



Domestic Finance and Economic Growth in Nigeria. (1990-2022)

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Abstract

This study investigated the effect of Domestic Finance on economic growth in Nigeria over the period 1990 – 2021. To achieve the objectives of the study, domestic finance was disaggregated into deposit money bank lending to the private sector, and public sectors, while the economic growth was proxied by real GDP. The research design employed was *an ex-post facto* research design. The study employed the ARDL method of data analysis due to mixed order of stationarity of the variables. The finding shows that banks' lending to the private sector, exhibited more positive effect on economic growth than lending to the public sector. Based on the findings, the study concludes that domestic finance has significant effect on economic growth in Nigeria and recommends increased DMBs lending to the private sector, reduced lending to the public sector as possible ways to stimulating economic growth in Nigeria.

Key words Economic growth, public sector, Private Sector

1. Introduction

The lifeblood of any business is said to be financed, without which businesses cannot carry out activities needed to achieve their objective. Domestic financing is one of the financing options available to companies for running and growing their business concern. Domestic financing is the use of external funds to finance the activities of an organization to increase the profitability of the organization; it is the proportion of debt in the capital structure (Racheal, Chelichi& Raymond, 2017). Domestic financing plays an important role to increase the future productivity of firms and more important for future growth. Domestic financing is the use of fixed costs of assets or sources of funds to magnify returns accruing to the owners of a firm (Onyenwe& Glory, 2017). Changes in leverage result in changes in the level of return and associated risk or degree of obligations (Owualah, 2010). According to Burrasca, Susan, Anne, and Jason (2015), debt financing is a means of financing a business by borrowing money and not giving up ownership. Financing a firm through debt provides it with an opportunity for growth through expansion when used appropriately without affecting the firm's ownership. This will be preferred by firms that do not want to dilute their shareholding in the firm by issuing new shares. Domestic Finance works to support equitable and sustainable economic growth and financial stability through policies to increase the resilience of financial institutions and markets, and to increase access to credit for small businesses and low-to-moderate-income communities.

This paper therefore investigates the contribution of domestic finance on economic growth in Nigeria from 1990 to 2021.

The rest of the paper is structured as follows: First the paper reviewed some previous works by other scholars that are related to the problem we are examining, including the theory of financial development and how it effects the performance of banks and the economy. Also, the methodology of the study is revealed in addition with our model specification. The facts are revealed in the next section and findings discussed. This is followed by conclusion and recommendations.

2. Literature Review

Let us begin our explanation of the literature by exposing the two theories that are relevant to the work, viz: financial development theory and the financial intermediation theory.

Financial Development Theory

Financial development theory was credited to the work of Shaw and McKinnon in 1973. The theory states that financial liberalization can exert a positive effect on growth rate as interest rates and exchange rates level rise towards market equilibrium when resources are efficiently distributed. Shaw (1973) and McKinnon (1973) posited that positive real deposit rates raise the saving rate; increase financial deepening; raise investment and thus growth. The theory was developed to examine the relationship between economic growth and financial development'. In doing this, they hypothesized two leading hypotheses; the "demand leading", which posits that financial development accretes as the economy improves; and a "supply-leading" phenomenon, in which the general growth of financial institutions leads to an economic growth increase. Thus, financial development is a function of economic growth concerning the demand for financial services and vice versa (Patrick, 1966). For Mckinnon (1973) financial development through liberalization lead to unified financial markets and the best strategy is to let interest rates and exchange rate freely fluctuate (Kisaka, Adhianbo, Hdegeand, & Muio, 2015). The efficacy of the Financial Development theory is a predicament in some leading finance-oriented reforms like financial liberalization. The theory is suitable for the study because it asserts that through financial liberalization, the output of different sectors of the economy can be increased for improved economic growth if the regulatory authorities allow financial institutions to operate smoothly by the invisible hand.

Financial Intermediation Theory

The theory of financial intermediation was developed from the 1960s to the twentieth century, the starting point being the work of Gurley and Shaw (1960). The theory, which largely builds on the economics of imperfect information, was further developed in the 1970s through the contributions of Akerlof (1970), Spence (1973), and Rothschild and Stiglitz (1976). The modern theory of financial intermediation analyzes, mainly, the functions of financial intermediation, how financial intermediation influences the performance of banks and the economy, and the effects of government policies on the financial intermediaries. It highlights the role of financial intermediaries in the economy, and the impact of regulations on financial intermediation, accentuating the role of the central bank in the regulation, supervision, and control of financial intermediaries (Andrieş, 2009). The theory argues that financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders. Financial intermediaries thus assist the efficient functioning of markets, and any factors that affect the amount of credit channeled through financial intermediaries can have significant macroeconomic effects. Claus and Grimes (2003) clarified that two strands in the literature formally explain the existence of financial intermediaries. The first strand emphasizes financial intermediaries' provision of liquidity. The second strand focuses on financial intermediaries' ability to transform the risk characteristics of assets. In both cases, financial

intermediation can reduce the cost of channeling funds between borrowers and lenders, leading to a more efficient allocation of resources. Andrieş (2009) identified three key approaches to financial intermediation. The studies regarding the informational asymmetry approach especially the problematic relationships between banks and creditors, respectively bank and debtors. In the relationship between bank and borrower, the main aspect analyzed is the function of the selected bank and the tracking of the granted loans, as well as the problematic of adverse selection and moral hazard. In the relationship between banks and depositors (creditors), special attention is given to the factors that determine depositors to withdraw their money before the due date. The second approach to financial intermediation is founded on the argument of transaction cost. Unlike the first approach, this one does not contradict the theory of perfect markets. This approach is based on the differences between the technologies used by the participant.

