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EFFECT OF DEPOSIT MONEY BANK LENDING ON THE GROWTH OF THE PRIVATE SECTOR IN NIGERIA

Ezekiel Oyinmiebi Azonuche[1], Kayode Joshua Temitope[2],

Joseph Okuboarere[3], and Ajayi Oluwaseun Chidera (Ph.D.)[4]

[1]Shinawatra University.
Email: ezekieloyinmiebi@gmail.com

[2]Obafemi Awolowo University, Ile - Ife, Osun State.
Email: Kayodet398@gmail.com

[3]Memorial University Newfoundland, Canada.
Email: joeokuboarere@gmail.com

[4]Babcock University.
Email: ajayichidera1997@gmail.com

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ABSTRACT: *This study seeks to investigate the effect of deposit money bank lending on the growth of the private sector in Nigeria. Using time series data from 1995 to 2020, the study applied both descriptive statistics and regression analysis to achieve this objective. Descriptive statistics show that the series are typically distributed. In order to check the short-run impact of the variables, the study used an ordinary least square model with the aid of an E-views econometrics package to test the impact among the variables. It was found that deposit money banks' lending has a positive but not significant impact on the manufacturing sector's gross domestic product in Nigeria. Again, it shows that total bank deposits have a positive and significant impact on Nigeria's manufacturing sector gross domestic product. The coefficient of determination R2 is 0.967008, implying that the explanatory variables jointly explained over 96.7% of the total variation in the dependent variable (MGDP). In contrast, the remaining variables are described in other variables that are not included in the model. Meanwhile, the Adjusted R2 also confirms that the model has a goodness of fit. The study, therefore, recommends that the monetary authority (CBN) should focus on initiating and implementing policies that will regulate banks' lending rates so as to forestall unnecessarily high rates that will deter investors.*

KEYWORDS: CBN, Deposit Money bank, Money lending.

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INTRODUCTION

Over the years, the Central Bank of Nigeria has stipulated the amount of interest and lending rates that are obtained in our commercial banks; with a view to harmonising these rates in all commercial banks in the country, it will be of interest to note that the central bank's credit policy guideline had been a reflection of the country's economy from year to year. (Frexias & Rochet, 2014). Lending institutions play a major role in economic growth and development through the provision of credit to execute economic activities. The major types of risks faced by lending institutions globally include market risk, operational risk, and performance and credit risks. The level of each type of risk largely depends on the environment in which the lending institution is conducting its operation. Credit risk is defined as the change in the value of the bank's asset portfolio due to the failure of an obligor to meet their payment commitment (CBN, 2015).

The risk attributable to loan default leads to high effective borrowing rates through a risk premium that varies with the exposure to default. This is because a bank has to undergo the cost to carefully evaluate and closely monitor the risk, especially in an environment where the probability of default is high (Parour & Winron, 2008). Lending needs to be effectively carried out by commercial banks since it is the basis for the establishment of sound economic development. The lending operations of commercial banking in any economy constitute a critical sector in the growth and development of any economy. The need for lending arises in view of the apparent financial disequilibrium in the economic system, which is the gap between the deficit unit and the surplus units. Thus, lending must be designed in such a way that it could be a total benefit to all different interest groups of the bank, which include the shareholders, depositors, and borrowers. If those loans or credit are not grown, the expansion of production and operations would almost be impossible and take a longer time. According to Nwankwo (2010), credit constitutes the largest single income-earning asset in most banks' portfolios. This explains why banks spend enormous resources to estimate, monitor and manage credit quality. This is understandably, a practice that effect greatly on the lending behaviour of banks as large resources are involved. Therefore, its administration requires considerable skills and dexterity on the part of the bank's management. While a bank is irrevocably committed to paying interest on deposits mobilised from different sources, the ability to articulate loanable avenues where deposit funds could be placed to generate reasonable income, maintain liquidity and ensure safety requires a high degree of pragmatic policy formulation and application (Chodechai, 2014).

The banking sector is an indispensable financial service sector supporting the development of plans through channelising funds for fruitful purposes, mobilising and controlling the flow of funds from surplus to deficit units, and supporting the financial and economic policies of the government. The success of banking is assessed based on profit and the quality of assets it possesses. Even though banks serve social objectives through their priority sector lending, Mass branch networks and employment of many people, maintaining quality asset books and continuous profit-making is important for banks' continuous growth. Bank loans are one of the most important long-term financial sources in many countries (Freixas & Rochet, 2018).

