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## **DEPOSIT MONEY BANKS' LOANS AND GROWTH OF NIGERIAN ECONOMY: A SECTORIAL ANALYSIS**

**Nonso Fredrick Okoye**

Department of Finance and Banking; University of Port Harcourt

**Dr. Obiamaka Egbo**

Department of Banking and Finance, Faculty of Business Administration, University of Nigeria, Enugu Campus

### **ABSTRACT**

*The study aimed at ascertaining the relationship between banks sectorial loans and Nigerian economic growth over the period 1981 to 2014. Using commercial banks' loans to Agriculture, fishery and forestry, manufacturing, mining and quarrying, and real estate and construction sectors, the study adopted the Ex-post facto research design and the required data were sourced from CBN statistical bulletin. Engaging the OLS, ECM, Granger causality and Johansen co-integration techniques of analysis, the study revealed that there is a short run positive relationship between loans to manufacturing, mining and quarrying sectors and economic growth; while loan to agriculture, fishery and forestry and real estate and construction sectors sustained a negative relationship with gross domestic product. The study also revealed the existence of equilibrium relationship among our variables; and a unidirectional causation flowing from gross domestic product to loans to mining and quarrying and also from the same to real estate and construction where observed; while the ECM indicates that over 74% dynamics in short run is been corrected over a year, and as such, the study recommends among others that: Banks should be compelled to improve their loans to Agriculture, fishery and forestry and also manufacturing sectors in order to improve the output of these sectors and diversify the economy especially in this dwelling oil price time; Government should revive the activities of specialized banks such as bank of industry, Agriculture and likes in order to assist commercial banks in providing loans to these sectors.*

**Keywords:** Economic growth, banks, GDP, Nigeria.

## **1.Introduction**

The indispensable role of credit facilities in economic growth and development has been acknowledged by scholars especially in these recent times. Financial credit is required by different people, organizations (governments and non-governments alike) and other economic representatives for various aims. For instance, business firms acquire credit to purchase machinery and equipment, pay their staff etc. Farmers collect advances to buy seeds, fertilizers, and erect several categories of farm structures. Government obtain credits to meet both her recurrent and capital expenditures obligations. According to Ademu (2006), credit provision with adequate consideration for the sector's capacity and price system upsurges generation of self-employment opportunities and growth of economy at large. In the opinion of Uzomba et al (2014), the significance of advancing to several sectors of the economy stresses the sensitive and vital parts that deposit money banks play in financial intermediation and facilitation of capital formation to stimulate the growth of an economy. However, making reference to the Bank and Other Financial Act Amendment (BOFIA) (1998), Olokoyo (2011) in Uzomba et al (2014) argued that bank's loans and advances should be directed mostly to productive sectors of the economy in order to improve the growth and development of the economy. This is in line with the assertion of Teriba (1978) that the establishment of sectorial preferences for deposit money banks' loans and advances is to channel loans and advances away from sectors where they were engaged basically to finance imports to sectors where such loans and advances can enhance economic productivity. From the foregoing, it is crystal clear that the efficacy of deposit money banks' loans and advances in stimulating economic growth depends largely on the sector that attracted the loans. According to Bencivenga and Smith (1991), banks development and efficient financial intermediation can help to increase the level of economic activities by the means of channelling savings to high productive sectors with credit worthiness and as such reduces the level risk of default. Therefore, the fact remains that banking sector (DMBs) aids in making this finance accessible by mobilizing excess reserves from savers whom may not have instant needs of such resources and thus channel them to investors in form of loans and advances; but its efficacy in guiding the economy to the desired path is largely rooted on the loans disbursement pattern of this banking sector. However, it is disheartened even at this material time that every nation is driving towards private sector economy (industrialization) to notice constant complaint of entrepreneurs especially those in agricultural sector in attracting the required loan from banks

as observed by Adeniyi (2007), which according to Okwoli (2010) has led to the over enslavement of the nation's economy on oil sector with less industrialization as against the idea behind intermediation theory. According to Schumpeter (1911), the role of financial intermediation is fundamental to economic growth. The financial intermediation role of the banking sector upsets the distribution of savings, thereby encouraging efficiency, technical changes and the rate of economic growth and development (Sanusi, 2011).

