processes?

Objectives of the Study

  i.   To identify the reasons why bank lending or access to credit to the poor and Small and Medium Scale Enterprises (SME) has remained low.
 ii.   To examine the reasons why banking habit is low in Nigeria.
iii.   To identify how credit can be classified based on its terms.
 iv.   To identify the factors or criteria that ensures diligent and prudent credit approval.

Statement of Hypothesis

To determine whether banking system credit is an instrument of economic growth in Nigeria, the following Hypothesis would be tested:
H_0: Credit has no significant relationship on the economic growth of Nigeria.
H_1: Credit has a significant relationship on the economic growth of Nigeria.

LITERATURE REVIEW
Introduction

This study reviewed the literature describing banking system credit as an instrument of economic growth in Nigeria. The body of literature available for review focused on a theory related to the topic, the conceptual review which included; banking system in Nigeria, historical development of banking in Nigeria, banking system credit, classification of credit based on terms, criteria needed for credit approval, reasons why access to credit to the poor and SMEs have remained limited, reasons why not all savings are used to finance investment despite the high demand for credit and the criteria need for economic growth.

Theoretical Framework

Very few theories on credit have been propounded by scholars but for the purpose of this research work, the Quantitative Easing theory propounded by Richard Andreas Werner was used to explain banking system credit.

Richard Andreas Werner is a monetary and development economist. He proposed the term Quantitative Easing as well as the expression "QE2" referring to the need to implement true quantitative easing as an expansion in credit creation. He has developed a theory of money creation called the Quantity Theory of Credit, which is in line with Schumpeter's credit of money. Werner has argued since 1992 that the banking sector needs to be reflected appropriately in the macroeconomic models since it is the main creator and allocator of the money supply, through the process of credit creation by individual banks.

Werner proposed a policy he called "quantitative easing" in Japan in 1994 and 1995. At the time working as chief economist of Jardin Fleming Securities (Asia) Ltd. in Tokyo, he used this expression during presentation to institutional investors in Tokyo. According to Werner, he used this phrase in order to propose a new form of monetary stimulation policy by the Central Bank that relied neither on interest rate reductions (which Werner claimed in his Nikkei article would be ineffective) nor on the conventional monetarist policy prescription of expanding the money supply (e.g. through "printing money", expanding high powered money, expanding bank reserves or boosting deposit aggregates such as M2 – all of which Werner also claimed would be ineffective). Instead, Werner argued that it was necessary and sufficient for an economic recovery to boost "credit creation", through a number of measures. He suggested that:

i.   purchases of non-performing assets from the banks by the Central Bank,
ii. direct lending to companies and the government by the Central bank,
iii. purchases of commercial paper, other debt and equity instruments from companies by the Central bank and
iv. stopping the issuance of government bonds to fund the public sector borrowing requirement, instead having the government borrow directly from banks through a standard loan contract.

This theory will be of great help to this research work because it highlighted some of the ways in which central banks can make funds available to commercial banks through credit creation by increasing their money supply and not just printing money to increase the supply of money.

CONCEPTUAL REVIEW
Banking System in Nigeria

GIobal (2002) pointed out that the banking system and entrepreneurship are the two key agents in the overall process of development. The banking system has been identified as the major mechanism through which capital is raised and channeled to their most productive investment in the economy. According to Paton Commission that was set up in 1948 in Nigeria, banking is defined "as a business of receiving from the public, on current account, money which is to be repayable on demand by cheque and making advances to customers". However, Sir John Pagets defined a bank as a corporation or person who collects cheques for customers.

Ekezie (1997) defined a bank as an institution which accepts deposits from the public and in turn grants loans by creating credit. This is in agreement with Section 61 of Banks and Other Financial Institutions Acts (BOFIA) 1991 that a bank is that licensed under the Act, which can also be compared to Section 31 of 1990 Banking Decree that a bank is any person licensed to do banking business.

Inanga and Soyibo (1989) characterized the changes undergone by the Nigerian banking system since 1894, when the African Banking Corporation was formed, as consisting of four phases:

   i. The era of relatively stable banking environment (1894-1952);
  ii. The first banking boom era (1952-1959);
 iii. The era of regulation (1959-1986); and
 iv. The era of deregulation (1986 to date).

During the first phase, banking business was monopolized by foreign banks, namely the African Banking Corporation, which was the precursor of (came before) the former Standard Bank and the present First Bank of Nigeria; the Colonial Bank which predated the former Barclays Bank and the present-day Union Bank; and the British and French Bank, the forerunner of the present United Bank of Africa. Alleged discrimination against Nigerians by these banks led to the founding of indigenous banks which offered little or no competition to the foreign banks, essentially because of their weak capital base and low managerial capacity. Consequently, all but three of them failed.

The second phase began with the enactment of the Nigerian Banking Ordinance in 1952 which introduced some regulation into banking. The state of the economy between 1952 and 1958, and the minimal regulation of the industry by the 1952 ordinance, gave further impetus (motivation) to the establishment of more indigenous banks, all of which failed, during this period. Hence, the period is described as the "era of the first banking boom". The bank failures of this era were attributed, amongst other things, to the monopolistic nature of the foreign banks which enjoyed exclusive patronage from British firms.

The period 1959 - 1986, the era of banking regulation, began with the enactment of the Central Bank of Nigeria Act of 1959 which gave legal backing to the establishment of the Central Bank of Nigeria (CBN). This Act empowered the CBN to promote and integrate the Nigerian financial system. Thus, the CBN was able to enact effective regulatory measures to stem the tide of bank failures that followed the first banking boom. The Act also gave substantial incentive to the development of the money and capital markets of the country. In this new and encouraging climate, more commercial banks sprang up in the country. Thus, between 1959 and 1960, eight new commercial banks were established, bringing the total number to 12, and this increased to 17 by 1962 (Teriba, 1970). Under the 1968 Companies Act, foreign-based banks operating in Nigeria were obliged to be incorporated in the country. Also during this period government implemented the following regulatory measures:

 i. Acquisition of controlling shares first in the "big three" commercial banks, namely, First Bank, Union Bank and the United Bank of Africa;
 ii. The use of the policy of directed credit;
iii. The use of strict control of interest rates; and
iv. Substantial increase in the paid-up capital of new banks.

