NEXUS BETWEEN COMMERCIAL BANKS' LOAN TO MANUFACTURING SECTOR AND ECONOMIC GROWTH IN NIGERIA 1986 – 2018

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ABSTRACT
The main aim of this study is to analyze the effect of commercial banks credit to manufacturing sector on economic growth in Nigeria during period 1986 to 2018, employed the ARDL bound testing technique. It was found that commercial banks credit to manufacturing sector, economic growth, maximum lending rate and money supply have long-run relationship. Likewise, the short-run and long-run results revealed that commercial banks credit to manufacturing sector within the study period has a positive and statistically significant effect on economic growth in Nigeria. However, money supply and maximum lending rate have inverse and statistically significant effect on economic growth. Thus, the study recommended that, the policymaker should devise strategies that will ease the process and cumbersome commercial banks' credit to the private sector and also encourage commercial banks to increase their pool of credit to the manufacturing sector in Nigeria to aid more of their contribution to economic growth. It is also recommended that monetary policy committee should review the current monetary policy and the policymakers should also review the commercial bank's interest charge on money lend to manufacturing sectors in order to ease the doing of business and increase their revenue to enhance their contributions to economic growth and development.
KEYWORDS: ARDL, Commercial banks loan, Economic growth, manufacturing sector
JEL CLASSIFICATION: C32, G21, O40, L60

INTRODUCTION
The need to store wealth greatly increased the ability to borrow thus allowing the foundations of modern-day credit to emerge. The development of the banking industry was a milestone in the evolution of civilization. As international trade began to emerge so did the need to transfer sums of money. Both the banking industry and the monetary system fostered interaction among the peoples of the world thus sustaining international trade. This new age of interaction is regarded as one of the important foundations of civilization (Lambert, 2018). Banking means the business activity of accepting and safeguarding money owned by individuals and entities, and lending it out for profit. With the passage of time, the activities covered by banking business had widened to include various other services such as issuance of debit and credit card, providing safe custody of valuables items, Automated Teller Machine (ATM) services, and online transfer across the country/world (Yakubu & Affoi, 2014). Furthermore, commercial banks are financial institutions whose function is financial intermediation. They pool savings and channel them into investment through maturity and risk transformations, thereby keeping the economy's growth engine reviving (Yakubu & Affoi, 2014). Banking business has effectively contributed to the world economy by accepting deposit from savers and lending the same money to borrowers, thereby transforming bank deposits into credits (Yakubu & Affoi, 2014). The role of credit in economic growth has been recognized by various

economic agents as a source of augmenting their working capital (Sanusi, 2012). For instance, manufacturing firms obtain credit to buy machinery and equipment. Farmers collect loans to buy seeds, fertilizers, erect various kinds of farm buildings. Government bodies obtain credits to meet various kinds of recurrent and capital expenditures (Sanusi, 2012). Through these, banking system development fosters economic growth (King and Levine 1993, Bencivenga & Smith, 1991). Activities of the banking system are therefore of much interest towards achieving desired government economic goals (Lambert, 2018). To this end, various policy measures are often applied to activities in the sector since a weak banking sector may pose a threat to the growth of manufacturing sector, hence growth and development of any economy. Moreover, the banking sector helps in growing the economy by mobilizing surplus funds from savers who have no immediate needs of such funds and thus channel such funds in form of credit to investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital to execute the ideas (Nwanyanwu, 2010).