Against this background therefore, it behoves on this study to find out how the loans and advances of deposit money banks to various economic sectors relates to the growth of Nigerian economy and also the direction of the causation between them.

## **2. Review of Related Literature**

Nwanyanwu, (2010) defined Credit as the money from the lender to the borrower. However, Spencer (1977) noted that credit entails an undertaking by one party to another for the payment of money borrowed or goods and services received. Following the financial intermediation theory, credit cannot be dissociated from the banking sector especially with the collapse of barter trade. Through the deposit and lending services of banks, the problem of coincidence of wants that existed during the era of barter system has been eliminated as banks function as a conduit for funds to be attracted in form of deposits from the surplus economic unit of the economy and distributed to the deficit economic unit in form of loans and advances. Thus, the obtainability of loanable funds permits the role of intermediation to be carried out, which is essential for the growth and development of any economy. Based on the findings of Beck et al (2005), Driscoll (2004), etc, banks intermediation role in attracting idle savings and making it loanable to investors increases the growth of an economy. However, notwithstanding the fact that most scholars are of the same opinion, Fitzgerald, (2006) argued that the conduits and even the direction of causality have lingered unclear in both theory and empirics. Buttressing the opinion of Patrick (1966), Mckinnon (1974), re affirms that the direction of causality has been hypothesised as supply-leading and or demand-following. Following their logic, when a uni-directional relationship flows from financial advancement (loans and advances) to economic growth, it is labelled supply-leading based on believe that the actions of the financial sector upsurges the supply of financial facilities which stimulates economic growth. Similarly, when the flow is otherwise it is termed demand following. However, some scholars believed that there could be a bi-directional relationship. Nwaeze, Michael and Nwabekee (2014) investigated the magnitude to which financial intermediation effect the growth of an economy in Nigeria over the periods

1992 to 2011. Engaging the Ordinary Least Squares (OLS) method of estimations, they revealed that both total bank deposit and total bank credit wield a positive and significant effect on the Nigerian economic growth for the period.

### **Economic growth**

The concept of economic growth has been observed by Dewett, (2005) as a rise in the net domestic output of a nation in a specified period of time. He elucidated that the growth of an economy could be perceived as a quantifiable adjustment in economic productivity recorded over some periods of time. Similarly, Jhingan (2006) defined economic growth as “a quantitative sustained increase in the country’s per capita income or output accompanied by expansion in its labour force, consumption, capital and volume of trade.” However, Todaro and Smith (2006) in their opinion perceived economic growth as a stable route by which the economic productive ability of a nation is improved over some periods of time that will result to rising heights of the nation’s product and income. Based on their premises, the growth of an economy can be ascertained based on some features; i.e high rate of per capital income, favourable balance of payment, price stability, full employment of labour, high rate of productivity, sustainable value of currency, etc. From the foregoing therefore, it is crystal clear that the Nigerian economy has not been on the growth path; this is evidenced in the absence of the afore mentioned features, and as such, it became the onus of this study to look into bank’s sectorial credit and Nigerian economy in order to see how these loans and advances could be used to exert positive influence on the growth of Nigerian economy.

### **Empirical review**

Chang et al (2008) examined bank fund reallocation and economic growth in China using branch panel data and they establish a positive relationship between bank deposits and growth. With the aid of Vector Error Correction Model (VECM), Vazakidis&Adamopoulos (2009) examined the association between credit market development and Italian growth of economy for the period 1965-2007. Their findings revealed that economic growth had a positive effect on credit market development. Using ADF, ECM and Johansen co-integration methods of analysis, Ogege and Boloupremo (2014) explore the intermediation role of banks on the growth of Nigerian economy. Their study revealed that credit allocated to production sector have positive effect on economic growth in Nigeria. Comparing the accessibility of funds by small entrepreneurs covering pre and post bank reform, Yushau (2011) revealed that informal lending institutions are more capable in meeting the financial need of entrepreneurs