Thus, intermediaries are perceived as being a coalition of individual creditors or debtors who exploit the scale economy at the level of transaction technologies. The notion of transaction cost does not comprise just the costs regarding the transfer costs for the amounts or of foreign exchange, but also those for research, evaluation, and monitoring thus the role of financial intermediaries is to transform the characteristics (due date, liquidity, etc.) of assets, the so-called qualitative transformation of financial assets, offering liquidity and opportunities for diversification of placements. The third approach of financial intermediaries is based on the method of regulation of the monetary creation, saving, and financing of the economy (Andrieş, 2009).

Most scholars have agreed that there is a relationship between debt financing and economic growth. However, scholars have differed on the direction of causality between debt financing and economic growth. To examine the relationships that exist between debt financing and economic growth, previous studies have used several analytical approaches, and some of these studies are reviewed in this section as follows:

Olukemi (2022) examined the effect of domestic financing on economic growth in Nigeria. The study was reviewed empirically between the period of 1990 to 2020. The study specified a simple linear regression model to establish the relationship between the independent variable (domestic financing measured by bank loans to the private sector and bank loans to the public sector) and the dependent variable (economic growth measured by Gross Domestic Product). The ordinary Least Square method was therefore used to estimate the parameter of the model. The result of the study showed that bank loans to the private sector and bank loans to the public sector contribute positively and significantly to Gross Domestic Product in Nigeria. The study concludes that domestic financing can cause growth in the Nigerian economy.

Olamileke, Olufemi, and Oludare (2022) examined the effect of domestic financing on economic growth in Nigeria from the period of 1985-2012. The study made use of the autoregressive distributed lag (ARDL) model as the econometric method of estimation. The inferences were drawn at a 5% significant level. The result revealed that government expenditure had a positive and significant impact on Gross Domestic Product in Nigeria. The findings also showed that bank loans to the private sector have a positive and significant effect on Gross Domestic Product in Nigeria. The study concluded that domestic financing contributed significantly to the diversification of the Nigerian economy. The study suggested that government should make deliberate efforts to create institutions that will make policy programs on development not only to enhance its growth and the overall output growth but also to make it inclusive.

Omimakinde and Onifade (2022) examined the relationship between domestic debt and economic growth in Nigeria. The results revealed that domestic debt does not have a significant impact on economic growth in the short run but a significant negative impact in the long run. The government should therefore monitor the disbursement of loans on real growth-enhancing capital projects

instead of recurrent expenditure. Also, the government should formulate policies aimed at increasing her ability to generate more revenue to meet her expenditure demand.

Olawuni and Oyeladun (2022) examined the impact of credit to the private sector (CPS) on the real sector of Nigeria to assess the significant contribution of credit to the private sector to real sector growth in Nigeria. The study used aggregate time series data from 1986 to 2010, which was drawn from the Central Bank of Nigeria (CBN) statistical bulletin and CBN annual report and statement of accounts. The data were analysed using multiple regression and based on the coefficient of determination (R square), the study reveals a 96.1% variation between the credit to the private sector and real sector growth in Nigeria. The study concluded that there is a statistically significant impact of credit to the private sector on the real sector of Nigeria. This suggests that the performance of the real sector is greatly influenced by credit to the private sector. The study recommended that the federal government of Nigeria through the Central Bank of Nigeria (CBN) should enhance the financing of the real sector.

Nakijoba and Selotlegeng (2022) analysed the private sector credit-economic growth nexus in Uganda using the Fully Modified Ordinary Least Square (FMOLS). The method was applied to quarterly data spanning from 2000: Q1 to 2018: Q4. The study found a cointegrating relationship between economic growth and its selected determinants. Amongst others, findings from the error correction model confirmed a positive and statistically significant effect of private sector credit on output. Given the financial intermediation roles of deposit money banks, the study supported the ongoing efforts of the Central Bank of Uganda (BoU) in promoting a sound and real sector-friendly financial system. Also, the commitment of the bou to the gradual reduction in interest rates is meaningful for the country's growth objectives.