In addition, Nigerian banking sector has undergone a number transformation including liberalization, consolidation and post consolidation reforms, recapitalization policy, and mergers and acquisitions over the years all in a bid to be positioned to play its traditional role of deposit money banks more efficient to be able to finance large economic projects for both government and private sectors to enhance development (Central Bank of Nigeria, 2012 and Sanusi,2012). These reforms in Nigeria have been a regular feature which has evolved in response to the challenges posed by development in the financial system such as systematic crisis, globalization, technological innovation and financial crisis. Basically, these have tried to address the financial gap in the system, remove rigidities in the system of credit allocation to private sectors, control and achieve positive real interest rates and greater efficiency by the market operators in the intermediation process (Orimogunje, 2019). The manufacturing sector in Nigeria consists of large, medium and small-scale enterprises, as well as micro-enterprises. On attainment of independence, government embarked on transforming the country from its predominantly agrarian nature, into an industrialized economy through various policies and programmes as captured in the development plans. The share of the industrial sector therefore, grew from 11.3% of GDP in the period 1960-1970 to the peak of 41.0% during the period 1981-1990. It however, plummeted to 21.5% in the period 2011-2013, owing to various factors including policy inconsistencies and reversals, as well as infrastructural bottlenecks. Available evidence consequently showed that the contributions of the manufacturing sector to the GDP have declined over time from 6.6% in the period 1960-1970 to 4.1% in the period 2001-2010. It however picked up to 8.2% in the period 2011-2013. The declining share of the industrial sector, especially the manufacturing sector is worrisome as this has escalated the unemployment, poverty, crime and malnutrition situation in the country. The share of manufacturing total credit to the economy fell sharply, from 16.9% in 2006 to 10.6% in 2007, before rising to 12.6% in both 2008 and 2009. It then declined to 9.7% in 2010 and further fell to 7.02% in 2013 respectively.

Undoubtedly, these reforms in the Nigerian banking sector had impacted on the performance of the sectors. For example; the 2004 reform indicates that capital adequacy rate increased from 13.16% in 2004 to 21.25% in 2005 and from 10.24% in 2009 to 17.9% in 2011 while liquidity improved from 50.44 % in 2004 to 60.69% in 2005 and from 44.17% in 2009 to 69.1% 2011 respectively, and the ratio of nonperforming debt to total credit dropped from 23 in 2004 to 20% in 2005 and subsequent to 5% in 2011 respectively in the same period (CBN, 2011). As part of efforts toward unlocking the credit market and to ensure that credit flows to the real sector of the economy, the CBN established the N200 billion fund for re-financing/re-structuring of banks' existing loan portfolios to the manufacturing sector and SMEs (CBN, 2012). However, despite these reforms undertaken by the monetary authorities in Nigeria in order to reposition the financial sector towards performing a role of being a catalyst for economic growth through provision of credit facility to the manufacturing sector to increased contributions to national output, the economic growth has not been stable and in recent times has performed below expectation. Anyanwu (2010) affirmed that the rapid growth experienced in the financial sector in Nigeria has not impacted positively on the real economy as much as anticipated. Credit flow from the deposit money banks to the real economy has been grossly inadequate. Based on the above, the study is therefore guided by these principle questions: Does commercial banks' credit to manufacturing sector influences economic growth in Nigeria? What is the relationship between commercial banks' lending rate and economic growth in Nigeria? Moreover, this study intends to examine the contribution of commercial banks' credit to manufacturing sector on economic growth of Nigeria within the period 1986-2018. This period covered most of the reforms and development of banking industry, beginning from Structural Adjustment Programme (SAP) in 1986, banking consolidation reform of 2004 and the post consolidation reform which coincided with global economic recession in 2008, recapitalization, merger and acquisitions. The aimed of these reforms by successive government is to strengthen the banking sector capacity to adequately play its intermediary role between the surplus and deficit unit in the economy. The findings of this study would therefore reveal if all these development in the banking sector has contributed to economic growth in Nigeria within the study period.

LITERATURE REVIEW

Commercial banks are financial institutions whose function is financial intermediation. They pool savings and channel them into investment through maturity and risk transformations, thereby keeping the economy's growth engine reviving (Yakubu & Affoi, 2014). Commercial banks are deposit money banks that mediate finance from surplus to deficit in order to strengthen their cash reserve. Bank credit/loan has been viewed as borrowing capacity advanced by a commercial bank to an individual, firm, or an organization in the form of cash loans (Shan & Jianhong, 2006). Bank credit/loan is a carrying capacity of money deposit bank that it can give for certain predetermine charges. Manufacturing sector is one of the largest sectors of the economy that are engage in transformation of goods, substances or material into finished products or new products and vary by size and operations. Therefore, commercial banks credit to manufacturing sector is the financial borrowing capacity that financial institutions availed to