The fourth phase of banking development in Nigeria, the era of deregulation, resulting in the second banking boom, came as a result of Structural Adjustment Programme (SAP) in which the government assigned an increasing role to the market in the allocation of resources. It started with the introduction of the Second-Tier Foreign Exchange Market (SFEM) which later became the Foreign Exchange Market (FEM), and most recently the Inter-Bank Foreign Exchange Market (IFEM). The peak of this period was probably reached with the deregulation of interest rates when the CBN ceased to prescribe interest rates chargeable on loans and advances or payable on deposits. This period has been characterized by an

increasing number of new commercial and merchant banks. Between 1986 and 1 May 1989, a total of 38 new commercial and merchant banks opened their doors, while 25 others were granted licenses to start operation before the end of that year (Inanga and Soyibo, 1989).

In particular, between 1988 and 1989, the number of commercial banks increased from 40 to 47 (17.5 per cent), while the number of commercial bank branches/offices increased from 1,655 to 1,844, representing an increase of 10.8 per cent (Table 1). The growth in number of merchant banks has been the most spectacular. Table 1 shows that the number of merchant banks increased nearly 42 per cent from 24 in 1988 to 34 in 1989. At the end of 1989, the total number of commercial banks and merchant banks in Nigeria was 81. Currently, there were 21 licenced banks in Nigeria.

The period of deregulation has witnessed strategic changes in banking operations in Nigeria. Among these changes is the creation of the Nigeria Deposit Insurance Corporation (NDIC) by Decree No. 22 of 15 June 1988 (though the Corporation did not take off effectively until March 1989.) The NDIC is charged with the responsibility of insuring bank deposits, ensuring safe banking practices through effective supervision, and assisting the CBN to formulate banking policies with a view to ensuring the stability of the financial system (NDIC, 1989). Given the fears being expressed by Nigerians about the proliferation of banks, derisively called "eaglet banks", and the possibility of bank failures, the success of the NDIC has probably instilled some confidence in the Nigerian banking system. All commercial and merchant banks are required by Section 20 of Decree 22 of 1988 to insure their deposits with NDIC. Depositors are assured of immediate cash payments up to a maximum of 50,000 naira in case of any bank failure (NDIC, 1989).

Table 1 Growth in banks and bank branches (1988/89)

End of yr	Commercial		Merchant		Total no. of
	No. of banks	No. of offices	No. of banks	No. of offices	branches/offices
1988	40	1655	24	46	1711
1989	47	1844	34	60	1904
% growth	17.5	11.4	41.7	30.4	11.3

Source: Nigerian Deposit Insurance Corporation, Annual Report and Statement of Accounts, 1989.

Another change witnessed by the banking system during the era of deregulation involved the increase in minimum paid-up share capital. Effective from September 1989, minimum paid-up share capital for commercial banks increased from 10 million naira to 20 million naira while for commercial banks it became 12 million naira (increased from 6 million naira).

The establishment in 1989 of the People's Bank of Nigeria by the Federal Government changed the concept and practice of banking in Nigeria. This bank aimed at increasing the access of low-income groups such as artisans, craftsmen, mechanics, petty traders, etc., to bank credit. The traditional concepts of granting credit, based on collateral, were not employed. Rather, group pressure and cohesiveness via co-operatives were the means employed. However, the credit granted to the individual was small, varying between 50 and 2,000 naira as at 1989. Initial reports at end of the first year of operation suggest that the beneficiaries were aware of their loan-repayment obligations. The introduction of the community banks, as announced in the 1990 Federal Government Budget Speech, is perhaps the most novel and radical of all the financial policies introduced by the government since the

period of deregulation. CBIC (1990) defined a community bank as a self-sustaining financial institution, owned and maintained by a community or a group of communities, for the purpose of providing credit, banking and financial services to its members, largely on their self-recognition and credit-worthiness. This is in contrast to the near total reliance of orthodox banks on viable and negotiable collateral as the basis for giving credit.

Community banks perform most of the services of orthodox banks, such as acceptance of deposits, receipt of money or collection of proceeds of banking instruments on behalf of customers etc. However, they were required not to engage in sophisticated banking services like foreign exchange transactions and international commercial papers, corporate finance, etc., in order to enable them to retain their local focus (CBIC, 1990). A community bank must raise a minimum equity share capital of 250,000 naira before it can be licensed and no individual is allowed to own more that 5 per cent of the shares. The community bank operates under the concept of unit banking, quite different from the concept of branch banking operated by older banks, including most Merchant Banks, and People's Bank.

The People's Bank and Community Banks were believed to be an easier means of mobilizing rural savings and giving credit to the rural populace. Orthodox banks failed in the rural banking programme to make their presence felt in rural areas, often alleging that branches established in rural areas are loss centre. The introduction of the concept of community banking and People's Bank is expected to fill this critical gap in the Nigerian banking system.

Types of Banks

Some types of banks in modern economies include:
 i.   Central banks.
 ii. Commercial banks.
 iii. Development banks.
 iv. Merchant banks and
 v.   Mortgage banks.

Central Banks
It occupies the apex position in the banking system of modern economies. It is established and owned by government. It acts as government agent, formulates monetary policies that can promote the activities of the economy. Central bank is known as the bank of issue. Every country has a Central Bank. For example the Central Bank of Nigeria, the Bank of Ghana, or the Bank of England etc. No group of individuals or states can own a Central Bank.

Commercial Banks
These are as joint stock companies being owned by shareholders. As commercial ventures, they aim at making profit. Individuals, groups of individuals and governments can establish and own commercial banks. Commercial banks enjoy privileges of limited liability companies. They engage in all aspects of commerce and trade in a country and do have business relations with other countries. The main function of Commercial Banks is the acceptance of deposits (Saving and Demand deposits) from their customers and the management of these deposits to make a profit.

