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PORT HARCOURT, NIGERIA****Abstract**

Propelled by the need to evaluate how changes in institutional credits support changes in the development of the Nigerian economy, this study investigates the causal relationship between institutional credits and economic development in Nigeria over the period of 1993 to 2019. The study employs the misery index as a measure of development. Secondary data was employed and gotten from the annual report of the Central Bank of Nigeria, the World Bank, the African Development Bank, the Bank of Agriculture, and the Bank of Industry. The employed data analysis techniques in the study are the Stationarity and Granger Causality tests. The study observed mixed stationarity at level and first difference. The study uncovers that only domestic institutional credits from deposit money banks, bank of industry, and microfinance banks are cable of promoting and supporting economic growth through significant employment generation, stimulation of output growth, and mobilization of credit at favorable rates, while the Primary Mortgage Institutions and Bank of Industry alongside foreign financial institutional credits from the African Development Bank and World Bank failed miserably in promoting or supporting economic development in Nigeria. In light of the observed findings, it is recommended that domestic and foreign financial institutions could improve their hold on the economy by creating better streamline financial services that would improve the level of financial inclusion in the economy, such as non-internet loan applications like the Unstructured Supplementary Service Data. From an internal perspective, various financial institutions should strive to uphold key brand differentiators such as; low fees, community service, friendly customer service, institutional mission, and personal client relationships.

Keywords: Institutional Credits, Misery Index, Causality, Economic Development.

Introduction

The measurement of economic development has grown in recent years based on increasing understanding of the key role of various economic indicators which should be considered to ensure a rounded perception of an economy. Many scholars have taken a jab at capturing it from

various perspectives such as; Per capita gross domestic product as introduced by Todaro (1977), Human Development Index was developed by Ul Haq (2003), Human Poverty Index as advanced by the World Bank (1997) and other crucial indicators, down to the recently acclaimed Misery Index. The misery index was introduced by

Arthur Okun (1963, 1983) and subsequently developed by Rovert Barro (1999) and Henderson (2011). Typically, this index encompasses the addition of the unemployment rate, inflation rate, while adjusting the annual per capita gross domestic product growth rate (Cohen, Ferretti, & McIntosh, 2014). Therefore, the control of this variable represents a fundamental milestone for any economy in its striving towards better development. The interrelationship between institutional credits and economic development was first empirically established by Goldsmith (1969) and confirmed by King and Levine (1993) who found evidence that a well-developed financial system promotes growth by channeling credit to its most productive uses. This is evident from the angle in which the causality direction in this interrelationship seems to depend on the studied countries. Demetriades and Hussein (1996) find bidirectional causality for half of their sample, and for the other countries, it is the economic development that causes financial development. Hurlin and Venet (2004) report a similar result, showing a lack of robustness of the causality from financial development to economic growth. They conclude that the relationship between the two variables might be complex, suggesting the need to consider the institutional framework quality in future research.

The variation in causality between finance and economic development detected in time-series studies suggests that there are important differences in the way in which finance influences economic growth and development across various spectrums. Some empirical studies (Stulz, 2001; Beck et al., 2001) establish that a country's financial development is related to its institutional characteristics. Lopez-de-Silanes (2004) shows that the improvement of institutional

procedures enhances the development of financial markets. Hence, we expect that the causality direction between financial development and economic development will depend on the institutional environment. Besides, in many developing countries most banks are public and are constrained to finance the government and to rationalize private firms, which might undermine economic growth. Similarly, Arestis and Demetriades (1997), suggest that these variations in causality between finance and economic development may reflect institutional differences across geographical locations or internal corporate governance. In terms of macro-factors, Demirguc-Kunt, Klapper, Singer, Ansar, and Hess (2018) observed that an increase in financial deepening, as captured by standard indicators of financial development, may not result in economic development because of corruption in the banking system or political interference, which may divert credit to unproductive or even wasteful activities. While this is a plausible conjecture, there is as yet no hard empirical evidence to suggest that institutions make a difference in how finance affects economic growth. Such evidence is the logical next step in the evolution of the literature on finance and growth. In support of the oversight from various studies, Khan (2010) contends that institutional performance differs across time and space because of differences in political and economic structures. He explains that developed countries have a larger ratio of private-sector production to GDP as compared to underdeveloped countries. This structural difference affects the costs and effectiveness of institutional enforcement. Therefore, the argument presented here explains why expected and actual institutional performance can diverge (Hacievliyagil & Eksi, 2019).

After the emergence of the endogenous growth theory many theoretical models were constructed (Bencivenga & Smith, 1993; Blackburn & Hung, 1998) to analyze the causality direction in the banking development/ economic development relationships. The common approach in such studies consists of the integration of the credit market model of financial intermediaries in a dynamic general equilibrium framework. These studies explain how important bank credit is for economic development stimulation (through increasing invested capital and improving its quality and allocation). However, they do not seek to disaggregate and prioritize how well the respective financial institutions measure up to stimulating economic activities in an economy. Recently, there has been a renewed interest in understanding the place of institutional factors in the stimulation of economic development. This is primarily linked to the financial institutions that constitute the fulcrum of an economy as a result of their intermediation role. Past studies have evaluated how changes in institutional finance i.e. bank credit have impacted economic development in various countries. It is easily deduced that a bulk of these studies have lumped various institutional disbursed credits into a unified credit (Hacievliyagil & Eksi, 2019; Akujuobi & Nwezeaku, 2015). While some studies concentrated on selected institutions like the deposit money banks i.e. commercial and merchant banks (Aribaba, Ahmodu, Oladele, Yusuff, & Olaleye, 2019; Johnny & Ayawei, 2018; Otonye, 2017; Nwanyanwu, 2009), others concentrated solely on the microfinance institutions (Khalaf & Saqfalhait, 2019; Nnamdi & Eniekezimene, 2018; Onwubu & Okorie, 2018). The few researchers that disaggregated the various

& Krasnopjorovs, 2018; Nnamdi & Torbira, 2016) failed to evaluate other fundamental institutional credits flowing from specialized banks and foreign banking institutions. A major element missing in the various studies is the fact that all financial institutions' operations via credit mobilization are either lumped together or the studies are skewed to the operation of one of many types of financial institutions, while copiously excluding the others in an economy. Very few studies evaluated financial institutions on a disaggregated basis. Similarly, the use of a more inclusive measure of economic development such as the misery index is scarce in the reviewed literature.