Okezie and Enyeribe (2022) examined private sector credit and investment on economic growth in Nigeria (1988-2018). Secondary data used were sourced from the CBN bulletin. A linear relationship is established between economic growth proxied by GDP the dependent variable and the independent variables of the study which include foreign portfolio investment, foreign direct investment, Nigerian lending interest rate, and private sector credit. Data generated were analysed with the econometric statistical package E-View 10. Test statistics used were the Augmented Dickey-Fuller (ADF) unit root test and Autoregressive Distributed Lag (ARDL) model. ADF unit root test showed that variables in the model were integrated at order one, $I(1)$, and $I(0)$. Findings from the long and short-run regression estimate of the ARDL model showed that the probability of T- statistics of the Private Sector credit is significant while that of Foreign Direct Investment, Foreign Private Investment, and Nigerian Lending Interest rate were insignificant. This led to the conclusion that Private Sector Credit significantly increases GDP, while Foreign Direct Investment, Foreign Portfolio Investment, and Nigerian Lending Interest rates are not. The bound test for Co-integration showed that the relationship is sustained in the long run. The Error Correction Coefficient (ECM) $CointEq(-1)$, is -0.47048, it showed that the model corrects its previous periods' disequilibrium at a speed of 47% estimated annually. The study therefore recommended that the Nigerian government needs to formulate policies that; would encourage private sector investment, enhance saving, and stabilize interest rates to improve the confidence of foreign investors in the economy, as this might lead to sustainable economic growth in Nigeria among others.

Achumu, Ezirim Chinedu and Chekwa (2022) investigated the effects of agricultural financing by both the government and the private sector banks on the gross domestic product of Nigeria, using the Bayesian VAR methodology against annual data from 1981 to 2019. The results indicated that the agriculture credit guarantee scheme funding significantly and positively affects the aggregate

national output of Nigeria. The non-government guaranteed direct loans and advances from the banks to the agricultural sector significantly and positively affect the aggregate national output of Nigeria. The real contribution of direct government expenditures on the agriculture sector to the gross domestic product is positive, but not significant. The recommendations favor the continuation and strengthening of the ACG Scheme and the encouragement of the relevant development and commercial banks by the government and the Central Bank of Nigeria to increase lending to the agricultural sector through moral suasion and deliberate policy.

Obi-Nwosu, Ananwude, and Ezeaku (2022) examined the effect of commercial banks' credit to agriculture on the agricultural sector's contribution to Nigerian real gross domestic product from 1986 to 2020. Specifically, this study ascertained the effect of commercial banks' credit to agriculture, inflation rate, and interest rate on the agricultural sector's contribution to real gross domestic product. The Autoregressive Distributive Lag (ARDL) was the econometric tool of analysis employed using data sourced from the statistical bulletins of the Central Bank of Nigeria (CBN). The findings of this study in its totality unveiled statistically that commercial banks' credit to agriculture does not affect the sector's contribution to real gross domestic product. In light of the findings, there is a critical need for commercial banks to increase loans to agricultural enterprises through a reduction in interest rate charges for agricultural purposes, which in turn permits greater economic growth and development. The Central Bank of Nigeria can encourage this through a reduction in the monetary policy rate which inflicts the high-interest rate charged by the commercial banks. The Central Bank of Nigeria can also appeal to commercial banks to reduce their collateral requirements to encourage more farmers, especially rural farmers to have access to finance for agricultural production.

Chi, Chinyere, Dobb, Inga, and Josaphat (2022) investigated the impact of bank credit on agricultural productivity in the Central African Economic and Monetary Community (CEMAC) from 1990 to 2019. Agricultural value added (AGRVA) to the gross domestic product (GDP) proxied agricultural productivity while domestic credit to the private sector by banks (DCPSB), broad money supply, land, inflation (INF), physical capital (PH, KAP) and labour supply are explanatory variables. The autoregressive distributed lag technique was utilized. The co-integration test results show a long-run co-integration among the variables. The findings disclose that DCPSB, land, and PHKAP impact positively on the AGRVA. Broad money supply, INF, and labour impact negatively on the AGRVA to the GDP. The results suggested that the CEMAC governments should encourage effective ways to increase bank credit flow to private enterprises in the agricultural sector through efficient bank intermediation. The governments should create more agricultural banks and improve the operation of existing ones to ensure direct credit to agricultural activities. The Bank of Central African Economic and Monetary Community should apply an aggressive policy that eliminates all the bottlenecks undermining credit flow to the private sector in mutualism with agricultural productivity.

Ejike (2022) carried out a study on "Implications of public sector budget deficit financing on Economic growth in Nigeria" with the intention of ascertaining which financial options out of many financial alternatives are the best for the Nigerian government. The research work considered the cost and risk associated with each finance option over the period 2003-2018. After a review of several works of literature and appropriate theories, the empirical analysis was carried out. The work employed regression analysis using log-linear of real GDP as the dependent variable and explanatory variables (Bank credit to government- BCG, Non-bank public credit - NBP, ways and means - WM, and external deficit financing - EXDF). The result revealed that budget financing through bank credit and the non-bank public is positively proportional to the growth rate of the Nigerian economy. It further showed that financing through ways and means is inversely related

to real GDP growth. The result for external financing exhibited an inverse relationship with the growth rate of the Nigerian economy but the coefficient of EXDF was not statistically significant. It was recommended that government should weigh the risks associated with external borrowing as well as consider the medium and long-term repercussions of a possible default on debt servicing.