Development Banks
They are established to perform special functions such as providing long term financial assistance to companies, individuals and governments. Development banks provide

development finance in areas that are usually unattractive to Commercial banks, due to high risk, low profit or long gestation period. The development of such areas is however very crucial to the economic development of a country. Examples of development banks in Nigeria include the Nigerian Industrial Development Bank (NIDB), Nigeria Bank for Commerce and Industry etc.

Mortgage Bank

Mortgage bank is established usually to coordinate housing policy and land development. The bank provides loans to individuals to build houses and such loans are repayable in monthly installments spread over a number of years.

Merchant Bank

Merchant banks are financial institutions providing specialized services which generally include the acceptance of bill of exchange, corporate finance, portfolio management and other banking services. Merchant banks date back to late eighteenth and early nineteenth centuries. Merchant banks are wholesale bankers which deposits are in large accounts. Examples in Nigeria are NAL Merchant bank, First City Merchant bank, ABC Merchant Bank etc. Merchant banks are no more in existence in Nigeria with the institution of Universal Banking.

Historical Development Of Banking In Nigeria

In 1892, Nigeria's first bank, the African Banking Corporation, was established. No banking legislation existed until 1952, at which point Nigeria had three foreign banks:
 i. Bank of British West Africa.
 ii. Barclays Bank.
 iii. British and French Bank.
 and two indigenous banks which are:
 i. National Bank of Nigeria.
 ii. African Continental Bank.
with a collective total of forty branches. A 1952 ordinance set standards, required reserve funds, established bank examinations and provided for assistance to indigenous banks. Yet for decades after 1952, the growth of demand deposits was slowed by the Nigerian propensity to prefer cash and to distrust cheques for debt settlements.

British colonial officials established the West African Currency Board in 1912 to help finance the export trade of foreign firms in West Africa and to issue a West African currency convertible to British pounds sterling. But colonial policies closed off local investment of reserves, discouraged deposit expansion, prevented freedom to decide monetary management and did nothing to train Africans in developing indigenous financial institutions. In 1952, several Nigerian members of the federal House of Assembly called for the establishment of a central bank to facilitate economic development. Although the motion was defeated, the colonial administration appointed a Bank of England official to study the issue. He advised against a central bank questioning such a bank's effectiveness in an undeveloped capital market. In 1957, the colonial office sponsored another study that resulted in the establishment of the Nigerian central bank and the introduction of a Nigerian currency. The Nigerian pound, on a par with the pound sterling until the British currency's devaluation in 1967, was converted in 1973 to a decimal currency, the naira (₦), equivalent to two old Nigerian pounds. The smallest unit of the new currency was the kobo, 100 of which equaled ₦1. The naira, which exchanged for US $1.52 in January 1973 and again in March 1982 (or ₦0.67 =

US $1), despite the floating exchange rate, depreciated relative to the United States dollar in the 1980s. the average exchange rate in 1990 was ₦8.004 = US $1. Depreciation accelerated after the creation of a second-tier foreign exchange market under World Bank structural adjustment in September 1986.

The Central Bank of Nigeria began operations on July 1, 1959. Following a decade of struggle over the relationship between the government and the Central Bank, a 1968 military decree granted authority over banking and monetary policy to the "Federal Executive Council. The role of the Central Bank, similar to that of the Central banks in North America and Western Europe, was to establish the Nigerian currency, control and regulate the banking system, serve as banker to other banks in Nigeria, and carry out the government's economic policy in the monetary field. This policy included control of bank credit growth, credit distribution by sector, cash reserve requirements for commercial banks, discount rates, interest rates the Central Bank charged commercial and merchant banks etc.

During the civil war, the government limited the later suspended repatriation of dividends and profits, reduced foreign travel allowances for Nigerian citizens, limited the size of allowances to overseas public offices, required official permission for all foreign payments and in January 1968, issued new currency notes to replace those in circulation. Although in 1970, the Central Bank advised against dismantling of import and financial constraints too soon after the war, the oil boom soon permitted Nigeria to relax restrictions. The three largest commercial banks held about one-third of total bank deposits. In 1973, the federal government acquired 40% equity ownership of the three largest foreign banks. In 1976, under the second Nigerian Enterprises Promotion Decree requiring 60% indigenous holdings, the federal government acquired an additional 20% holding in the three largest foreign banks and 60% ownership in the other foreign banks. Yet indigenization did not change the management, control and lending orientation towards international trade, particularly of foreign companies and their Nigerian subsidiaries of foreign banks.

At the end of 1988, the banking system consisted of the Central Bank of Nigeria, forty-two commercial banks and twenty-four merchant banks, a substantial increase since 1986. Merchant banks were allowed to open chequing accounts for corporations only and could not accept deposits below ₦50 000. Commercial and merchant banks together had 1,500 branches in 1988, up from 1,000 in 1984. In 1988 commercial banks had asset to ₦52.2billion compared to ₦12.6billion for merchant banks in early 1988. In 1990 the government put ₦503million into establishing community banks to encourage community development associations, cooperative societies, farmer's groups, patriotic unions, trade groups and other local organizations, especially in rural areas.

Other financial institutions included government-owned specialized development banks: the Nigerian Industrial Development Bank, the Nigerian Bank for Commerce and Industry and the Nigerian Agricultural Bank, as well as the Federal Savings Banks and the Federal Mortgage Bank. Also active in Nigeria were numerous insurance companies, pension funds and finance leasing companies. Nigeria also had a stock exchange (established in Lagos in 1961) and a number of stockbrokerage firms. The Securities and Exchange Commission (SEC) Decree of 1988 gave the Nigerian SEC powers to regulate and supervise the capital market. These powers included the right to revoke stockbroker registrations and approve or disapprove any new stock exchange. Established in 1988, the Nigerian Deposit Insurance Corporation increased confidence in the banks by protecting depositors against bank failures

in licensed banks up to ₦50,000 in return for an annual bank premium of nearly 1% of total deposit liabilities.