In light of the deficiencies of past studies, this study aims at evaluating the causality of institutional finance on economic development in Nigeria. The study seeks to prioritize the finance disbursed by the various institutions in Nigeria towards knowing where efficacy rests. In light of this, the specific objective of the study is to evaluate the causal nature of relationships between misery index in Nigeria and each of the credits provided by Deposit Money Banks, Bank of Agriculture, Bank of Industry, Primary Mortgage Institutions, Microfinance Banks, African Development Bank, and the World Bank. A resolution of the above issues, therefore, constitutes the core problem of this study. Having provided an overview as above, the balance of this study will be rendered in four sections. Section 2 provides a review of key propelling studies while the third section provides the materials and methods adopted. Section 4 deals with the results obtained and analysis of same, while section 5 offers the discussions, conclusions, and policy recommendations.

Literature Review

Theoretical Framework

The relevant hypothesis of the finance and economic development debate are listed as follows

Supply – Leading Hypothesis

The leading proponent of the supply-leading hypothesis is Bagehot (1873) and Schumpeter (1911), as supported by Calderon and Liu (2003), Gurley and Shaw, (1967), King and Levine, (1993), and McKinnon, (1973), among others. The advocates of this theory believe that institutional finance via credit activities serves as a useful tool to increase the productivity of a country. They hold that countries with better-developed financial systems tend to grow faster (Bayoumi & Melander, 2008). Going through the literature in more detail, the influential study conducted by King and Levine on seventy-seven countries made up of developed and developing economies using cross-country growth regression, the results showed that finance not only follows growth; finance seems important to lead economic growth. This further supports the statement that financial services stimulate economic growth (King & Levine, 1993).

Demand – Following Hypothesis

Despite the above views, economic growth is sometimes unrelated to banks. According to the demand following theory as proposed by Joan Robison (1952), economic growth is a causal factor for banking development. According to the defenders of this assertion, as the real sector grows, the increasing demand for financial services stimulates the financial sector (Gurley & Shaw, 1967). Following the same line of argument Goldsmith (1969), using an alternative view of emphasizing the role of capital accumulation in economic growth

and data from 35 countries between 1860 and 1963, empirically concluded that “a rough parallelism exists between economic and financial development in the long run”. In her research on the causality relationship between bank credit and economic growth in Nigeria, evidence from the work of Roseline and Oluitan (2012) shows that economic growth causes financial development, but not vice versa.

Bi-directional Causality Hypothesis

This theory was proposed by the studies of Demetriades and Hussein (1996). The proponents of this view state that there is a bi-directional relationship between banking credit and economic growth. Demetriades and Hussein (1996) conducted a study on 16 less developed countries between 1960 and 1990 using a time series analysis. They observed a long-run relationship for indicators of financial development and per capita GDP in 13 countries. However, they found bi-directional causality in six countries and reverse causality in six. Odedokun (1998) as well used the ordinary least square method and reported varying degrees of effects of bank development on economic growth for both high and low-income groups in the developing countries. Demetriades and Hussein (1996) postulate that whether financial development causes economic growth, it is important that the financial system is well functioning. If so, they believe it will assist the real economy to fully exploit available new opportunities. When there is reverse causation, it is assumed that when the real economy grows, there will be more savings coming into the financial system, which will allow it to extend new loans.

Financial intermediation Theory

The finance theory is on the premise that financial institutions via their

intermediation activities of mobilizing resources from the surplus to the deficit region of an economy are a major stimulus for economic growth and development. The development of the financial sector will enable citizens and government to mobilize the needed fund necessary to achieve growth and development. Mohd-Nor (2015) acknowledged the importance of well-functioning financial institutions in economic development has been extensively discussed in the literature more than decades ago since earlier works by Bagehot (1873), Schumpeter (1911), Goldsmith (1969), McKinnon (1973), and Shaw (1973) despite contradictory contention from Robinson (1952) and Stern (1989) among others that financial sector development is not a determinant of economic development. Economists opposed to this theory believed that economic development influences the financial sector, that is, the rate of economic development determines the level of development that would be achieved in the financial system. However, the bulk of empirical works on finance-growth nexus have upheld the significant impact of financial sector development on growth and development of the economy (McKinnon 1973; Shaw 1973; Greenwood & Jovanovic, 1990; Bencivenga & Smith, 1991; and Levine 1997).

Empirical Review

Hacievliyagil and Eksi (2019) examined the influence of institutional finance via bank credit on economic growth in Turkey over the period between 2010 and 2017. The study data were analyzed using the Auto Regressive Distributed Lag (ARDL) model and Toda Yomamoto Causality test to capture the nature of the relationship between seven manufacturing industry sub-sectors including Mining and Quarrying

(MQ), Food and Beverage (FB), Textile and Clothing (TC), Wood and Furniture (WF), Paper (PP), Chemistry (CH), and Machinery (MC) in Turkey context. Findings of this study support that bank credits are more effective than loan rates on the industrial production index of sub-sectors in the long-run. Moreover, an increase in bank credit leads to the rise of the industrial production index. On the long-run parameters, bank credit is positively correlated with the industrial production index except for Mining and Quarrying sub-sectors. Also, on short-run findings, industrial production index is negatively affected by bank credit only on Mining and Quarrying and lagged values of bank credit on Foods and Beverages sub-sector.