manufacturing industries in a way to improve or increase their productive outlet and increase contribution to gross national product to enhance economic growth and development. The deposit money bank credit plays an importance role to economic growth not directly but through the provision of surplus credit to deficit manufacturing industries that employed and contributed the largest share of the gross national products. Therefore, this study anchored Supply – Leading Hypothesis as the theoretical framework. The theory was built on the assumption that financial sector promotes real sector growth by transferring limited financial resources from small savers to large investors with respect to relative rate of return and leading proponent of the supply-leading hypothesis is Schumpeter (1912). He argued that financial intermediation through the banking system plays a pivotal role in economic development by affecting the allocation of savings, thereby improving productivity, technical change and the rate of economic growth. 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. According to Shan & Jianhong (2006) the supply-leading theory suggests that financial sector development drives the real sector of the economy. Therefore, countries with a well-developed financial system tend to grow faster than those with a poor financial system (Patrick, 1966).

Schumpeter's argument was later formalized by McKinnon (1973) and Shaw (1973). The McKinnon paradigm postulates that government restrictions on the operations of the financial system, such as interest rate ceiling, direct credit programs and high reserve requirements may hinder financial deepening, and this may in turn affect the quality and quantity of investments and, hence, have a significant negative impact on economic growth. Therefore, the McKinnon-Shaw financial repression paradigm implies that a poorly functioning financial system may retard economic growth. This assertion was supported by some empirical works such as King & Levine (1993), examined the link between financial development and economic growth of 80 countries during the period 1960-1989, used Ordinary Lease Square and found that financial development has predictive power for future growth of the economy in the long-run. Similarly, Olomola (1995) applied cointegration and Granger causality to Nigerian quarterly series data from 1962-1992 to test if the relationship between financial deepening and growth exist (test supply leading hypothesis), and discovered that bi-directional causality exits between financial sector of the economy to the real sector.

In other words, Shittu (2012) examines the impact of financial intermediation on economic growth in Nigeria between 1970 and 2010 using cointegration test and the error correction model and observed that financial intermediation is a significant determinant of economic growth in Nigeria. Similarly, Nwakanma, Nnamdi, & Omojefe (2014) evaluated the long-run relationship and the directions of prevailing causality between bank credits to the private sector and the nation's economic growth. The study employed the Autoregressive Distributed Lag Bound (ARDL) and Granger Causality and obtained that bank credits have significant long-run relationship with growth but without significant causality in any direction. Emecheta & Ibe (2014) examined the impact of bank credit on economic

growth in Nigeria, using vector autoregressive (VAR) model and results indicated a significant and positive relationship between bank credit to the private sector and gross domestic product (GDP).

Furthermore, Mamman & Hashim (2014) examined the impact of bank lending on economic growth in Nigeria for the period 1987 to 2012. The study employed multiple regression models and found that bank lending is a significant determinant growth. Yakubu & Affoi (2014) analyzed the impact of the commercial banks credit on economic growth in Nigeria from 1992 to 2012. Using the ordinary least square it was found that the commercial bank credit has significant effect on the economic growth in Nigerian. Ndubuisi, (2017) analyzed the impact of commercial banks sectoral credit allocation on the growth index of Nigeria economy. Using vector error correction model and result indicated that economic growth is a positive and significant function of credit to agriculture, manufacturing and general services. Orimogunje (2019) investigated the role of bank credit in the economic growth of Nigeria and inflation rate. Using Granger causality test and result showed that Domestic Credit and Net Domestic Credit have a statistically significant relationship on gross domestic product but no significant relationship on inflation In view of the above literatures, the focus are on the relationship between economic growth and financial development, financial intermediate, and bank credit to private sector in both developed and developing economy including (King & Levin, 1993; Olomola, 1995; Shan & Jianhong, 2006; Shittu, 2012; Nwakanman, Nnamdi, & Omoyefe, 2014; Emecheta & Ibe, 2014; Daniel, Oluwatobi, Taiwo & Julius, 2017; Ndubuisi, 2017; Orimogunje, 2019) but there is no know or accessible literature that have assessed the relationship between commercial banks credit or loan to the manufacturing sector on economic growth to the best of the researcher knowledge. It is in this regard that this study seeks to find out whether or not commercial banks loan to manufacturing sector have contributed to the economic growth of Nigeria. Therefore, gap identified, and the study attempt to used advanced method of analysis such as ARDL bound testing technique to determine whether the variables have long-run relationship and also examine the short-run and long-run relationships, conduct pre-test and diagnostics test to find a robust solution to the perceived gap for policy implications. This study is also an extension in terms of period covered