Alzyadat (2021) investigated the impact of sectoral bank credit facilities provided by commercial banks on the non-oil economic growth in Saudi Arabia. Bank credit facilities are given for nine economic sectors: agriculture, manufacturing, mining, electricity and water, health services, construction, wholesale and retail trade, transportation and communications, services, and finance sector. The study employs annual data from 1970 to 2019. The study employs the Autoregressive Distributed Lag (ARDL) approach to identify the long-run and short-run dynamics relationships among the variables. The main results revealed that the overall impact of total bank credit has a significant and positive effect on non-oil economic growth in KSA. The results revealed that the effect of bank credit on the non-oil GDP growth in the short and long run was uneven. The study found that all sectors have a positive and significant impact in the long run, except for the agricultural and mining sectors. Likewise, all sectors have a positive and significant impact in the short run, except for construction, finance, services, and transportation & communications. As a result, bank credit facilities in different sectors have played an important role in enhancing the non-oil economic growth in the KSA.

Cole and Akintola (2021) investigated microfinance banks and economic growth in Nigeria from 1999 to 2018. Secondary data were obtained from the Central Bank of Nigeria Statistical Bulletin. Data obtained were analyzed using ordinary least square regression techniques. The result of the estimation regression showed that there is a positive relationship between microfinance bank credit and real gross domestic product which represents economic growth. The study, therefore, recommended that microfinance should be involved in community activity projects to increase the level of economic growth and development in Nigeria.

Bezemer, Ryan-Collins, Lerven and Zhang (2021) examined their theoretical case and post-war use and trace their demise during the wider market-oriented policy reconfiguration from the 1980s. Notably, this included homeownership policies favouring mortgage markets. The study then examined the empirical relationship between credit policy and credit allocation in the 1973–2005 period for 17 advanced economies. Taking account of co-integration, the study presented evidence that the decline of credit policies is significantly associated with a lower share of lending to non-financial firms. It may be worth revisiting the potential of credit policies to support adequate financing for goals such as innovation, industrial development, and the transition to a low carbon economy.

Ugah (2021) examined the relationship between financial sector liberalization and agricultural sector output in Nigeria using annual data spanning the period 1986-2020. Specifically, the objectives of the study are to examine the relationship between lending rate, exchange rate, commercial bank credit to agriculture, inflation rate, and agricultural sector output in Nigeria. An ex-post facto research design was employed, and the annual time series data were collated from the Central Bank of Nigeria (CBN) Statistical Bulletin. The econometrics methods of unit root, co-integration, and error correction mechanism were used for the analyses. The outcome of the ADF unit root test show that the variables were stationary. Also, the co-integration result showed that there exists cointegration among the variables in the model. The results from Error Correction Model indicated that lending rate and inflation rate have a negative relationship on agricultural sector output while exchange rate and commercial bank credit to agriculture have a positive relationship on agricultural sector output. Based on these results, this study recommended that government and policymakers in Nigerian should initiate policies that will boost investments in

the agricultural sector through direct provision of credits to agriculturists and banks should also lend at a very low and subsidized interest rate to enable farmers' access agricultural loans that will boost agricultural productivity in the economy.

3. METHODOLOGY

Research design employed for this study is ex-post-facto. The study is non - experimental but seek to investigate the causal relationship between deposit money banks and economic growth in Nigeria. Secondary data was adopted to explain the effect of deposit money banks relationship on economic growth in Nigeria. The data for this study is obtained from Central Bank of Nigeria (CBN) statistical bulletin. Autoregressive distributed lag (ARDL) was employed in analysing the data. Unit root Augmented Dickey–Fuller Procedure (ADF) was adopted in other to avoid a spurious result. The study adopted unit root Augmented Dickey–Fuller Procedure to test the stationarity of the variables.

Model Specification

This section develops and specifies the model to be adopted to empirically determine the effect of domestic financing on economic growth in Nigeria. Theoretically, the analytical framework of this study is hinged on the Endogenous growth model of Romer (1986) which recognized the critical role of financial services in the growth process. In furtherance, to achieve the objectives of this study and to help improve the efficiency of the economic estimates, a multiple regression model was adopted in this study while the model was adopted from the work of Olukemi (2022) with slight modifications to incorporate all the variables of this study in line with the broad aim and specific objectives of this study. The original model of Olukemi (2022) in her study on the empirical effect of domestic financing on economic growth in Nigeria is presented as follows:

$$GDP = \beta_0 + \beta_1BLPS + \beta_2BLPU + U_t \quad (3.1)$$

Where;

GDP = Gross Domestic Product (measure of economic growth).