Orimogunje (2019) investigated the role of institutional credit on the economic growth and inflation rate of Nigeria. Macroeconomic variables which include Domestic credit (DC), Net domestic credit (DOMCRE), Gross domestic product (GDP), and inflation were used. The data were collected from the Central Bank of Nigeria's data and statistical report (2018), Central Bank of Nigeria statistical bulletin (2018), World development indicators (2018), and National Bureau of Statistics (2018) for the 1996-2014 period. In the empirical analysis at first descriptive statistics and graphics were used. For the econometric methods, the Granger causality test was used. The result shows that Domestic Credit and Net Domestic Credit have a statistically significant relationship on the gross domestic product but no significant relationship on inflation.

Kolapo, Oke, and Olaniyan (2018) scrutinized banks' credit to private-public sectors and its nexus with economic development in Nigeria over the period 1970-2016. This study adopts per capita

income as the proxy for economic development, while credits to private sectors, credits to government sectors, money supply, and lending interest rate were the financial deepening variables. The study employed the Ng-Perron and Augmented Dickey-Fuller Breakpoint Unit Root Tests in checking the presence of unit root, and in determining the order of integration of the variables— $I(d)$ in the presence of structural break for each variable respectively, while the T-Y augmented Granger causality test is used to reveal how causal effects flow in this study. Hence, taking account of the effect of structural breaks, the study found that bank credits to government sectors and lending interest rates were stationary series as $p < 0.01$. The study also found from the T-Y Granger causality results in its overall sense that the feedback hypothesis by contrast to prior studies holds in the Nigerian context. The feedback hypothesis establishes that banks' credit and economic development Granger cause each other. In this paper, the study recommended among other things that the monetary authorities should regulate the activities of deposit money banks to ensure that they gear up the growth of credits to private sectors by examining factors, such as lending interest rate which can undermine lending to these sectors; considering their role as the key engine of economic development in any developing economy

Radzeviča, Bulderberga, and Krasnopjorovs (2018) examined the impact of several institutional drivers on economic growth, by applying the system Generalized Method of Moments on a panel of 113 countries during 2006 - 2016. The institutional effect is captured by several proxies: the components of World Governance Indicators, Index of Economic

Freedom, and Global Competitiveness Index. The obtained results showed a statistically significant positive effect on economic growth for the following variables: Government Effectiveness, Regulatory Quality, Tax Burden, Monetary Freedom, Financial Freedom, Trade Freedom, Strength of auditing and reporting standards, Efficacy of corporate boards, and Strength of investor protection. These outcomes are then applied to the situation in the Baltic States, which share a common history but have different strengths of institutions, to give suitable suggestions for boosting economic growth.

Kaushal and Ghosh (2016) examined the influence of financial institutions on economic growth in Nigeria over the period of 1990 to 2015. The study employed secondary data as analyzed using the Johansen cointegration test and discovered that there is a long-run relationship between financial institutions and economic growth in India. It is also witnessed that there exists a bi-directional causal relationship between the development of insurance institutions and economic growth in the short run. This bi-directional relationship is probably due to the role played by the insurance institutions in the Indian economy.

Nwakanma, Nnamdi, and Omojefe (2014) evaluated the nature of the long-run relationship existing between bank credits to the private sector of Nigeria's economy and the nation's economic growth as well as the directions of prevailing causality between them from period 1981 and 2011. Applying Autoregressive Distributed Lag Bound (ARDL) and Granger Causality techniques, the results indicated a significant long-run relationship between the study variables but without significant causality in any direction.

Deposit Money Bank Credit

Johnny and Ayawei (2018) investigated deposit money bank loans to small and medium enterprises and their effect on economic growth in Nigeria from 1992 to 2016. The study employed two predictor variables (deposit money bank loans to small and medium enterprises and bank lending rate), one predicted variable (gross fixed capital formation representing economic growth), and one controlled variable (inflation rate). Tests carried out include unit root test, co-integration test, and ordinary least square. The findings revealed that: There is a positive significant relationship between deposit money bank loans to small and medium enterprises and gross fixed capital formation in Nigeria, there is a negative and significant relationship between bank lending rate and gross fixed capital formation in Nigeria, and there is negative insignificant relationship between inflation rate and gross fixed capital formation in Nigeria. Based on the findings, the study recommended that, Since deposit money banks are scared of granting loan facilities due to the nature of small and medium enterprises, to be more secure and to attain the desired economic growth, the government should put policies that will enable deposit money banks to be part of stakeholders in every small or medium-sized enterprise that seeks loan facility, so that granting of credit facilities could be made easier and more secured; also government should put policies to favor small and medium-sized enterprises by fixing a lower lending rate to enable the subsector to strive maximally.

Ubesie, Onuaguluchi, and Mbah (2017) ascertained the effect of deposit money banks' credit to small and medium enterprises, credit to the private sector, and the interest rate on small and medium scale

enterprises growth in Nigeria. An ex-post facto research design that employed secondary data sourced from Central Bank of Nigeria (CBN) Statistical Bulletin 2015 and National bureau of statistics (NBS) for the period 1986 – 2015 was adopted. The ordinary least square regression method was used in the analysis of the data after conducting a stationarity test on the variables. The study found out that deposit money banks' credit to small and medium scale enterprises has no significant effect on small and medium scale enterprises growth in Nigeria. Again, the result indicates that deposit money banks' credit to the private sector has a significant effect on small and medium scale enterprises growth in Nigeria. The result also indicates that bank interest rate has a serious significant effect on small and medium scale enterprises in Nigeria. To this effect, deposit money banks' management should see economic development as a priority by extending more credit to the private sector which is driven by small and medium scale enterprises.