Finance and insurance services represented more than 3% of Nigeria's GDP in 1988. Economists agree that services, consisting disproportionately of nonessential items, tends to expand as a share of national income as a national economy grows. However, Nigeria, lacked comparable statistics over an extended period, preventing generalizations about the service sector. Statistics indicate nevertheless that services went from 28.9% of GDP in 1981 to 31.1% in 1988, a period of no economic growth. In 1988 services comprised the following percentages of GDP: wholesale and retail trade, 17.1%; hotels and restaurants, less than 1%; housing, 2%; government services, 6%; real estate and business services, less than 1%; and other services, less than 1%.

Banking System Credit

Credits are means of obtaining resources at a certain period of time with an obligation to repay at a subsequent period in accordance with the terms and conditions of the credit obtained. It is also referred to as a process of lending and borrowing money from financially able bodies e.g. banks, government and individuals. (Pearce,1992). Simply put, credit is the availment of resources (money) to household, firms and government with the understanding that repayment will be at a specified period of time. The credit term to be granted to any customer will depend on the norms and practice of the industry (Pandey 2006).

In creating credit, a bank has to know how much of its deposits is idle after having satisfied the requirements of the regulatory authorities (i.e. the CBN, NDIC). Tools such as the reserve requirements (cash and liquidly ratios), open market operations and stabilization securities are generally used by the authorities to control the amount of credit that is created. As highlighted earlier, credit is created when a commercial bank decides to lend some of the depositors money which are lying idle in its vaults to credit worthy customers. The granting of such credits assists in the growth of the economy as resources are pooled from surplus areas to needy areas. This process is also one of the avenues used by the banks to make profit as the interest rates at which the loans are granted is usually higher than the rates paid on the deposits by banks. The difference between the rate is the profit for the bank. In the view of Ekezie (1997), banks are legally required to keep a fixed percentage of their deposits in cash and then, lend or invest the remaining amount. It is the amount lent that actually leads to the credit creation process. Jhingan (2002) identified the following assumptions as a means of explaining the process of credit creation.

i. There exists more than a bank in the system
ii. 30% is the reserve ration.
iii. Loans given out are the limit set by law and this is done before additional cash is injected into in the system.
iv. The banks have credit worthy customers who are interested in borrowing and the banks are willing to give them.
v. There is an initial deposit of ₦100,000 into the system.
vi. There is no cash drain or leakage in the banking system.
vii. The loans are withdrawn by borrowers and is spent and re-deposited by recipient in the same or another bank.

This process is further illustrated in the table below:

A Hypothetical Example of Credit Creation

Deposit ₦	Reserve ₦	Loan Advanced (70%) ₦
100 000	30 000	70 000
70 000	21 000	49 000
49 000	14 700	34 300
34 300	10 290	24 010
24 010	7 203	16 807
16 807	5 042	11 765
11 765	3 529	8 235
8 235	2 471	5 765
5 765	1 729	4 035
4 035	1 211	2 825
2 825	847	1 977
1 977	593	1 384
1 384	415	969
969	291	678
678	203	475
475	142	332
332	100	233
233	70	163
163	49	114
114	34	80
80	24	56
56	17	39
39	12	27
27	8	19
19	6	13
13	4	9
9	3	7
7	2	5
5	1.5	3.5
3.5	1.05	2
2	0.6	1
1	0	1
1	0.7	0.3
0	0	0

Source: Authors' Computation, Jhingan (2002)

Classification of Credit Based on Terms

Having discussed how credits are created, it is pertinent to consider the credit and its various forms/terms. In this regard, credit terms may be classified into the following categories:

i. **Short term**: The short term credit is usually repayable within a year and is most times in form of overdraft.

ii. **Medium term**: This refers to a credit that is payable over a period of more than one year. A medium term facility could be between one to five years.

iii. **Long term**: Long term credit falls within ten years and above. An example of this class of credit is a mortgage loan.

Criteria Needed For Credit Approval

The credit administration function is basically a bank office activity that supports and controls the extension and maintenance of credit. A typical credit administration unit performs the functions of credit documentation, monitoring and maintenance of credit files, collateral and security documents as well as ensuring that loan disbursement and repayment conform to laid down policies. Thus, credit administration is the follow up on the credit created to ensure that loans so advanced are serviced and paid back at the right time so that when the depositors of money needs it, they can have access to it. Hence, credit administration can be said to be a fall out of credit creation. In this regard, several factors are considered in the credit approval process but the most important ones are usually referred to as the seven (7) cannons of lending. These are (see Adekanye 1986 and Jhingan, 2002).

   i. **Character**: This refers to whether the customer can be trusted enough to keep to the terms and conditions of the covenant because at times, some people will have the capacity to pay back but the character makes the person unwilling to pay even though there is a financial capacity to do so.
  ii. **Capacity**: This refers to the ability of the borrower to repay the loan i.e. whether the customer generates enough funds from his business to service the loan. In determining the customer's capacity, the books of accounts of the company if corporate are properly scrutinized. If the person is an individual customer, credit checks are made from his employer to ascertain that he makes enough money to pay back the loan.
 iii. **Capital**: In Basil and Basil (2001), capital is the equity that a firm has which upon liquidation of the firm will be available for debt repayment if all other means fails. It equally represents the borrower's stake in the company. Consideration is given to whether the company is sufficiently capitalized for the business it is doing and for which the loan is being requested.
  iv. **Collateral**: This acts as the backup plan if the first source of repayment fails to pay back the loan. Normally, banks do not wish to exploit this option as it usually involves a lot of paper and legal work. The collateral could be in the form of landed property, stocks and shares in blue chip companies and any other source that is acceptable to the bank.
   v. **Condition**: This refers to the environment under which the business operates. Economic conditions affect the ability of the borrower to repay financial obligations. These economic conditions are beyond the control of the borrower and the banker e.g. in the case of inflation.
  vi. **Cash flow**: Under cash flow, consideration is given to projected cash inflow and outflow of the customer. Is the business able to generate adequate inflow after outflows are taken care of to repay the loan?
 vii. **Considerations**: This refers to other factors that are likely to prop up during the credit approval process. Factors such as obligor's limit, composition of lending banks portfolio, etc come under consideration.