BLPS = Bank loan to private sector

BLPU = Bank loan to public sector

β_0 = the intercept or constant variable

$\beta_1 - \beta_2$ = coefficients of the independent variables (proxies of domestic financing)

U_t = Error or disturbance term

Functional Model

The functional form of the model is specified as follows:

$$GDPR_t = f(DMBLP_t, DMBLG_t)$$

Mathematical Model:

Equation (3.2) is transformed into a mathematical model as follows:

$$GDP_t = \beta_0 + \beta_1DMBLP_t + \beta_2DMBLG_t$$

Econometric Model:

Equation (3.3) is transformed into an econometric model as follows:

$$GDP_t = \beta_0 + \beta_1DMBLP_t + \beta_2DMBLG_t$$

Where:

GDP = Gross Domestic Product, Economic growth is represented by GDP.

DMBLP = Deposit Money Bank lending to private sector

DMBLG = Deposit Money Bank lending to public sector

β_0 = Regression Intercept

β_1 = Parameter or coefficient of Deposit Money Bank lending to private sector

β_2 = Parameter or coefficient of Deposit Money Bank lending to public sector

t = time subscript

μ_t = disturbance term which is a random (stochastic) variable that has well defined probabilistic properties.

The *a priori expectation* is to be based on whether the parameter conforms to economic postulations (theory) or not. The a priori results relates to the expectation or relationship between variables in the model. The expected nature of relationship among all the variables involved in this study (a priori expectation) is summarized in table 1 below:

Table 1: A Priori Expectation

Equation of the Hypothesized Relationship	Abbreviation	Parameters	Expected Sign	Conclusion
$GDP = \beta_0 + \beta_1 DMBLP + \mu_t$	DMBLP	β_1	Positive (+)	$\beta_1 > 0$
$GDP = \beta_0 + \beta_2 DMBLG + \mu_t$	DMBLG	β_2	Positive (+)	$\beta_2 > 0$

Source: Researcher Idea in Line with Economic Theory.

Variable Description

Operationally, the variables of this study are classified as dependent (explained) variable and independent (explanatory):

Dependent (Explained) Variable

In this study, the dependent (explained) variable is economic growth. However, economic growth is measured by Gross Domestic Product:

Gross Domestic Product (GDP): According to Amaewhule and Ezeoma (2022) Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time. Gross Domestic Product (GDP) can be expressed in nominal or real terms. Real GDP takes the value of goods and services produced in the country, but it considers changing prices to remove the effect of rising prices over time, otherwise known as inflation.

Independent (Explanatory) Variables

For this study, the independent (explanatory) variable is domestic financing. Domestic financing is proxied by Deposit Money Bank lending to the private sector, Deposit Money Bank lending to the public sector,

Deposit Money Bank Lending to Private Sector: This refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, trade credits, and other accounts receivable, that establish a claim for repayment.

Deposit Money Bank Lending to Public Sector: This includes financial resources provided to the public sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. In economic theory, Deposit Money Bank lending to the public sector is expected to have a positive relationship with Gross Domestic Product in Nigeria.

Table 2. Descriptive Statistics

Statistic	GDPR (%)	DMBLP(#b)	DMBLG(#b)
Mean	4.32	8414.77	515.16
Median	4.43	2064.51	304.21
Maximum	15.33	32868.49	2348.89
Minimum	-2.04	33.55	1.00
Std. Dev.	4.02	10131.70	621.38
Skewness	0.44	0.94	1.31
Kurtosis	3.29	2.58	3.88
Jarque-Bera	1.12	4.98	10.18
Probability	0.57	0.08	0.01
Sum	138.2700	269272.7	16485.12
Sum Sq. Dev.	500.3573	3.18E+09	11969421
Observations	32	32	32

Source: Computed Result

The descriptive statistics result in table 2 indicates that real gross domestic product grew at a mean value of 4.32% while deposit money banks credit to the private sector, public sector, grew at average rate of 8414.77billion, #515.16billion, respectively over the period of the study. This implies that deposit money bank lending to the private sector gulped the highest share of banking sector lending to the economy.