Microcredit/Microfinance Bank credit

Nnamdi and Eniekezimene (2018) evaluated the extent to which microcredits disbursed to classified sectors of economic activity as utilized by the active poor do influence Nigeria's human development index in both the short and long run, this study employs published data obtained from the Central Bank of Nigeria over the period 1992 to 2016 (25 years). Estimation techniques involving Stationarity, Multiple Regression, Johansen's Cointegration, and Vector Error Correction tests were employed. While the Cointegration results indicate a significant long-run relationship among the study variables, the Multiple Regression, and Vector Error Correction estimates both points to microcredits

allocated to mining/quarrying, real estate/construction, and transport/general commerce sectors as the sectoral microcredits that significantly influence Nigeria's human development index both in the short and long terms respectively. The study concludes that microcredits allocated to mining/quarrying, real estate/construction, and transport/general commerce are the sectoral microcredit allocations that are important in predicting Nigeria's human development index. On the whole, it is recommended that operating microcredit institutions should increase their quantum of lending to the mining/quarrying, real estate/construction, and transport/general commerce sectors.

Nwude and Anyalechi (2018) examined the impact of microfinance activities on rural economic growth and savings in Nigeria for the period 2000–2015. The ordinary least square regression was used as the technique of analysis. The findings showed that the introduction of microfinance banking in Nigeria has not contributed to agricultural productivity but had assisted in increasing rural savings habits in Nigeria. As a means of improving rural economic growth in Nigeria, the recommendations are that government should make conscious efforts to provide basic infrastructures in the rural areas to motivate microfinance institutions to locate their offices there; microfinance institutions should be encouraged to lend to rural dwellers based on relationship lending; some farm productive resources should be diversified to reduce farming risk, especially risk related to unpredictable extreme weather that may be due to climate change to increase productivity.

Nnamdi and Akinpelumi (2016) evaluated the presence of a long-run relationship between classified sectoral

economic activities in Nigeria and demand for microcredits (disbursed). However, the study found a significant prevalence of Schumpeterian independent hypothesis in most of the classified sectors of economic activity. This is because significant causal relationships only prevail between disbursed microcredits and sectoral activities in only one out of the five classified sectors. The study recommended that microcredit institutions should invest more in the development and marketing of more sector-specific micro deposit and credit products to achieve a significant level of promotion and/or support between sectoral economic activities and microcredit allocations.

Nwakanma, Nnamdi, and Omojefe (2014) evaluated the nature of the long-run relationship and the direction of causality between economic growth and micro credits disbursed by private sector-led microfinance institutions in Nigeria. Covering the period 1982 to 2011 (30 years), the Autoregressive Distributed Lag (ARDL) technique was employed in analyzing the time series data. The study found a significant long-run relationship between Nigeria's economic growth and micro credits disbursed, while causality runs from economic growth to micro credits (unidirectional). Accordingly, an increase in the quantum of microcredits as well as the development of long-tenured micro-credit products is recommended as strategies to enhance the contributions of microcredits to Nigeria's economic growth.

Development Bank Credit

Agbada and Sunny (2015) empirically analyzed Primary Mortgage Institutions (PMIs) Fundamentals and Gross Domestic Product Increase; in other words, economic growth in Nigeria. PMIs Loans, PMIs Investments, and PMIs Deposits are adopted as the explanatory variables and served as

proxies for PMIs fundamentals to explain Gross Domestic Products (GDP). Data used for empirical estimation were sourced from CBN statistical Bulletin, 2011 and 2013 and analyzed using Multiple Regression technique parameters. The results indicate that while there is a significant relationship between GDP and PMIs variables, the impact of these variables on GDP was not significant during the period under review. Thus, the study recommends that relevant policies with the capacity to boost the activities of PMIs for maximum productivity should be enacted by government regulatory agencies to re-equip the housing finance market and increase the ratio of mortgage finance as a percentage of GDP.

International/foreign credit

Pegkas (2018) empirically investigated the relationship between economic growth and several factors (investment, private and government consumption, trade openness, population growth, and government loan) in Greece. The results reveal a negative long-run effect of government loans on growth. The results indicate that the relationship between loans and growth depends on the loan breaks.

Udeh, Ugwu, and Onwuka (2016) worked on ascertaining the impact of external credit on economic growth in Nigeria adopting an ex-post facto research design for the period 1980-2013 using Ordinary Least Square. From their findings, external credit had a positive relationship with Gross Domestic Product in the short run, but a negative relationship in long run. However, the external credit service payment had a negative relationship with Gross Domestic Product

Mbah (2016) investigated the impact of external credit on the economic growth of Nigeria using the ARDL bound testing approach to co-integration and error correction models for the periods 1970 – 2013; The study indicated a long-run relationship among the variables and external credit impacts negatively significant on output.

Methodology

For clarity, this part is sub-divided as follows:

Data and Employed Variables Description:

The study utilized secondary time-series data, which were gotten from the Central Bank of Nigeria Statistical Bulletin, World Bank Report, African Development Bank Report, Bank of Industry Annual Report, and Bank of Agriculture Annual Report from 1992 to 2019 as shown in the Appendix.