A careful and thorough analysis of the above assists a banker when he is considering whether to approve a credit or not. It is also essential for the lending bank to be knowledgeable about customer's business. After approval, it is necessary to keep a close follow up/monitoring of the loan to ensure proper utilization for the purpose it was granted and that the terms and conditions under which the loan is granted are strictly adhered to.

Reasons why Bank Lending or Access to Credit to the Poor and SME has Remained Low

Over the years, According to Nzotta (2005) banks did not substantially provide the necessary assistance to raise entrepreneurial business because of the high level of risks associated with lending to small business. However in 2001, Nzotta (2005), submitted that the bankers committee agreed to set aside 10% of the profit before taxes of each bank to finance entrepreneurship. Bank accepts deposit from customers and transferring funds from the surplus sector to the deficit sector of the economy. Although Nzotta (2005), posits that they are subject to certain regulations by the regulatory authorities. Financial intermediaries still determine the rules for allocating funds and as such they play a significant role in determining the type of investment activities, the level of job creation and the distribution of income to the sectors etc.

This implies that banks make use of the imperfect nature of the market to determine who to allocate funds to in essence, one of the activities of banks financial institution involves intermediating between the surplus and the deficit sectors of the economy. The availability of credit function positively allows the function of this role and is also important for the growth of the economy. It is interesting to note that credit has been advocated as a poverty alleviation measure (Boomgard 1989). Traditionally, banks have not provided financial services, such as loans, to clients with little or no cash income. This is especially true in developing economies that lack a strong financial system. Banks incur substantial costs to manage a client account, regardless of how small the sums of money involved are.

With few exceptions, experience with rural credit to the poor has not been very successful. Most commercial banks do not lend to the rural poor, but limit themselves to the urban, formal sector etc. State-run development banks have typically been expensive, loss-making, bureaucratic and accessible only to the non-poor segments of rural society. Foreign-aid funded credit schemes targeted at the poor have suffered from the same risks of deviation to not-so-poor, and have usually collapsed after the departure of the foreign funds. State-run credit cooperatives have often left only bitter memories for the poor, as clientalism, corruption and outright theft diverted the promised money. In short, for the poor, access to credit has proven to be difficult, costly and often ineffective. Lack of public infrastructural facilities, particularly roads and market outlets, may limit income-generating possibilities. As a result, even if potentially profitable activities are promoted, or if credit facilities exists, people can still be incapable of benefiting from them. The cost of providing such infrastructures is usually vastly beyond the capabilities of poor communities and local organizations, necessitating state and donor involvement.

In addition, most poor people and SME's have few assets that can be secured by a bank as collateral. As documented by Hernando de Soto et el, even if they happen to own land in the developing world, they may not have effective title to it. This means that the bank will have little recourse against defaulting borrowers. Seen from a broader perspective, the development of a healthy national financial system has long been viewed as a catalyst for the broader goal of national economic development (Alexander Gerschenkron, Paul Rosenstein-Rodan, Joseph Schumpenter, Anne Krueger). However, the efforts of national planners and experts to develop financial services for most people have often failed in developing countries, for reasons summarized well by Adams, Graham & Von Pischke in their classic analysis "Undermining Rural Development with Cheap Credit". Because of these difficulties, when poor people borrow, they often rely on relatives or a local moneylender, whose interest

rates can be very high. Moneylenders usually charge higher rates to poorer borrowers than to less poor ones.

According to Okojie et al (2010), the lack of bank accounts, collateral, and information regarding the procedure for accessing credits from banks limit the poor and SME's access to credit from formal institutions. Adegbite (2009), citing Ezike (1984), Nweke and Onyia (2001), and Kodieche (2002), stated that financial lending Institutions in Nigeria often shy away from giving loans because of the high cost of administering such loans and the perceived high default rates. However, due to the above reasons, commercial bank lending or access to formal financial services in many developing countries like Nigeria, to the poor populace and SME's have remained inadequate.

Reasons why not all Savings are used to Finance Investment Despite the High Demand for Credit

Access to financial services is important for growth and poverty reduction. Access to credit that enables an individual to accumulate funds in a secured place over time can strengthen productive assets by enabling investment in micro- enterprises, in new tools, equipment or fertilizers, or in education or health, all of which can play an important role in improving their productivity and income. Credit is the main channel through which savings are transformed into investments. However, not all savings are used to finance investment despite high demand for credit because the credit market in Nigeria is rationed (Soludo, 1987; Azege, 2007). Indeed, the lack of credit has been cited by firm managers in Africa as their most important constraint (Bigstein and Soderbom, 2005). Below are some of the reasons why not all savings are used to finance investments despite the high demand for credit:

i. If a bank put all funds to finance a business, it bears all the risk if it does not succeed and when customers come asking for their money, the bank will be unable to pay on demand thereby not satisfying potential demands for withdrawals.
ii. If a bank deplete all of its savings (use up all available supply of money) into investments, it could be forced to cut corners in the future when savers come requesting for their funds i.e. the bank can go ahead borrowing from other banks just to be able to pay on demand to its customers and when the bank cannot repay the funds it borrowed from other banks, it can be forced to liquidate.
iii. According to John Maynard Keynes in Modern Macroeconomics, there are three motives for demanding or holding money: the transactionary motive (money used for day-to-day activities), the precautionary motive (money used for emergencies) and the speculative motive (money used for the purpose of avoiding capital losses in a declining securities market i.e. investments). If all savings are then used for investments, the bank will not be able to meet up with the transactionary and precautionary motive for demanding money.
iv. If a bank use all its savings for investment purposes, it will sabotage (deliberately destroy) its success, achievements and goodwill.

Criteria for Economic Growth

Economic growth is defined as positive change in the national income or the level of production of goods and services by a country over a certain period of time. This is often measured in terms of the level of production of goods and services by a country over a certain period of time.