than formal ones. However, Uzomba, et al (2014) explores the effect and the determinants of Deposit Money Banks' loans and advances to agricultural sector in Nigeria over the periods 1980 to 2011. Exhausting the OLS, ECM, Granger causality, and Co-integration techniques of analysis, their study revealed a positive impact of commercial banks' credit on the Agricultural sector. Also, analysing the impact of banks' credit on the industrial sector of Nigerian economy over the years 1972 to 2012, Ebi and Emmanuel (2014) using ECM, found that increase in banks' credit to industrial sector is a significant determinant of growth in Nigerian industrial sector. Kayode et al (2010) employed co integration and vector error correction model (VECM) techniques in investigating the influence of bank lending and gross domestic product the manufacturing output in Nigeria over the periods of 36 years ranging from 1973 to 2009. They revealed that the level of economic production and banks' loans and advances significantly affects manufacturing output in Nigeria. Examining the effect of bank loans on the economic growth of Nigeria over the scope of 1970-2008 with the use of using two-stage least square and granger causality test, Akpansung&Babalola (2009), revealed that bank credit exerts a negative effect on the Nigerian economic growth over the period studied. Similarly, Nwanyanwu (2010) evaluates the impact of deposit money banks' credit on Nigerian economic growth over the period 1992-2008 economic growth in Nigeria using deposit money banks as a case study. The study revealed that bank credit has failed to exert significant impact on the economic growth of Nigeria.

### **Knowledge gap**

Following the argument by Fitzgerald, (2006) that most previous studies have only succeeded in analysing the association between banks' credit and economic growth without any effort to establish the channels and or even the direction of causality between the two variables; in addition to this is the fact that most of the earlier studies looked at banks credit in its aggregate nature without considering the sectorial pattern of the disbursement. It is against these gaps that the study finds more justification.

### **3.Materials and Methods**

For the purpose of clarification, this sector is organised into subsections as shown below:

## Research Design

The study explores the Ex post facto research design. The choice of this design is as a result of the reliability of the study on time series data without any intention on the part of the researchers to manipulate or interfere with the data.

### Data and Variables Description:

The required annual data on GDP and deposits money banks' loans to Agricultural, forestry and fishery, Manufacturing, Mining and quarrying, and Real estate and construction sectors over the periods 1981 to 2014 were sourced from the CBN statistical bulletin and presented in Table 1 below.

**Table 1: GDP, loans to Agricultural, forestry and fishery (LAFF), loans to Manufacturing sector (LMS), loans to Mining and quarrying (LMQ), and loans to Real estate and construction (LRC)(1981 – 2014). In billions of Naira**

YEAR	GDP	LAFF	LMS	LMQ	LRC
1981	47,619.66	0.6	2.7	0.1	1.8
1982	49,069.28	0.8	3.0	0.1	2.1
1983	53,107.38	0.9	3.1	0.1	2.3
1984	59,622.53	1.1	3.1	0.2	2.4
1985	67,908.55	1.3	3.2	0.2	2.5
1986	69,146.99	1.8	4.5	0.2	2.8
1987	105,222.84	2.4	5.0	0.2	2.9
1988	139,085.30	3.1	6.1	0.2	3.0
1989	216,797.54	3.5	6.7	0.3	3.2
1990	267,549.99	4.2	7.9	0.4	3.2
1991	312,139.74	5.0	10.9	0.5	3.6
1992	532,613.83	7.0	15.4	0.8	4.1
1993	683,869.79	10.8	23.1	1.4	5.4
1994	899,863.22	17.8	34.8	-	-
1995	1,933,211.55	25.3	58.1	12.1	-
1996	2,702,719.13	33.3	72.2	15.0	-
1997	2,801,972.58	27.9	82.8	20.6	-
1998	2,708,430.86	27.2	96.7	22.8	-
1999	3,194,014.97	31.0	115.8	24.7	-
2000	4,582,127.29	41.0	141.3	32.3	-
2001	4,725,086.00	55.8	206.9	70.5	-
2002	6,912,381.25	59.8	233.5	70.2	-
2003	8,487,031.57	62.1	294.3	96.0	-
2004	11,411,066.91	67.7	332.1	131.1	-