The Misery Index which is the dependent variable is measured in line with Henderson (2011), as the sum of the inflation and unemployment rates, plus (minus) the shortfall (surplus) between the actual and trend rate of GDP growth. This value is measured as a ratio (%). The employed explanatory variables are the changes in annual values of amounts issued as the sampled institutions which are; the Deposit Money Banks (formerly Commercial and Merchant Banks), Bank of Agriculture credit, Bank of Industry credit, Primary mortgage institution credit, Microfinance Bank credit, African Development Bank credit, and the World Bank credit. The operationalized data is presented below in table 1:

Table 4.1: Misery Index (MXI), Deposit Money Bank Credit Growth Rate (DMC), Bank of Agriculture Credit Growth Rate (BAC), Bank of Industry Credit Growth Rate (BIC), Primary mortgage institution credit Growth Rate (PMC), Microfinance Bank credit Growth Rate (MFC), African Development Bank credit Growth Rate (ADC), and World Bank credit Growth Rate (WBC) in Nigeria over the period of 1992 to 2019.

Year	MXI %	DMC %	BAC %	BIC %	MFC %	PMC %	ADC %	WBC %
1992	3.36	40.55	1.00	1.00	1.00	1.00	50.94	69.25
1993	28.99	118.70	-12.98	1.90	381.96	60.22	-95.25	29.46
1994	42.20	12.83	31.53	1.87	86.49	67.40	-7.49	4.13
1995	-6.81	25.51	55.89	1.83	-7.44	-29.52	-54.16	0.62
1996	-9.81	32.55	36.62	1.80	23.93	91.14	-39.33	-10.87
1997	7.29	32.53	6.31	1.77	15.61	-2.23	5,753.94	-10.50
1998	6.25	11.31	-8.98	1.74	56.09	6.49	-16.19	2.09
1999	-9.58	22.51	9.78	1.71	17.08	17.60	-20.19	289.50
2000	0.88	23.01	49.46	1.68	23.94	-7.48	-40.20	-4.37
2001	15.09	44.23	101.56	1.65	-64.16	19.83	-56.73	-5.36
2002	-11.08	21.64	44.26	1.62	228.08	544.18	609.61	7.66
2003	24.17	17.84	9.52	1.60	130.92	95.37	-61.49	8.95
2004	-3.52	29.65	81.04	1.57	14.05	-53.47	-94.59	3.52
2005	-1.82	29.31	355.62	1.55	151.06	-65.00	6,283.63	-7.73
2006	-4.54	24.60	-55.10	1.52	-42.29	260.00	2.37	8.65
2007	7.14	60.16	3.82	1.50	38.91	439.15	-12.28	8.89
2008	14.38	88.64	46.83	1.48	87.10	166.27	-62.80	0.15
2009	23.50	31.52	28.17	1.46	36.17	9.26	777.93	45.91
2010	6.83	11.59	-5.86	1.44	-9.19	12.05	-79.34	31.13
2011	14.00	4.95	27.92	1.42	-3.67	-7.57	86.96	16.27
2012	11.72	37.42	-6.95	-4.06	77.55	-1.55	-12.44	14.00
2013	9.22	7.53	-30.37	5.85	4.02	9.42	361.11	12.50
2014	7.52	8.76	28.17	9.15	19.20	-53.19	107.24	10.35
2015	15.58	9.01	21.56	0.25	67.02	64.72	-99.93	31.33
2016	26.94	12.89	5.47	-5.09	4.78	0.88	254573	39.88
2017	23.70	4.79	5.19	1.53	-1.11	51.87	-98.99	43.76
2018	24.50	1.95	4.93	0.00	7.18	-0.20	2,345.56	8.24
2019	25.06	10.66	4.70	1.10	26.29	-14.83	74.27	-17.7

Source: Derived from Appendix I

Model Specifications

Following the works of Radzeviča, Bulderberga, & Krasnopjorovs (2018), the causal model is presented as follows;

$$V = \{MXI_t, DMC_t, BAC_t, BIC_t, PMC_t, MFC_t, ADC_t, WBC_t\} \quad 1$$

$$U = \{\alpha, \beta, \mu, \phi, \delta, \gamma, \zeta, \psi\} \quad 2$$

Where:

MXI	=	Misery Index
DMC	=	Deposit Money Bank credit
BAC	=	Bank of Agriculture credit
BIC	=	Bank of Industry credit
PMC	=	Primary mortgage institution credit
MFC	=	Microfinance Bank credit

ADC = African Development Bank credit
 WBC = World Bank credit
 V = Causal Vector of endogenous variables
 U = Causal Vector of exogenous variables
 $\alpha, \beta, \mu, \phi, \delta, \gamma, \zeta, \psi$ = Exogenous variables.

In line with the aforementioned, our causal equation is transformed as follows;

$$V_t = f_t(P_A MXI_t(\alpha_t), P_B DMC_t(\beta_t), P_C BAC_t(\mu_t), P_D BIC_t(\phi_t), P_E PMC_t(\delta_t), P_F MFC_t(\gamma_t), P_G ADC_t(\zeta_t), P_H WBC_t(\psi_t))$$

Where:

PA-H is the probability distribution of all endogenous and exogenous variables. All other symbols retain their previous notations.

Specification of Analytical Tools and Tests

The core objective of this study is to ascertain empirically, the causal relationship between institutional credits and economic development in Nigeria. For clarity, this sub-part is further detailed as follows;

Stationarity (Unit Root) Test:

It is crucial to examine the stationarity qualities of time series data in order to avoid the problem of spurious estimations. In this sense, the Augmented Dick-Fuller (ADF) test is employed. For decision, the ADF statistics for the respective study variables should on absolute terms be more than the corresponding Mackinnon critical values at 1%, 5%, and 10% levels of significance for the null hypothesis of non-stationarity to be rejected. Failure to attain stationarity of the variables would provide for subsequent differencing for stationarity to be effected.