A previous submission in this paper is that there is little information available about the activities of the financial industry and how they affect the economy where they operate. In essence, Onuorah (2011) identified some factors that drive credit growth are largely not researched hence the contribution of the well acclaimed private sector credit to the growth of the economy may not be easily measured.

Some groups of scholars on their review, came up with the definition of Economic growth as a positive change in the national income or the level of production of goods and services by a country over a certain period of time. This is often measured in terms of the level of production within the economy. Other possible measures include total factor productivity, factors of production such as technological change, human capital termed the Schumpeterian approach, other measures of growth ranges from real per capita GDP; the rate of physical capital accumulation etc (Odedokun 1998; King & Levine 1993; Allen & Ndikumama 1998). Ekanem (2003) takes a look at the banking industry in Nigeria provides estimates of total productivity of the banking industry in Nigeria for 1986 - 2000. He concludes that the banking industry in Nigeria has expanded rapidly in recent years with productivity rising sharply since 1996. Nnanna (2001) observed that bank credit is important for the start-up and efficient performance of any enterprise, which requires provision of funds for capitalization, working capital and rehabilitation, as well as for the creation of new investments. Funds are required to bring together other factors of production – land, labour and capital before production can take place. This is why credit is very important in any economy. The following are some the criteria needed for economic growth of a country:
  i.   Exchange rate stability.
 ii.   Maintenance of balance of payment equilibrium.
iii.   Attainment of a high rate of, or full, employment.
   These are discussed briefly in turns.

Exchange rate stability
Stability is achieved by avoiding or limiting fluctuations in production, employment and prices. Stability seeks to avoid the recessionary declines and inflationary expansions of business cycles. This goal is indicated by month-to-month and year-to-year changes in various economic measures, such as the inflation rate, the unemployment rate and growth rate of production. Maintaining stability is beneficial because it means uncertainty and disruptions in the economy are avoided. It means consumers and businesses can safely pursue long-term consumption and production plans.

Maintenance of Balance of Payment Equilibrium
This involves keeping international payments and receipts in equilibrium, that is, avoiding fundamental or persistent disequilibrium in the balance of payments position. Usually, however, nations worry about persistent balance of payment deficits. The pursuit of this objective arises from the realization that deficit in the balance of payments will retard the attainment of the other objectives, especially the objective of economic growth.

Attainment of a High Rate of, or Full, Employment
Full employment is achieved when all available resources (labour, capital, land and entrepreneurship) are used to produce goods and services. This goal is commonly indicated by the employment of labour resources (measured by the unemployment rate). However, all resources in the economy: labour, capital, land and entrepreneurship are important to this goal. Economy benefits from full employments because resources produce the goods that satisfy the wants and needs that lessens the scarcity problem. If resources are not employed,

then they are not producing and satisfaction is not achieved. Nzotta (1999) stresses that bank credit influences positively the level of economic activities in any country. The influence on what is to be produced, who produces it and how much is to be produced. This he further argues, is derived from the intermediation role of banks that is, link between surplus and deficit units in the economic system.

RESEARCH METHODOLOGY

For the purpose of this study, secondary data was used. The data for this study was derived from Central Bank of Nigeria Statistical Bulletin for the period of twenty-nine (29) years (1983-2012).

Method of Data Analysis

Time series data collected between periods of twenty-nine (29) years (1983-2012) was used to estimate the model using the Ordinary Least Square (OLS) technique of estimation. The choice of OLS was due to its popularity in estimating time series econometric models and its regression normally have the Best Linear Unbiased Estimator (BLUE) property. This approach, which is a quantitative technique, includes tables and the test for the hypothesis formulated by using regression analysis a 5% level of significance. The regression method of analysis was employed, because it is a statistical process for estimating relationships among variables especially when focus is on the relationship between a dependent variable and one or more independent variables. It was also used to understand if the independent variables were related to the dependent variable and to explore the form of this relationship.

Model Specification

The model regressed in this study was presented in a relation form as follows:
LOGGDP(-1) = f(LOGCRDT, LOGM2(-1), LOGSAVNS, MRR, EXCHR(-1))
where,
LOGGDP(-1) = logged Gross Domestic Product (GDP) at one lagged period.
LOGCRDT = logged Credit.
LOGM2(-1) = logged Broad money supply at one lagged period.
LOGSAVNS = logged Savings rate.
MRR = Minimum Rediscounting Rate.
EXCHR(-1) = Exchange rate at one lagged period.
Linear expression of the model:
LOGGDP(-1) = β_0 + β_1LOGCRDT$_t$ + β_2LOGM2$_t$(-1)+ β_3LOGSAVNS$_t$ + β_3MRR$_t$ + β_3 EXCHR$_t$ (-1) + e_t
where,
t = Time series (annual)
β_0 = Constant
β_1 = Coefficient of total credit
β_2 = Coefficient of broad money supply
β_3 = Coefficient of savings
β_4 = Coefficient of minimum rediscount rate
β_5 = Coefficient of exchange rate
Furthermore,
Y = β_0 + β_1X$_1$ + β_2X$_2$ + β_3X$_3$ + β_4X$_4$ + β_5X$_5$ + e
Here,

Y = Dependent variable i.e. GDP.
$X_{1,2,3,4 \text{ and } 5}$ = Independent variables i.e. Credit, Broad money supply, savings, Minimum Rediscount Rate and exchange rate.

Apriori Economic Expectations

It was expected that credit, money supply and savings give a positive effect on economic growth while Minimum Rediscount Rate and exchange rate could give either a positive or negative effect on economic growth in the sense that when Minimum Rediscount Rate is low, liquidity would be high in the economy and interest rates would be low thereby encouraging lending to businesses in the country and vice versa. As regards exchange rate, when it is high, it would result to attraction of foreign capital leading to more money supply, thereby increasing savings and lending rate and eventually encouraging investment in the domestic economy and vice versa.