This study attempts to evaluate the effect of deposit money bank lending on the growth of the private sector in Nigeria. For some time now, there has been a large stream of articles, books

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and research on commercial banks' lending policies. This is so because of the need for funds by both the private and public sectors for development purposes. Frankly, commercial banks do not have their individual lending policies but can adjust within the stipulated standard with an aim to utilise their customer's deposits to attain the goal of optimum profits. It is disheartening to the team that the efforts of various governments (federal and state) towards the attainment of self-sufficiency in industrial agricultural products have been on a persistent increase. There has been a great shortage of most of the essential food products and raw materials. There does not seem to be any significant improvement with regard to the output or productivity of the private sector. In the area of loans and advances, the people now cast doubt over the ratio rate of commercial and allied bank loans or credit schemes.

The findings of the study will be important to commercial banks, as they will be able to establish the effect of the various lending policy tools on their lending behaviour and, hence, understand their role in the attainment of desired economic growth for the country. The study will also be of importance to various stakeholders in the banking sector, including their bank's customers, who may be keen to know the causes of changes in the cost of borrowing. Understanding the effect of lending policy on the cost of borrowing would help consumers to make borrowing decisions. The study will also benefit the government as it provides insight into the effect of lending policies on the lending behaviour of commercial banks. The government partners with banks to ensure price, interest rates and exchange rates stability and enhance economic development through the provision of affordable credit.

METHODOLOGY

Study Design

This study adopts the ex-post facto research design and quantitative method of analysis as it is designed to investigate and analyse the impact of one or more explanatory variable(s) on another (dependent) variable using historical data. This research is designed premised on the topic of analysing the impact of deposit money banks' lending policies on private sector growth. The population of this study shall consist of the whole economy since the study investigates deposit money banks' lending policies and the private sector growth in Nigeria. However, the sample population will be drawn from available data representing variables stated in the objective of the study within the time frame of the study.

Sampling Procedure and Sample Size

The sampling technique adopted for this research is a random and non-probability sampling technique. "This is when whatever elements of the population that are available are selected as sample items, without following any specific subject selection process" (Esene, 2005). This sampling technique was adopted because all the items of the population were not available; hence, the researcher had to use those that were fully available.

Research Instrument and Data Collection

The study employed secondary data obtained and sourced from the Central Bank of Nigeria (CBN) statistical bulletin and also from the Central Bank of Nigeria's economic and financial review from 1995-2020. This study used deposit money banks' lending, inflation rate and total

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bank deposit to proxy the independent variable (deposit money bank lending) while the real gross domestic product was employed to measure the growth of private sectors (dependent variable).

Data Analysis

This study employed the multiple regression analysis with the Ordinary Least Squares (OLS) econometric technique of data analysis. This is because multiple regression analysis concerns itself with the description of cause-and-effect relationships between three or more variables. Specifically, multiple regression analysis explains the linear relationship between two or more variables, one dependent variable and two or more explanatory variables (Edoumiekumo, Karimo, & Tombofa, 2013).

In this study, using the multiple regression analysis with the OLS econometric technique for data analysis shall enable us to empirically verify whether a significant positive relationship exists between the dependent variable (gross domestic product) and the independent variables (deposit money banks' lending, inflation rate, total bank deposit) within a period of twenty-five years (25) years (1995-2020). Also, the numerical values of the model parameters are estimated via the Ordinary Least Squares (OLS) technique facilitated by the Econometric-Views (E-Views) application, a statistical software or package for empirical econometric analysis. It is imperative to note that the choice of OLS econometric technique is primarily because our model is a single equation model, and the OLS method possesses some optimal properties; its computational procedure is fairly simple, and it is also an essential component of most other estimation techniques.

Ethical Clearance

An application for ethical approval for this study was submitted to the Niger Delta University Research Ethics Committee.

RESULTS

The study focused on Nigeria over a period of 26 years (1995-2020). The study used the Manufacturing Sector GDP as a proxy for private sector growth and as the dependent variable, while Deposit Money Banks' Lending proxies were the independent variable, respectively.

Table 1 Deposit Money Banks' Lending.

YEAR	DMBL in (Billion Naira)
1995	8.66
1996	4.41
1997	11.16
1998	11.85
1999	7.50
2000	11.15
2001	12.34
2002	8.49
2003	11.25

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2004	34.12
2005	16.11
2006	24.27
2007	27.26
2008	46.52
2009	15.59
2010	16.56
2011	19.98
2012	22.58
2013	739.92
2014	988.59
2015	29.17
2016	43.78
2017	530.99
2018	200.07
2019	202.59
2020	107.52

Source: CBN Statistical Bulletin, 2020

Descriptive Statistics

The essence of carrying out descriptive statistics on the data series is to check whether the data is normally distributed or not. Table 2 shows the summary of descriptive analysis results for all the variables in the study in terms of the mean, the median, maximum, minimum, standard deviation and the number of observations, etc.