Trend Analysis

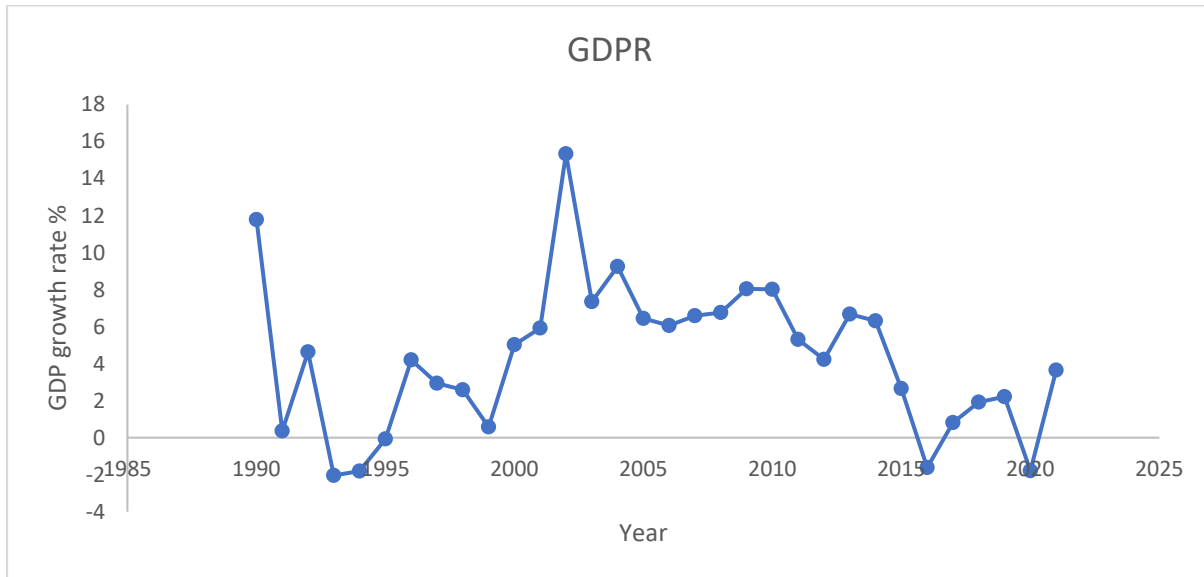
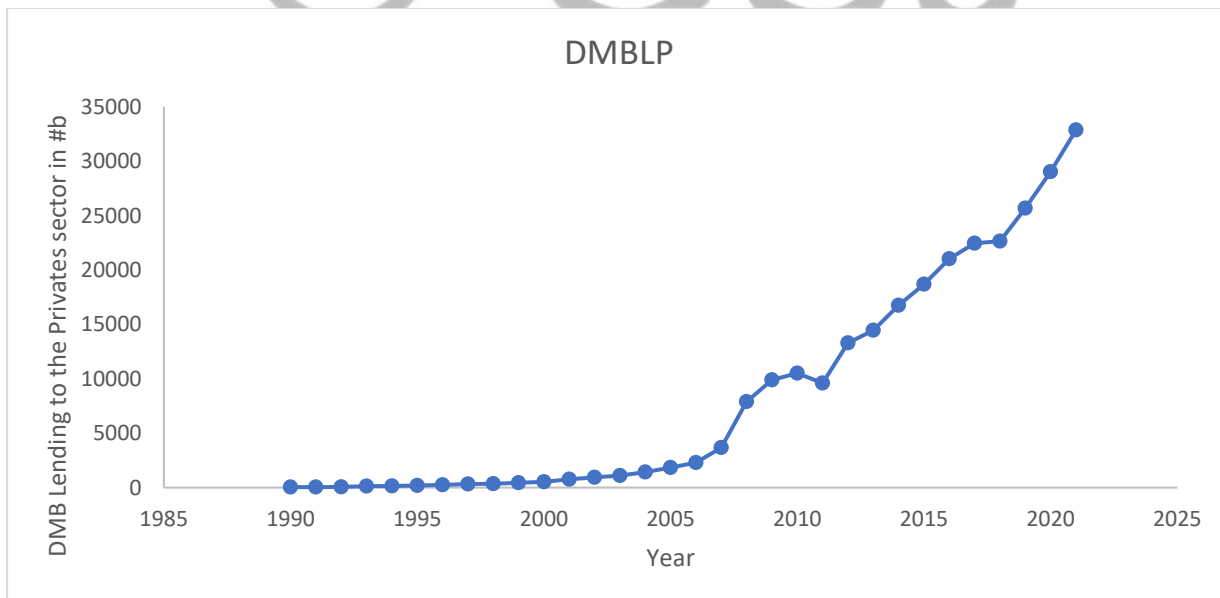


Figure 1: Trend in Growth rate in Gross Domestic Production of Nigeria 1990 - 2021

The movement in growth rate of gross domestic product shows that it dropped from 11.78% in 1990 to 0.36% in 1991 before the subsequent ups and downs in its trend over the period. It is also very crucial to note that GDP has about 5 years of negative growth out of the 32 years under investigation. This wide range of fluctuations in growth rate of real economic growth has serious implications on investment, employment, and poverty eradication in Nigeria.



The movements in deposit money banks' lending to the private sector reported in figure 2 shows that it rises consistently from 1990 to 2021 with very little fall in 2011. This implies that deposit money banks had channeled most of its lending to the private sector of the economy. The private sector remains the vital sector for employment generation, poverty reduction and economic growth in an economy.