Statistical and Decision Criteria

This aimed at the evaluation of the statistical reliability of the estimation of the parameters. The following criteria were used;

   i. **T-test:** this criterion was employed to test hypothesis whether each of the explanatory or independent variable individually affect the dependent variable.

  ii. **F-test:** this was used to measure the existence of linear relationship between dependent and independent variables. It tested whether all explanatory variables were jointly significant in affecting the independent variable.

 iii. **Coefficient of Determination (R^2):** this showed the percentage of the total variation of the dependent variable that can be jointly explained by the independent variables put together. One use of the coefficient of determination is to test the goodness of fit of the model. It is expressed as a value between zero and one, the higher the better. A value of one indicates a perfect fit, and therefore, a very reliable model for future forecasts.

 iv. **Durbin Watson:** this is mostly relevant in time series but not in cross-sectional. It is a number which tests the presence of autocorrelation (a situation in which a time series data is influenced by its own historical values) in the residual of a time series regression. The statistic ranges from zero to four with zero indicating positive autocorrelation and four indicating a negative autocorrelation. A value of two indicates no auto correlation in the sample. The presence of autocorrelation suggests a problem.

Data Presentation

The data collected for the purpose of this study are shown below:

YEARS	GDP #'M	CRDT #'M	M2 #'M	SAVNS #'M	MRR	EXCHR
1983	110,064.03	11,093.9	17,687.93	9,443.90	8	0.724
1984	116,272.18	11,503.6	20,105.94	10,988.10	10	0.765
1985	134,585.59	12,170.2	22,299.24	12,521.80	10	0.894
1986	134,603.32	15,701.6	23,806.40	13,934.10	10	2.02
1987	193,126.20	17,531.9	27,573.58	18,676.30	12.75	4.02
1988	263,294.46	19,561.2	38,356.80	23,249.00	12.75	4.54
1989	382,261.49	22,008.0	45,902.88	23,801.30	18.5	7.39
1990	472,648.75	26,000.1	52,857.03	29,651.20	18.5	7.39

1991	545,672.41	31,306.2	75,401.18	37,738.20	14.5	8.04
1992	875,342.52	42,736.8	111,112.31	55,116.80	17.5	9.91
1993	1,089,679.72	65,665.3	165,338.75	85,027.90	26	17.3
1994	1,399,703.22	94,183.9	230,292.60	110,966.80	13.5	22.33
1995	2,907,358.18	144,569.6	289,091.07	108,490.30	13.5	21.89
1996	4,032,300.34	169,437.1	345,853.96	134,503.20	13.5	21.89
1997	4,189,249.77	385,550.5	413,280.13	177,648.70	13.5	21.89
1998	3,989,450.28	272,895.5	488,145.79	200,065.10	14.31	21.89
1999	4,679,212.05	322,764.9	628,952.16	277,667.50	18	21.89
2000	6,713,574.84	508,302.2	878,457.27	385,190.90	13.5	85.98
2001	6,895,198.33	796,164.8	1,269,321.61	488,045.40	14.31	102.5
2002	7,795,758.35	954,628.8	1,505,963.50	592,094.00	19	111
2003	9,913,518.19	1,210,033.1	1,952,921.19	655,739.70	15.75	120.5
2004	11,411,066.91	1,519,242.7	2,131,818.98	797,517.20	15	132.15
2005	14,610,881.45	1,976,711.2	2,637,912.73	1,316,957.40	13	128.65
2006	18,564,594.73	2,524,297.9	3,797,908.98	1,739,636.90	12.25	130.15
2007	20,657,317.67	4,813,488.8	5,127,400.70	2,693,554.30	8.75	122.5
2008	24,296,329.29	7,799,400.1	8,008,203.95	4,118,172.80	9.81	117.75
2009	24,794,238.66	8,912,143.1	9,411,112.25	5,763,511.22	7.44	158
2010	33,984,754.13	7,706,430.4	11,034,940.93	5,954,260.45	6.13	151.51
2011	37,409,860.61	7,312,726.0	12,172,490.28	6,531,913.01	9.19	158.08
2012	40,544,099.94	8,150,030.3	13,895,389.13	8,062,901.35	12	158.3

Source: CBN Statistical bulletin 2012.

Result Presentation

The result of the regression analysis estimating the equations for the complete model are presented below:

NOTE: The researcher logged GDP, CRDT, M2, SAVNS to reduce the values and to linearize the model to elasticity and lagged GDP, M2 and EXCHR by 1 to take the figures back behind event occurring at (t) and allows the researcher to determine what effects are of a change in a policy variable.

Estimation Command:
LS LOGGDP(-1) C LOGCRDT LOGM2(-1) LOGSAVNS MRR EXCHR(-1)

Estimation Equation:
LOGGDP(-1) = C(1) + C(2)* LOGCRDT + C(3)* LOGM2(-1) + C(4)* LOGSAVNS + C(5)*MRR+ C(6)* EXCHR(-1)

Substituted Coefficients:
LOGGDP(-1) = 0.524850 + 0.478205 * LOGCRDT +1.089642 * LOGM2(-1) -0.534726 * LOGSAVNS + 0.013129* MRR-0.002808* EXCHR(-1)

Dependent Variable: LOGGDP(-1)
Method: Least Squares
Date: 06/05/14   Time: 08:20

Sample (adjusted): 1983 2012
Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.524850	0.207032	2.535115	0.0182
LOGCRDT	0.478205	0.178746	2.675336	0.0132
LOGM2(-1)	1.089642	0.236730	4.602888	0.0001
LOGSAVNS	-0.534726	0.192792	-2.773596	0.0106
MRR	0.013129	0.004112	3.192931	0.0039
EXCHR(-1)	-0.002808	0.000701	-4.007612	0.0005

R-squared	0.992788	Mean dependent var	6.433484
Adjusted R-squared	0.991285	S.D. dependent var	0.849520
S.E. of regression	0.079306	Akaike info criterion	-2.054149
Sum squared resid	0.150947	Schwarz criterion	-1.773909
Log likelihood	36.81223	Hannan-Quinn criter.	-1.964498
F-statistic	660.7221	Durbin-Watson stat	1.717301
Prob(F-statistic)	0.000000		

Source: Computer printout using E-views software.