METHODOLOGY
This study employed quantitative research Design - a systematic empirical enquiry that require the use of secondary data which the researcher does not have the capacity to change its state or direction in the course of the study. The Gross Domestic Product (GDP) growth rate, commercial Banks Loan to Manufacturing Sector (BLMS), money supply (MSS) and maximum lending rate (MLR) spanning the period of thirty (33) years (1986-2018) were sourced from central bank of Nigeria's (2018) statistical bulletin. The rationale of selecting this time series data is because; it covers the major banking reforms in Nigeria. GDP growth as dependent variable of the study, while Explanatory variables include, BLMS, MLR and MS.

Model Specification

The model for this study is specified in the following functional form:
GDP = f (BLMS, MLR, MS). The behavioral equation is hereby given as:
$GDP_t = b_o + b_1 log(BLMS_t) - b_2 MLR_t + b_3 log(MS_t) + U_t$ .... (1)
Where: GDP = Gross Domestic Product. BLMS = Bank Loans to the Manufacturing Sector
MS = Money Supply. MLR = Maximum Lending Rate. LOG = Natural logarithm. b_o = Model intercept. $b_1 – b_3$ = Coefficients of the independent variables. U_t = Error term. Economic theory stipulates that Bank Loans to the Manufacturing Sector (BLMS) and Money Supply (MS) could have a positive contribution to economic growth of a nation, while Maximum Lending Rate (MLR) which is the maximum prime lending rate at which banks lend money is expected to have an inverse relationship with economic Growth. That is: BLMS, MS > 0 and MLR < 0

DISCUSSION OF RESULTS

After data were sourced there is need to show the behavior of the variables during the review period, presented in table 2.

Table 1: Descriptive statistics

Statistics	GDP	MLR	MS	BLMS
Mean	4.424375	23.19281	3.055925	2.172694
Maximum	33.74000	36.09000	4.382749	3.348441
Minimum	-10.75000	12.00000	1.376759	0.653213
Std. Dev.	7.139063	4.753187	0.981519	0.873913
Skewness	1.775307	0.501559	-0.198063	-0.376582
Kurtosis	10.66045	3.726957	1.738382	1.848619
Jarque-Bera	95.05257	2.046282	2.046282	2.523913
Probability	0.000000	0.359464	0.311695	0.283100
Observations	33	33	33	33

Source: Authors' computation using e-views 10

Table 1 shows the result of mean, maximum, minimum, standard deviation, skewness, kurtosis, and Jarque-bera for 33 observations. It was observed from the summary statistics with reference to the Jarque-Bera estimates and probability values for MLR, MS and BLMS were normally distributed due to their high probability value of 0.359464, 0.311695 and 0.283100 which are higher than 0.05. This means that the results are not be biased. However, GDP is not normally distributed because the probability value 0.000000 which is less than 0.05. The next step is to test the individual variable behavior, whether they are stationary or not to determine the choice of the analysis, presented in Table 2

Table 2: result of Unit root test

Variables	Prob.	Lag	Lag max.	Obs	Integration
GDP	0.0013	0	7	31	I(0)
MLR	0.046	0	7	31	I(0)
D(MS)	0.0324	1	7	30	I(1)
BLMS	0.0117	5	7	21	I(0)

Source: Authors' computation using e-views 10

Table 2 exhibits the result of the Augmented Dickey-Fuller (ADF) unit root test for the series of variables. The tests compare the null hypothesis of the series "has a unit root" against the alternative hypothesis that the series "does not have a unit root". The results revealed that GDP, MLR, and BLMS are stationary at levels while MS is stationary at first difference. Overall, the series (GDP, MLR, MS and BLMS) are mixture of I(0) and I(1). This therefore validates the use of ARDL bound testing technique to estimate the relationship between the variables. Furthermore, since the variables are stationary at a different level of integration which confirm the use of ARDL model. However, before conducting the analysis variables have to be tested for multicollinearity. Showed in table 3.