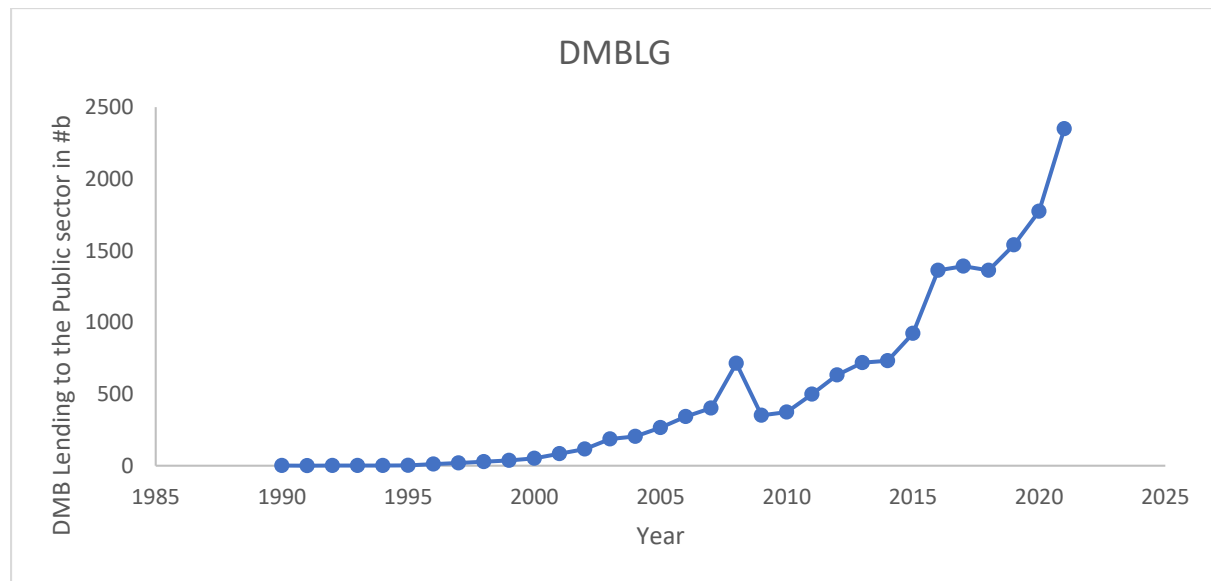


Figure 3. Trend in Growth rate in Deposit Money Bank Lending to the Public sector in Nigeria 1990 – 2021

The movement in deposit money bank lending to the public sector reported in figure 3 shows that it rises slowly and consistently from 1990 to 2021 with very little fall in 2009. This implies that deposit money banks had channeled most of its lending to the public sector of the economy. The public sector remains the vital sector for employment generation, poverty reduction and economic growth in an economy due to the underdevelopment in the public sector in Nigeria.

Table 3: Correlation Test Result

Variable	GDPR	DMBLP	DMBLG
GDPR	1		
DMBLP	-0.27	1	
DMBLG	-0.27	0.95	1

Source Computed Result

The correlation test result reported in table 3 shows that there exist very weak and negative correlation between growth rate of gross domestic product and all the independent variables. However, very strong positive correlation exists between DMB lending to the private sector and DMB lending to the public sector. In general term, the degree of relationship among the regressors is positive. It should be noted that the correlation result posed less threat to the interaction of the regressors in the economic growth model hence they could co-exist in the same model.

Table 4: Unit Root Test Result at Level – ADF Procedure

Variable	ADF statistic	1%	5%	Inference
GDPR	-3.63	-3.66	-2.96	Stationary i(0)
Ln(DMBLP)	-2.50	-3.66	-2.96	Not stationary
Ln(DMBLG)	-1.82	-3.66	-2.96	Not stationary

The unit root test result reported in table 4 reveals that real GDP growth rate have no unit root at level. This implies that it attained stationarity without differencing or at order zero i(0).

However, DMB lending to the private sector and public sector had unit root, this implies that they were not stationary at level.

Table 5. Unit Root Test Result at First difference – ADF Procedure

Variable	ADF statistic	1%	5%	Inference
Ln(DMBLP)	-4.05	-3.67	-2.96	Stationary i(1)
Ln(DMBLG)	-4.71	-3.67	-2.96	Stationary i(1)

The unit root test result carried out at first difference using the Augmented Dickey Fuller procedure shows that DMB lending to the private sector, DMB lending to the public sector, had no unit roots at first difference. This implies that these variables became stationary at i(1) and the null hypotheses of presence of unit roots was rejected at 1% and 5% respectively.

From the unit roots results, it is evidenced that the variables under investigation have different order of stationarity.

Table 6: ARDL Bound Test Result

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	4.260653	10%	2.08	3
K	5	5%	2.39	3.38
		2.5%	2.7	3.73
		1%	3.06	4.15
Actual Sample Size	29		Finite Sample: n=35	
		10%	2.331	3.417
		5%	2.804	4.013
		1%	3.9	5.419
			Finite Sample: n=30	
		10%	2.407	3.517
		5%	2.91	4.193
		1%	4.134	5.761

Source: Computed Result

The ARDL bound test result reported in table 6 shows that the bound test result with F-statistic value of 4.260653 is higher than lower bound and upper bound critical levels 2.5%, 5% and 10% respectively. This implies that the null hypothesis of no levels relationship is rejected. Hence the ARDL bound test indicates that there is a long run relationship between the dependent variable and the regressors in the economic growth model. The confirmation of long run relationship is the precondition for carrying out the ARDL error correction model reported in table 7