Summary of Descriptive Statistic Results

	DMBL
Mean	121.2646
Median	**21.28000**
Maximum	**988.5900**
Minimum	**4.410000**
Std. Dev.	**247.1480**
Skewness	**2.531783**
Kurtosis	**8.283863**
Jarque-bera	**58.02214**
Probability	**0.000000**
Sum	**3152.880**
Sum sq.Dev.	**152777053.**
Observations	**26**

Source: Author Computation from E*-views Output* ***Version 9***

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From Table 4.2 above, Deposit money banks' lending (DMBL) has a mean and median of N121 and N21 billion, respectively. The skewness of a normal distribution is zero. In terms of skewness, If the coefficient of kurtosis is above three, the distribution is peaked or leptokurtic relative to the normal, and if the kurtosis is less than three, the distribution is flat or platykurtic relative to normal. DMBL doesn't have a normal distribution.

Furthermore, the Jarque-Bera probability test also shows that the series is normally distributed at a 5% level of significance.

Test of hypotheses

Level of Significance (a) = 0.05

Decision Rule: Reject **Ho if** p-value $\leq$ 0.05 and accept **Ho** if p-value$\geq$0.05.

Hypothesis

Hoi: There is no significant impact of deposit money banks' lending on the manufacturing sector's gross domestic product in Nigeria.

DMBL has a probability value of 0.1773, which is greater than a 0.05 significance level, meaning that it is not statistically significant. Thus, the null hypothesis cannot be rejected. The study thus concludes that deposit money banks' lending does not have a significant impact on the manufacturing sector's gross domestic product in Nigeria.

DISCUSSION OF FINDINGS

Deposit money banks' lending has a positive but insignificant impact on the manufacturing sector's gross domestic product. This means a direct relationship exists between deposit money banks' lending and manufacturing gross domestic product in the short run. It could be observed that foreign direct investment in the manufacturing sector contributed 1.356271 to the gross domestic product. The implication is that for every unit change in deposit money banks' lending, there is a correspondent positive change in the manufacturing sector's gross domestic product

in Nigeria. This study is in line with the results obtained by Ebi and Emmanuel (2014), who captured the impact of commercial bank loans and advances to the agricultural and manufacturing sectors on the economic growth in Nigeria and found that commercial bank credits impacted positively and significantly on the manufacturing sub-sector in Nigeria. The implication is that in every unit change in monetary policy rate, there is a corresponding positive change in the manufacturing sector's gross domestic product. These results are in agreement with previous findings by Ogunmuyiwa, Okuneye, and Amaefule (2017). Using the Augmented Dickey-Fuller (ADF) test and the Autoregressive Distributed Lag (ARDL) model, their findings showed that bank credit to the private sector has a positive and significant impact on the manufacturing sector.

On its part, total bank deposits were also seen to have a significant effect on Nigeria's manufacturing sector's gross domestic product. It could be observed that the exchange rate on the manufacturing sector's gross domestic product contributed to 17.70825. The implication is

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that for every unit change in total bank deposits, there is a corresponding positive change in manufacturing gross domestic product in Nigeria.

These findings further strengthen and empirically verify the assumptions of the Finance-growth theory upon which the study was based, which states that a direct relationship exists between deposit money banks' lending and real sector growth.

CONCLUSION

The place of the private sector in the development of any nation's economy cannot be over-emphasised. The economic implication of the findings is that if something goes wrong with the banking institutions, the entire economy will be affected. In view of the above findings, this study concludes that money banks' lending policies are very sacrosanct to the growth of the private sector and, by extension, the overall wellbeing of the Nigerian economy. Having found banks are veritable financiers of the private sector, there should be policies that attach importance to the growth of the sector in Nigeria.

RECOMMENDATIONS

1. The monetary authority (CBN) should focus on initiating and implementing policies that will regulate banks' lending rates so as to forestall unnecessarily high rates that will deter investors.

2. The government should put in place policies that will encourage the overall improvement of banking activities since it is essential for the growth of the economy.

3. Policies should be formulated to extend the operation of the deposit money banks to rural communities; this will enable the financial institutions to mobilise the much-needed deposits and increase credit to the private sector.

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