Assume that Y_t is random walk process, $Y_t = Y_{t-1} + p \cdot v$ then the regression

model becomes $Y_t = pY_{t-1} + p \cdot v$. Subtract Y_{t-1} from both sides of the equation,

$$Y_t - Y_{t-1} = p(Y_t - Y_{t-1}) + Ut$$

$$AY_t = (a-i)Y_{t-i} + Ut$$

$$AY_t = (a-i)Y_{t-i} + a2T + Ut$$

Where

$a-1 = p_{ij}$ A is change in Y_t or first difference operator and t is the trend factor. u_t is a white noise residual.

$$AY_t = piY_{t-i} + Ut$$

With a drift the study have;

$$AY_t = ao + piY_{t-i} + Ut$$

In practice, the study test the hypothesis that $p=0$. If $p=0$, "a" in equation 4 will be equal to 1, meaning that the study have a unit root. Therefore, the series under consideration is non-stationary. In the case where $p > 0$, that is, the time series is stationary with zero mean and in the case of equation 6, the series, Y_t is stationary around a deterministic trend. If $p > 1$, it means that the underlying variable will be explosive.

Granger Causality Test

Pair-Wise Granger Causality test is employed to ascertain the extent to which changes in a paired variables set explain variations in one another and further, whether the addition of their lagged will advance the explanation. As a decision rule, their resulting t-values in the regression equation must be significant at 0.05 levels for the null hypothesis of no causality to be rejected.

Results and Discussions

Presentation of Stationarity (Unit Root) Test Results:

To verify the reliability of the time series variables collected, a stationarity test was conducted, the results of which are presented in table 2 below:

Table 2: Summary Compilation of Stationarity Test of Employed Variables at Level (0).

Statistics Variable	ADF t-stat	Test Critical Values			Prob	Unit Root	Comment
		1% Level	5% Level	10% Level			
MXI	-2.773034	-3.711457	-2.981038	-2.629906	0.0760	Present	Not Stationary at Level i.e. 0(0).
DMC	-3.920090	-3.699871	-2.976263	-2.627420	0.0059	Absent	Evidence of Stationarity at level
BAC	-5.043699	-3.699871	-2.976263	-2.627420	0.0004	Absent	Evidence of Stationarity at level
BIC	-5.555307	-3.752946	-2.998064	-2.638752	0.0002	Absent	Evidence of Stationarity at level
PMC	-3.927815	-3.699871	-2.976263	-2.627420	0.0058	Absent	Evidence of Stationarity at level
MFC	-5.398997	-3.699871	-2.976263	-2.627420	0.0001	Absent	Evidence of Stationarity at level
ADC	-5.226586	-3.699871	-2.976263	-2.627420	0.0002	Absent	Evidence of Stationarity at level
WBC	-5.380317	-3.699871	-2.976263	-2.627420	0.0002	Absent	Evidence of Stationarity at level

Where:

ADF - Augmented Dickey Fuller.

Prob – Probability Level

Note: All other notations are references to the study variables as highlighted in Chapter Three (Model Specification).

Source: Extract from EViews 12 Outputs

Using the Augmented Dickey-Fuller test as compared with the Test Critical Values at 1%, 5%, and 10%, we can observe that; the misery index (MXI) is not stationary at level. This is as a result of its ADF t-statistics being less on an absolute basis than the absolute values of the test critical values at the 1% and 10% critical values. This, therefore, shows the presence of a unit root in the trend of this variable and the absence of a stationarity trend. This means that the variable does not behave in a consistent way

and might lead to unreliable estimation when used at level. While other variables show stationarity tendencies as all their ADF test statistics are greater than the various critical values at 1, 5, and 10% significance level on an absolute basis. Due to the nature of observed unit root in FXI, the study proceeds to the stationarity test at first difference.

When variables fail to attain stationarity at level, the differencing of variables helps smoothen the trend of

variables. This is superior to the logarithm which cannot manipulate negative values. The study, therefore, presents the

stationarity test of employed variable at first difference as follows in Table 3;

Table 3: Summary Compilation of Stationarity Test of Employed Variables at First Difference i.e. (1)

Statistics Variable	ADF t-stat	Test Critical Values			Prob	Unit Root	Comment
		1% Level	5% Level	10% Level			
MXI	-6.614107	-3.711457	-2.981038	-2.629906	0.0000	Present	Stationary at First Difference i.e. I(0)

Where:

ADF - Augmented Dickey Fuller.

Prob – Probability Level.

Source: EViews 12 Output

Table 3 above shows that the Misery index (MXI) attained stationarity and lacked unit root. This can be observed as its test statistics value of -6.614107 is observed to be greater than the absolute value of the test critical values at the 1, 5, and 10% level. This, therefore, shows that our employed variables have a reliable trend that would enable the further analysis to be free from spurious or unreliable outputs. In light of the observation of stationarity at level and first difference, the study would proceed to

undertake the Lag length selection criteria and the Autoregressive Distributive Lag Length estimate.

Granger Causality Test

To determine how movements and changes in institutional funding affects changes in the level of economic development of the country, the study employs the Granger Causality test as shown in table 4.13 below;

Table 4.13: Pairwise Granger Causality Tests Output

Pairwise Granger Causality Tests

Sample: 1992 2019

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
DMC does not Granger Cause MXI	26	3.28312	0.0575
MXI does not Granger Cause DMC		4.08087	0.0318
BAC does not Granger Cause MXI	26	0.77433	0.4737
MXI does not Granger Cause BAC		4.01420	0.0453
BIC does not Granger Cause MXI	26	0.07941	0.9239
MXI does not Granger Cause BIC		0.44495	0.6468
PMC does not Granger Cause MXI	26	2.54750	0.1022
MXI does not Granger Cause PMC		1.52398	0.2410

MFC does not Granger Cause MXI	26	13.1907	0.0002
MXI does not Granger Cause MFC		0.01546	0.9847
ADC does not Granger Cause MXI	26	1.04747	0.3684
MXI does not Granger Cause ADC		0.19067	0.8278
WBC does not Granger Cause MXI	26	0.59081	0.5628
MXI does not Granger Cause WBC		0.04750	0.9537

Source: EViews 12 Output.