2005	14,572,239.12	48.6	352.0	172.5	-
2006	18,564,594.73	49.4	445.8	251.5	-
2007	20,657,317.67	149.6	487.6	490.7	-
2008	24,296,329.29	106.4	932.8	846.9	466.8
2009	24,794,238.66	135.7	993.5	1,190.7	778.1
2010	54,204,795.12	128.4	987.6	1,178.1	670.3
2011	63,258,579.00	255.2	1,053.2	1,295.3	453.5
2012	71,186,534.89	291.3	1,087.4	1,537.8	530.4
2013	80,222,128.32	348.1	1,106.6	1,884.8	665.0
2014	89,043,620.00	401.9	1,464.4	1,874.1	469.5

Source: CBN statistical bulletin (2014)

### Model specification

Modelling economic growth (GDP) as a positive function of deposits money banks sectorial loans and advances is functionally expressed thus:

$$GDP = F(LAFF, LMS, LMQ, LRC) \dots \dots \dots (1)$$

Mathematically, we transform equation 1 to equation 2 as represented thus:

$$GDP = \beta_0 + \beta_1 LAFF + \beta_2 LMS + \beta_3 LMQ + \beta_4 LRC \dots \dots \dots (2)$$

With an absence of error term, the above equation 2 failed to take cognizance of other variables outside our selected independent variables that might affect our dependent variable and as such lacks predictive sufficiency.

Representing the above model in its Econometric form, we introduce equation 3 follows:

$$GDP = \beta_0 + \beta_1 LAFF + \beta_2 LMS + \beta_3 LMQ + \beta_4 LRC + U_t \dots \dots \dots (3)$$

Where:

GDP = Gross domestic product

LAFF = Loans to agriculture, fishery and forestry

LMS = Loans to manufacturing sector

LMQ = Loans to mining and quarrying

LRC = Loans to real estate and construction

$\beta_0$  = Constant.

$\beta_1$ -  $\beta_4$ = Regression coefficients.

$U_t$  = Error Term.

### **Aprioi expectations**

Following the theoretical positions, we expect all our explanatory variables to relate positively with gross domestic product as represented mathematically below:

$b_1, b_2, b_3, b_4 > 0$

### **Unit root test**

In ascertaining the presence or otherwise of unit root in our employed data which is a pre-test for co-integration, we employed the philp-peron., and the model is presented thus:

$$Y_t = \alpha + \rho y_{t-1} + \varepsilon^t \dots\dots\dots (4)$$

Where:

$Y$  = variable of choice

$\alpha_0$  = intercept

$\varepsilon^t$  = white noise error term

Following this, the hypothesis to be tested will be represented thus:

Ho:  $\delta = 0$ , the time series data is non-stationary.

H1:  $\delta \neq 0$ , the time series data is stationary.

### **Co-integration:**

Since our OLS will only account for short run relationship, we employ johansen co-integration technique in order to determine the long run or equilibrium relationship between our variables.

**Error Correction Mechanism** (long run relationship and short run dynamics): as a means of reconciling the short-run behaviour of our variables and its long run behaviour (ascertaining

the speed of adjustment); this mechanism shall only be sought when the existence of long-run relationship between our variables have been proven. In this study, we will make use of parsimonious error correction method.

### Granger causality test:

This analysis shall be used to ascertain the directional or causal relationship between our employed variables. The model is stated thus:

mm

$$Y_t = \alpha_1 + \sum_{i=1} \alpha_{2i} Y_{t-i} + \sum \alpha_{3i} X_{t-i} + \mu$$

mm

$$X_t = \beta_1 + \sum_{i=1} \beta_{2i} Y_{t-i} + \sum \alpha_{3i} X_{t-i} + \mu$$

From on the model above,  $X_t$  is said to granger cause  $Y_t$  if  $\alpha_{3i} \neq 0$ ; and,  $Y_t$  is said to granger cause  $X_t$  as long as  $\beta_{2i}$  is  $\neq 0$ . However, if both significant occur, the variables are said to have a bidirectional relationship, whereas in a situation of only one being significant, a unidirectional relationship is said to have occurred.