N   -   29
K   -   6
Degree of freedom   -   N – K = 29 – 6 = 23
Critical value (T-table) -   2.069

Interpretation of Regression Result

It was expected that credit, money supply and savings give a positive effect on economic growth while Minimum Rediscount Rate and exchange rate could give either a positive or negative effect on economic growth. The result above went with the apriori expectations except for savings which gave a negative result and this could be as a result of low interest attached to savings which discourages citizens from saving but rather prefer investing these funds in the capital market to earn a better return. The regression analysis was carried out using the least square method in the statistical package; E-views. The equation shows a high explanation of the independent variables.

The **Adjusted R^2** is 0.991285. This indicates that the 0.99% of the total variation in GDP is jointly explained by the explanatory variables i.e. credit, M2, savings, MRR and exchange rates specified in the model. The remaining 0.01% may better be accounted for by the other omitted variables and is represented by the error term i.e. *e*.

The **Durbin-Watson Statistic** is 1.717301. For non autocorrelation, Durbin Watson should have a value of not less than two (2). Since our value is close to two (2), at 1.717301, we can safely conclude that there is not much autocorrelation.

The **F-test** tests shows to what extent the explanatory variables jointly explain the variable in the dependent variable. The F-tabulated is 1.96 and calculated is 660.7221. Therefore we conclude that the explanatory variables jointly explain the dependent variable.

The **T-test** tests the hypothesis if each of the explanatory variables individually affect GDP. On the test of significance, the tabulated t-statistic, two-tailed test, with the degree of freedom (N-K = 29 - 6 = 23) is 2.069. The decision rule is that T-calculated should be greater than T-tabulated. Since the tabulated t-value is less than the calculated value apart from savings and

exchange rate, it shows that credit, broad money supply and MRR have a positive significant relationship while savings and exchange have a negative relationship on GDP. The negative relationship as regards savings does not conform to the apriori expectation because theoretically, savings is expected to be positively related to GDP. So the negative relationship could be as a result of low interest attached to savings which discourages citizens from saving but rather prefer investing these funds in the capital market to earn a better return. The negative relationship as regards exchange rate could be accounted for as a result of non-attraction of foreign capital. When exchange rate is high, it encourages inflow of foreign capital that can be exchanged for high quantum of local currency that will increase deposit liabilities of bank lending, lower the interest rate and more credit.

Test of Hypothesis

The researcher earlier identified one hypothesis which will be tested at 5% level of significance.

Hypothesis

H_0: Credit has no significant relationship on the economic growth of Nigeria.
H_1: Credit has a significant relationship on the economic growth of Nigeria.
The tabulated value for the T-statistics is 2.069
The decision rule for the test of hypothesis is:
Accept H_0 if T-calculated i.e. T-statistics (2.675336) < tabulated T-statistic (2.069) and vice versa.
Accept H_1 if T-calculated i.e. T-statistics (2.675336) > tabulated T-statistic (2.069) and vice versa.
Therefore, since 2.675336 > 2.069, we reject H_0 and accept H_1.
There is a significant relationship between Credit and economic growth of Nigeria.

SUMMARY OF FINDINGS

The statistical analysis used in this study revealed that there is a significant relationship between bank credit and economic growth in Nigeria. The summary is based on the findings from research questions raised in chapter one. They are as follows:

i. The reasons why bank lending or access to credit to the poor and Small and Medium Scale enterprises has remained low were due to: lack of public infrastructural facilities particularly road, good communication, etc. which will not encourage the establishment of financial institution in most places, particularly in the rural areas and semi-urban areas in the city centers. Also, many prospective borrowers do not have collateral security to offer.

ii. Some of the reasons why banking habit is low in Nigeria were as a result of: poor public enlightenment about banking services, bureaucratic processes in obtaining loan, few functional industries that can aid the establishment of financial institutions and also, high interest rates.

iii. Most customers of the bank do not meet up with the cannons of lending like character, capacity, capital and collateral and may not be in position to provide basic financials like cash flow.

CONCLUSION

This study has investigated banking system credit as an instrument of economic growth in Nigeria. Following the behavioral pattern of the variables of this study the researcher adopted one model to study the chosen variables. The result of the model showed that all the explanatory variables were statistically significant except for savings and exchange rate. Also, the coefficient of determination (R^2) was found high (0.992788) which showed that the explanatory variables were able to explain the total variation in the dependent variable – GDP. The F-test showed that all explanatory variables jointly explained variations in GDP. The T-test showed that all the explanatory variables individually affect GDP except for savings and exchange rate. The value of Durbin-Watson Statistic (DW) at 1.72 showed little or no presence of autocorrelation. The results of the analysis indicate that banking system credit impacts positively on economic growth over the period covered by this study. However, low savings rate and high exchange rate impedes growth.

RECOMMENDATION

The researcher made the following recommendations for this study:

i. When the size of saving is increased, enough credits or loans will be available for individuals, government, entrepreneurs, private and public sector which will enhance economic growth. To this end therefore, there is need to develop our financial intermediaries towards greater effectiveness and efficiency. A sound financial system instills confidence among savers such that resources are effectively mobilized to increase productivity in the economy. The more liquid money is made available in an economy, the more opportunities exists for continued growth.

ii. To increase the banking habits of the public, the bank should give adequate training and education to their staff on their relationship with customers. They should be made to understand that their customers are supreme and should be treated politely and not rudely.

iii. As much as possible, unnecessary bureaucratic processes should be avoided in the process of bank lending. The protocol in obtaining financial facilities should be minimized especially for the poor and Small Scale Enterprises.

iv. Banks should liberalize loans given to the poor and Small and Medium scale Enterprises. Also, interest on mortgage loans should be made affordable to acquisition of landed property.

v. The government should provide more infrastructural facilities that can encourage and accelerate the establishment of financial institutions which will attract investors with ideas thereby leading to establishment of industries which will eventually aid economic growth in the economy.

vi. There should be determined effort by the monetary authorities to increase interest received by depositors and also, reduce the Marginal Rediscount Rate (MRR) so that the people will be fully motivated to save in a bid to generate needed loanable funds for investment in Nigeria.

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