*Note: The Granger Causality Test is also deal for small samples.

From the above table, no bidirectional or reciprocatory stimulus/causality can be seen between employed variables. Although, a unidirectional relationship can be observed to spill from;

- Misery index (MXI) to Deposit Money Bank credits (DMC). This shows that changes in the misery index induce changes in the deposit money bank credit mobilization.
- Misery Index (MXI) to Bank of Agriculture credit mobilization. This shows that changes in the value of the misery index account for changes in the value of Bank of Agriculture credit.
- Microfinance Bank credits to misery index. This shows that changes in the microfinance bank credit lead to changes in the misery index.
- The study observes the supply leading hypothesis in terms of the microfinance bank credits, while the other institutional funding operations such as those of deposit money bank and the bank of agriculture are reactionary to the misery index, rather than proactive.

Discussions

Deposit money bank credit and Economic Development: The study observes a

demand-following hypothesis that tallies with the findings of Roseline and Oluitan (2012) and Goldsmith (1969) who observed that it is the economic dispensation of a country (in this case the misery index) that affects the mobilization of funds by financing institutions as seen from the case of the deposit money bank financing operation.

Bank of Agriculture credit and Economic Development: The causal relationship is observed to be spilling from the misery index to the Bank of Agriculture financing which shows that a demand-following. This shows the Bank of Agriculture as a reactionary institution in terms of its credit mobilization to the economic development demands of the country (Roseline & Oluitan, 2012; Goldsmith, 1969).

Bank of Industry credit and Economic Development: No causal relationship is observed between the bank of industry credits and the misery index which goes against the bidirectional causal relationship proposition of Demetriades and Hussein (1996).

Primary Mortgage Institutions credit and Economic Development: No causal relationship is observed between the primary mortgage institution's credits and the misery index. This shows poor mobilization of the mortgage credits which

according to Rosenstein Rodan (1943) might fail if not timely and sufficiently mobilized.

Microfinance Banks and Economic Development: The causal relationship between the microfinance banks and the misery index is a demand-following relationship. These findings lay fingers on the studies by Woolcock (1999), Buckley (1997), Otero (1999), and Morduch (2013) who perceives microfinance institutions as institutions that are largely led by the need to provide microcredits to impoverished individuals.

African Development Bank and Economic Development: No causal relationship is observed between the African Development Bank credits and the misery index. This supports the findings of Rosenstein-Rodan (1961) who proposed the big push theory which is complementary to the theory of 'balanced growth' which advocates that any strategy of economic development that relies basically upon the philosophy of economic "gradualism" is bound to be frustrated as seen by the unique nature of growth of the African Development Credit.

World Bank credit and Economic Development: Like the African Development Bank credit, no causal relationship is observed between the World Bank credit and the misery index. This shows the connotation of the '*insufficient trap*' as proposed by Rosenstein-Rodan (1943) who observed that, insufficient mobilized capital towards development is a waste and points to the false paradigm (Weeks, 2012).

Conclusion and Recommendations

Conclusions

Based on the findings of the study, the study concludes that institutional finance has a selective causal relationship with economic development (misery index) in

Nigeria. On a specific basis, the study observes that; Only domestic institutional credits from deposit money banks, bank of industry, and microfinance banks are cable of promoting and supporting economic growth through significant employment generation, stimulation of output growth, and mobilization of credit at favorable rates, while the Primary Mortgage Institutions and Bank of Industry alongside foreign financial institutional credits from the African Development Bank and World Bank failed miserably in promoting or supporting economic development in Nigeria.

Recommendations

In light of the observed findings, it is recommended that;

1. Domestic and Foreign financial institutions could improve their hold on the economy by creating better streamline financial services that would improve the level of financial inclusion in the economy. Such services can range from the mobilization of credits through appropriate channels which would enable such funds to trickle to the intended deficit units. This can be achieved through the use of non-internet loan applications such as the Unstructured Supplementary Service Data (USSD) etc. This will grant much Nigerian accessibility and bolster inclusion, thereby fostering the influence of this institution on economic development and control of the flow of money.
2. The Primary Mortgage Institutions and the Bank of Industry need to re-examine their operations by ensuring the viability of their projects to prevent executing projects and mobilizing funds to unrealistic

mortgage or industrial projects. This would limit the number of abandoned projects and unrealistic endeavors in the mortgage market and industrial sector.

3. From an internal perspective, various financial institutions should strive to uphold key brand differentiators such as; low fees, community service, friendly customer service, institutional mission, and personal client relationships.