## 3.1 Result presentation and analysis

### OLS Result

Dependent Variable: GDP  
 Method: Least Squares  
 Date: 02/05/18 Time: 00:35  
 Sample: 1981 2014  
 Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1833905.	1362739.	1.345750	0.1984
LAFF	-352767.8	146436.6	-2.409014	0.0293
LMS	319.0488	10576.81	0.030165	0.9763
LMQ	162177.3	42472.03	3.818450	0.0017
LRC	-151706.8	43062.48	-3.522947	0.0031
R-squared	0.984847	Mean dependent var	20480499	
Adjusted R-squared	0.980806	S.D. dependent var	31779465	
S.E. of regression	4402792.	Akaike info criterion	33.64569	
Sum squared resid	2.91E+14	Schwarz criterion	33.89463	
Log likelihood	-331.4569	Hannan-Quinn criter.	33.69429	

F-statistic	243.7245	Durbin-Watson stat	0.959089
Prob(F-statistic)	0.000000		

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Source: author's computation

## **Analysis:**

### **Coefficients of our explanatory variables**

#### **Loans to agriculture, fishery and forestry**

With reported coefficient of -352767.8 and probability of 0.0293, the study revealed that there is a significant negative relationship between loans to agriculture, fishery and forestry and gross domestic product in Nigeria over the years of our study. Although, against our apriori expectation, this reaffirm the findings of Akpansung&Babalola (2009), and could be justified owing to the constant complain by those in this sector of inaccessibility of bank loans due to high requirements.

Conforming to our expectation, the result shows that banks loans to manufacturing sector and mining and quarrying sector relates positively with gross domestic product in Nigeria with coefficients of 319.0488 and 162177.3 respectively. However, based on their respective probability of 0.9763 and 0.0017, only loans to mining and quarrying sector proved to be statistically significant.

#### **Loans to real estate and construction**

Against our expectation, loans to real estate and construction reported a negative relationship with gross domestic product in Nigeria over the years of our study. Based on the co-efficient, one naira increase in loans to this sector will bring about 151706.8 decrease in gross domestic product holding other variables constant. However, based on its probability of 0.0031, it is statistically significant.

### **Significance of the model:**

Based on the result depicted above, our F-statistics which is measures the overall significance of the model reported a value of 243.7245 with 0.000000 probability. This implies that at 5% critical level, our model proved to have demonstrated a good fit and as such, sufficiently captures banks sectorial loans and economic growth of Nigeria.

### Co-efficient of determination ( $R^2$ )

From the result of OLS obtain, our co-efficient of determination stood at 0.984847, which is an indication that over 98% variations in our dependent variable is being accounted for by our selected independent variables while the remaining 2% is explained by other factors outside the model. Although, this is a very strong relationship but considering our Durbin Watson statistics value of 0.959089 which is far from 2 by implication means that there could be presence of autocorrelation among our successive error terms. More so, due to non stationarity problems of time series data, it is likely that this regression result is spurious, unreliable and as such could lead to poor understanding and forecasting. However, in order to obtain a reliable result, the non-stationary data needs to be transformed into stationary data. Hence we engage the use of Philip-perron.

### ADF result

Variables	ADF-statistics	Critical value	Order of integration
GDP	-2.713964 (0.0083)	-1.951687	I(I)
LAFF	-4.517012 (0.0000)	-1.951687	I(I)
LMS	-2.079172 (0.0379)	-1.951687	I(I)
LMQ	-3.785054 (0.0322)	-3.574244	I(I)
LRC	-4.511795 (0.0002)	-1.964418	I(I)

Source: author's computation

From the Philip perron stationarity result obtained, all the employed variables proved to be stationary at first differencing. Based on this result, there is the need to determine the equilibrium relationship among the variables.

### Johansen co-integration output

Date: 02/05/18 Time: 00:36

Sample (adjusted): 1983 2014

Included observations: 16 after adjustments

Trend assumption: Linear deterministic trend

Series: GDP LAFF LMS LMQ LRC

Lags interval (in first differences): 1 to 1

### Unrestricted Cointegration Rank Test (Trace)

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.999993	348.4187	69.81889	0.0001
At most 1 *	0.998677	157.3350	47.85613	0.0000
At most 2 *	0.864419	51.28537	29.79707	0.0001
At most 3 *	0.700363	19.31440	15.49471	0.0126
At most 4	0.001965	0.031464	3.841466	0.8592

Trace test indicates 4 cointegratingeqn(s) at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

### Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.999993	191.0836	33.87687	0.0001
At most 1 *	0.998677	106.0497	27.58434	0.0000
At most 2 *	0.864419	31.97097	21.13162	0.0010
At most 3 *	0.700363	19.28293	14.26460	0.0074
At most 4	0.001965	0.031464	3.841466	0.8592

Max-eigenvalue test indicates 4 cointegratingeqn(s) at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

Source: author's computation

From the co-integration result obtained, both the trace statistics and max-eigenvalue test indicates 4 co-integrating equations which is an indication of the existence of co-integration or equilibrium relationship among our employed variables. However, following the assertion of Granger representation theorem, when variables are co-integrated, the relationship can be expressed as ECM. Therefore, due to the existence of co-integration among our variables, we

need to carry out an error correction model as depicted below in order to ascertain the speed of adjustment to the equilibrium.

### **Parsimonious error correction model**

Dependent Variable: D(GDP)

Method: Least Squares

Date: 02/05/18 Time: 12:49

Sample (adjusted): 1982 2014

Included observations: 18 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.189179	0.090931	2.080478	0.0596
D(LAFF)	-0.094954	0.309013	-0.307282	0.7639
D(LMS)	0.175484	0.317586	0.552555	0.5907
D(LMQ)	0.390126	0.257865	1.512910	0.1562
D(LRC)	-0.626005	0.240773	-2.599982	0.0232
ECM(-1)	-0.743528	0.246051	-3.021848	0.0106
R-squared	0.535029	Mean dependent var	0.220185	
Adjusted R-squared	0.341291	S.D. dependent var	0.203996	
S.E. of regression	0.165565	Akaike info criterion	-0.497705	
Sum squared resid	0.328941	Schwarz criterion	-0.200914	
Log likelihood	10.47934	Hannan-Quinn criter.	-0.456781	
F-statistic	2.761611	Durbin-Watson stat	1.677941	
Prob(F-statistic)	0.069350			

Source: author's computation

From the error correction model, ECM is rightly signed, that is, it is negative and statistically significant with about 74% speed of adjustment over a year. This result shows long run relationship and reasonable dynamics of GDP to the explanatory variables.

### **Granger causality result**

Pairwise Granger Causality Tests

Date: 02/05/18 Time: 00:49

Sample: 1981 2014

Lags: 2

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Null Hypothesis:	Obs	F-Statistic	Prob.
LAFF does not Granger Cause GDP	32	0.44470	0.6456
GDP does not Granger Cause LAFF		29.4683	2.E-07
LMS does not Granger Cause GDP	32	146.287	3.E-15
GDP does not Granger Cause LMS		0.93509	0.4049
LMQ does not Granger Cause GDP	29	16.9188	3.E-05
GDP does not Granger Cause LMQ		11.8857	0.0003
LRC does not Granger Cause GDP	16	480.648	2.E-11
GDP does not Granger Cause LRC		4.77897	0.0321

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Source: author's computation

From the result above, the study revealed that there is no causal relationship between loans to agriculture, fishery and forestry and gross domestic product, and also between GDP and loans to manufacturing sector. However, the study revealed a demand-following unidirectional relationship between GDP and loans to mining and quarrying and also to real estate and construction.

## Conclusion

Based on the above statistical results and analysis, we therefore conclude that banks loans' contribution to economic growth depends mostly on the sector that received the loans. Owing to this, the study conclude that loans to manufacturing, and mining and quarrying sectors relates positively with growth of Nigerian economy, while loans to Agriculture, fishery and forestry and real estate and construction sectors relate negatively with Nigerian economic growth. Also, the study revealed the existence of equilibrium relationship among our employed variables and over 74% disequilibrium in economic growth can be corrected over a year. On the side of causal relationship, a demand following relationship was discovered between GDP and mining and quarrying, and real estate and construction sectors. Based on this, the study therefore put up the following policy recommendations:

1. Banks should be compelled to improve their loans to Agriculture, fishery and forestry and also manufacturing sectors in order to improve the output of these sectors and diversify the economy especially in this dwelling oil price time.
2. Government should revive the activities of specialized banks such as bank of industry, Agriculture and likes in order to assist commercial banks in providing loans to these sectors.

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