Table 3: Result of Multicollinearity test

Variables	Coefficient Var	VIF Uncentered	VIF Cantered
GDP(-1)	0.039575	1.636150	1.168076
MLR	0.121214	40.41952	1.298965
MLR(-1)	0.107358	34.19271	1.294426
MS	0.500023	91.99283	1.587341
MS(-1)	0.472532	85.52277	1.750402
BLMS	0.689116	28.42219	1.471837
BLMS(-1)	0.975529	27.54245	1.747353

Source: Authors' computation using e-views 10

Table 3 shows the result of multicollinearity. VIF illustrated that the variance of the variables i.e. GDP, MLR, MS, and BLMS are not inflated by the presence of multi-collinearity I.e. no linear relationship exists among these variables confirm by the coefficient of variance for each variable which is statistical insignificance and VIF cantered values are also 1. In this manner, below is the ARDL bound test result given in Table 4.

Table 4: ARDL bound testing for Co-integration

Critical values				T- statistics
1%		5%		F-statistics
I(0)	I(1)	I(0)	I(1)	K – 1 (3)
3.65	4.66	2.79	3.67	3.68

Source: Authors' computation using e-views 10

From the bound testing result presented in table 4, it shown that the computed f-statistics (3.68) exceeds the upper bound I(1) at 5% level of significant. This, therefore, implies that we can reject the null hypothesis of no co-integration (long-run relationship), and conclude that there exists a significant long-run relationship between GDP and BLMS, MLR and MS. Haven proved the presence of co-integration between the dependent variable and explanatory variables, there is a need to know the optimal lag length, illustrated in table 5

Table 5: Lag selection

Lag Number	AIC	SC
0	12.87682	13.06541
1	6.318725*	7.261688*
2	6.561779	8.259112
3	6.578873	9.030576

Source: Authors' computation using e-views 10

Table 5 reveals the result of Akaike and Schwarz information criterion of lag selection. It was indicated that the optimal leg is 1 mark with an asterisk for both AIC and SC. Based on this, the ARDL model was estimated based on the Akaike information criterion (AIC), the optimal lag selection was given (1,1,1,1).

Table 6: Long-Run Estimates

Dependent Variable: GDP

Variable	Coefficient	T-statistics	Prob.
C	12.58879	8.155084	0.0000
MLR	-0.184810	-3.403750	0.0025
MS	-7.887490	-4.602724	0.0001
BLMS	9.561579	4.983413	0.0000

Source: Authors' computation using e-views 10

The long-run result posed in table 6 suggests BLMS has a positive and statistically significant effect on GDP. However, a negative and statistical significance relationship exit between GDP, MLR and MS within the study period. Furthermore, the estimated long-run result reveals that BLMS has a positive and statistically significant effect on GDP. This implies that a percentage increase in BLMS result in an average of 9.56% increase in GDP holding other variables contact. This corroborate the findings of previous studies (Nwakanma, Nnamdi & Omojefe, 2014; Mamman & Hashim, 2014; Emechta & Ibe, 2014; Fapetu & Obalade, 2015; Daniel, Oluwatobi, Taiwo & Julius, 2017; Ndubuisi, 2017; Orimogunje, 2019). This can mean that in order to achieve maximum economic growth, commercial banks loan to the manufacturing sector needs to be better prioritised. However, MLR and MS have a negative and statistical significance effect on GDP. Specifically, a percentage change in MLR and MS leads to an average of 0.18% and 7.89% decreases in the GDP holding other variables constant. This is a demonstration that for a government to accomplish the ultimate economic growth, the maximum lending rate has to be kept low in order to encourage borrowing and money supply has to be frequently checked by the monetary authority because excessive of it distorted economic growth. This drastically measures have to maintain so as to allow uninterrupted economic growth in the economy.