Table 7: ARDL Long run Result for Domestic Financing and Economic Growth: ARDL(3, 2, 1, 0, 3, 3)

Variable	Coefficient	t-Statistic	Prob.
LOG(DMBLP)	0.414473	0.223240	0.8274
LOG(DMBLG)	-1.401373	-0.537115	0.6019

Source: Computed Result

The long ARDL result reported in table 6 shows that deposit money banks' lending to the private sector is positively related to economic growth but not significant at 5 % level. This implies that an increase in DMB lending to the private sector raises economic growth while a reduction in DMB lending to the private sector retarded economic growth. This result is in consonance with economic theory. However, the insignificance of this variable indicates that lending by Deposit money banks during the period is inadequate to spur the expected growth rate in Nigeria. The low level of saving and deposit mobilization due to high level of poverty and unemployment may have accounted for the insignificance of this variable in the growth model.

Deposit money banks' lending to the public sector has negative and insignificant relationship with economic growth in the long run. This implies that increase in DMB lending to the public sector stifle economic growth and vice versa. This result is not in agreement with apriori theoretical expectation. Government borrowing and investment in socioeconomic overheads increase total investment, increase economic growth, and reduce poverty through job creation. The increase in public borrowing and the consequent crowding out of private investment may have accounted for this result. An increase in public borrowing from the banking sector could raise interest rate and starve private sector the necessary funds needed for investment and economic growth.

Table 8: ARDL Error Correction Regression Result - ARDL Error Correction Regression ARDL(3, 2, 1, 0, 3, 3)

Variable	Coefficient	t-Statistic	Prob.
D(GDPR(-1))	0.182859	1.251436	0.2367
D(GDPR(-2))	0.418984	3.308714	0.0070
DLOG(DMBLP)	2.850059	1.149544	0.2747
DLOG(DMBLP(-1))	4.425916	2.147273	0.0549
DLOG(DMBLG)	-4.495014	-2.946301	0.0133

Source: Computed Result

The short run ARDL error correction model indicates that deposit money banks' lending to the private sector is positively related to economic growth both at level and lag 1. It is, however, not significant at level but significant at lag 1. This implies that increase in DMB lending to the private sector spurred economic growth over the period of this study in Nigeria. This result is in consonance with economic theory. However, the insignificance of this variable at level indicates that lending by Deposit money banks during the period is inadequate to spur the expected growth rate in Nigeria. The low level of saving and deposit mobilization due to high level of poverty and unemployment may have accounted for the insignificance of this variable in the growth model.

Deposit money banks' lending to the public sector has negative and significant relationship with economic growth in the short run. This implies that increase in DMB lending to the public sector stifled economic growth and vice versa. This result is not in agreement with a priori theoretical expectation. Government borrowing and investment in socioeconomic overheads increase total investment, increase economic growth, and reduce poverty through job creation. The increase in public borrowing and the consequent crowding out of private investment may have accounted for this result. An increase in public borrowing from the banking sector could raise interest rate and starve private sector the necessary funds needed for investment and economic growth.

4. Discussion of Findings

The result shows that Deposit money banks' lending to the private sector has positive relationship with economic growth in the long run and short run but the relationship or impact is not significant. The positive coefficient with economic growth agrees with theoretical expectation and it is in consonance with earlier studies by Olurumade, Samuel and Adewale (2020), Joseph (2020), Amos (2020), Idachuba, Olukotun and Elam (2019) and Shuaib and Kabiru (2019). Increase Deposit banks' lending to the private sector could raise investment in small and medium scale industries which are engines of economic growth. This could increase production, create additional jobs, and stimulate economic growth.

Deposit money banks' lending to the public sector/government deviated from theoretical expectation with negative coefficient with a negative relationship with economic growth both in the long run and short run. This result is in consonance with past findings by Okafor, Onwumere and Chijindu (2016) and Idachuba, Olukotun and Elam (2019). Increase lending by DMBs to the public sector could increase socio-economic infrastructure and provide enabling environment for businesses hence stimulate economic growth if properly channeled. However, excessive borrowing by the public sector from DMBs may starve the private sector funds required for private sector investment which is the engine of growth due to high interest rate. This may lead to the crowding -out of private investment and reduction in sustained economic growth.

Conclusion

The result revealed earlier show that domestic financing can be dependent on to drive the growth of the Nigerian economy. It is therefore significant for government to give more attention to it considering the high cost of external financing and its associate debt problem. For this we make the following recommendations.

i. Deposit money banks should increase lending to the private sector to stimulate economic growth. This could be achieved by assigning a better proportion of funds mobilized for lending to the private sector. Recall, the private sector is the engine of growth, employment, and poverty alleviation. Most private businesses especially, the Small and Medium Scale Enterprises could not perform their roles due to lack of funds.

ii. Reduce lending to the public sector. The result shows that lending by DMBs to the public sector retarded economic growth both in the long and short run. Lending less to the government at all tiers will crowd in private investment and stimulate economic growth.

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