Table 7: Short-Run Estimates

Dependent Variable: GDP

Variable	Coefficient	T-statistics	Prob.
C	10.38267	8.237721	0.0000
GDP(-1)	-0.824755	-4.145860	0.0004
D(MLR)	-0.261117	-5.422090	0.0000
MLR(-1)	-0.269948	-3.594562	0.0017
D(MS)	-19.91070	-5.140881	0.0001
MS(-1)	-6.505249	-4.609291	0.0002
D(BLMS)	15.68304	5.320380	0.0001
BLMS(-1)	7.885962	0.497561	0.6235

Source: Authors' computation using e-views 10

Accordingly, the short-run results expressed in table 7 indicate that current and lag values of BLMS have an appreciable effect on GDP but only in the current period is statistically significant. That is, a percentage increase in the current and lag values of BLMS lead to an average of 15.68% and 7.89% increase in GDP holding other variables constant. This is in line with the discoveries of (Koivu, 2002; Mishra, 2009; Yakubu & Affoi, 2014; Mamman & Hashim, 2014; Emechta & Ibe, 2014; Fapetu & Obalade, 2015; Daniel, Oluwatobi, Taiwo & Julius, 2017; Ndubuisi, 2017; Orimogunje, 2019), opined that bank lending is a passive and significant determinant of economic growth. Equally, the current and past values of MLR and MS and past or lag value of GDP influence GDP in Nigeria negatively and statistical significance. Specifically, a one percent increase in the current and previous values of MLR and MS leads to an average of 0.26, 0.27, 19.91 and 6.51 decreases in GDP growth in Nigeria holding other variables fixed. Henceforth, we proceed to test for the classical assumptions of the model employed to avoid spurious regression. Presented in table 8.

Table 8: Diagnostic test

Test statistics	Value	Prob.	Decision
Autocorrelation	3.149332	0.2071	Reject H_o
Heteroscedasticity	5.472343	0.6025	Reject H_o
Normality	0.780221	0.676982	Reject H_o
Ramsey RESET	0.022464	0.9823	Correct specify
CUSUM			Stable
CUSUMQ			Stable

Source: Authors' computation using e-views 10

The diagnostics results reported in table 8 shows that the model employed passes the diagnostic test including autocorrelation, heteroscedasticity, normality, Ramsey RESET, the cumulative sum of recursive residual and cumulative sum of square recursive residual. In addition, Ramsey RESET shows that the model is correct specification confirms by the probability value less than 5%. Similarly, the plot of the Cumulative Sum of Recursive Residuals (CUSUM) and Cumulative Sum of Squares of Recursive Residuals (CUSUMQ) (find in the appendix) which lies within the 5% significant lines/critical boundaries, therefore confirms the stability of the model.

CONCLUSION AND RECOMMENDATION

Over the years the banking sector in Nigeria has been undergoing a cycle of transformation in a bid to be positioned to accomplish its developmental role. These transformations range from liberalization to consolidation and post-consolidation reforms. The aim of these structural changes was to make deposit money banks more efficient to finance large economic projects for both government and private sectors. However, despite these, the contribution of deposit banks to economic growth in Nigeria stands shallow and a number of literature and theories maintain that effective and sound financial systems contribute meaningfully to economic growth. It was on this ground this study was conducted to examine the contribution of money deposit banks to economic growth from 1986 to 2017 covering period of consolidation and post-consolidation in

Nigeria. The ARDL bound test was employed and discovered that money deposit banks can influence economic growth both in the short-run and long-run in Nigeria. This outcome validates some of the theoretical framework of this study including the financial intermediate and Schumpeter theory which asserted that efficient financial intermediate reduces cost of channelling funds between borrowers and lenders, leading to a more efficient allocation of resource. Base on the findings, this study recommended the followings:

The policymaker should encourage commercial banks to increase their pool of credit to the manufacturing sector in Nigeria to aid more of their contribution to economic growth. Since commercial banks loan to the manufacturing sector was discovered to have a significant and positive effect on economic growth. Policymakers should also devise strategies that will ease the process and cumbersome of commercial banks' credit to the private sector in order to allow the growing of the infant industry and their contributions to economic growth. The monetary policy committee should review the current monetary policy and the policymakers should also review the commercial bank's interest charge on money lend to manufacturing sectors in order to ease the doing of business and increase their revenue to enhance their contributions to economic growth and development. This is because the maximum lending rate was observed to have a decline effect on economic growth. The government should provide a mechanism or measure to manage the inflationary pressure of money supply which harms the growth of the economy because the supply of money was found to exhibit an inverse and statistically significant effect on the growth of economic in Nigeria within the study period.

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