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Year	GDP	GGR	INT	UMR	IFR	MIX
	N'B	%	%	%	%	%
1991	596.04	-	20.80	3.10		
1992	909.80	48.84	31.20	3.40	48.80	34.56
1993	1,259.07	34.97	36.09	2.70	61.26	65.08
1994	1,762.81	36.56	21.00	2.00	76.76	63.20

1995	2,895.20	60.20	20.79	1.80	51.59	13.98
1996	3,779.13	27.32	20.86	3.20	14.31	11.05
1997	4,111.64	6.12	23.32	3.20	10.21	30.60
1998	4,588.99	8.86	21.34	3.20	11.91	27.59
1999	5,307.36	12.80	27.19	3.00	0.22	17.61
2000	6,897.48	26.75	21.55	13.10	14.53	22.43
2001	8,134.14	15.00	21.34	13.60	16.49	36.43
2002	11,332.25	35.85	30.19	12.60	12.17	19.11
2003	13,301.56	14.44	22.88	14.80	23.81	47.05
2004	17,321.30	26.93	20.82	13.40	10.01	17.30
2005	22,269.98	25.29	19.49	11.90	11.57	17.67
2006	28,662.47	25.39	18.70	12.30	8.55	14.16
2007	32,995.38	12.13	18.36	12.70	6.56	25.50
2008	39,157.88	15.57	18.70	14.90	15.06	33.08
2009	44,285.56	10.12	22.62	19.70	13.93	46.13
2010	54,612.26	20.07	22.51	15.10	11.80	29.34
2011	62,980.40	12.28	22.42	16.00	10.28	36.42
2012	71,713.94	10.86	23.79	10.60	11.98	35.51
2013	80,092.56	8.74	24.69	10.00	7.96	33.91
2014	89,043.62	8.26	25.74	7.80	7.98	33.26
2015	94,144.96	2.97	26.71	9.00	9.55	42.28
2016	101,489.49	5.01	27.29	13.40	18.55	54.23
2017	113,711.63	9.17	30.68	17.50	15.37	54.38
2018	127,762.55	9.50	31.00	22.60	11.40	55.60
2019	144,210.49	10.02	31.01	23.1	11.98	56.07

Sources: Central Bank of Nigeria.

Knoemia Repository

Appendix 1(b): Deposit Money Bank credit (DMB), Deposit Money Bank credit growth rate (DMC), Bank of Agriculture credit (BOA), Bank of Agriculture credit (BAC), Bank of Industry growth rate (BOI), Bank of Industry credit (BOI), Bank of Industry credit growth rate (BIC), Microfinance Bank Credit (MB), Microfinance Bank Credit growth rate (MFC), Primary Mortgage Institution credit (PMI), Primary Mortgage Institution credit growth rate (PMI), African Development Bank credit (ADB), African Development Bank credit growth rate (ADB), World Bank credit (WB), World Bank credit growth rate (WBC) in Nigeria over the period of 1981 to 2019.

Year	DMB N'B	DMC %	BOA N'B	BAC %	BOI N'B	BIC %	MB N'B	MFC %	PMI N'B	PMC %	ADB N'B	ADC %	WB N'B	WBC %
1991	41.35										13.41		33.26	
1992	58.12	40.55	93.39	1.00	360.77	1.00	0.1358	1.00	0.21	1.00	20.24	50.94	56.29	69.25
1993	127.12	118.70	81.27	-12.98	367.62	1.90	0.6545	381.96	0.33	60.22	0.96	-95.25	72.87	29.46
1994	143.42	12.83	106.90	31.53	374.48	1.87	1.2206	86.49	0.56	67.40	0.89	-7.49	75.88	4.13
1995	180.00	25.51	166.65	55.89	381.34	1.83	1.1298	-7.44	0.39	-29.52	0.41	-54.16	76.35	0.62
1996	238.60	32.55	227.66	36.62	388.19	1.80	1.4002	23.93	0.75	91.14	0.25	-39.33	68.06	-10.87
1997	316.21	32.53	242.03	6.31	395.05	1.77	1.6188	15.61	0.74	-2.23	14.47	5,753.94	60.91	-10.50
1998	351.96	11.31	220.29	-8.98	401.91	1.74	2.5268	56.09	0.79	6.49	12.13	-16.19	62.19	2.09
1999	431.17	22.51	241.84	9.78	408.77	1.71	2.9583	17.08	0.92	17.60	9.68	-20.19	242.21	289.50
2000	530.37	23.01	361.45	49.46	415.62	1.68	3.6666	23.94	0.86	-7.48	5.79	-40.20	231.62	-4.37
2001	764.96	44.23	728.55	101.56	422.48	1.65	1.3140	-64.16	1.02	19.83	2.50	-56.73	219.22	-5.36
2002	930.49	21.64	1,050.98	44.26	429.34	1.62	4.31.9	228.08	6.60	544.18	17.78	609.61	236.01	7.66
2003	1,096.54	17.84	1,151.02	9.52	436.20	1.60	9.9548	130.92	12.90	95.37	6.84	-61.49	257.15	8.95
2004	1,421.66	29.65	2,083.74	81.04	443.05	1.57	11.3538	14.05	6.00	-53.47	0.37	-94.59	266.19	3.52
2005	1,838.39	29.31	9,493.85	355.62	449.91	1.55	28.5048	151.06	2.10	-65.00	23.64	6,283.63	245.62	-7.73
2006	2,290.62	24.60	4,262.43	-55.10	456.77	1.52	16.4502	-42.29	7.56	260.00	24.20	2.37	266.88	8.65
2007	3,668.66	60.16	4,425.46	3.82	463.62	1.50	22.8502	38.91	40.76	439.15	21.23	-12.28	290.59	8.89
2008	6,920.50	88.64	6,497.96	46.83	470.48	1.48	42.75306	87.10	108.53	166.27	7.90	-62.80	291.03	0.15
2009	9,102.05	31.52	8,328.57	28.17	477.34	1.46	58.21566	36.17	118.59	9.26	69.32	777.93	424.64	45.91
2010	10,157.02	11.59	7,840.50	-5.86	484.20	1.44	52.8675	-9.19	132.88	12.05	14.32	-79.34	556.83	31.13
2011	10,660.07	4.95	10,029.49	27.92	491.05	1.42	50.9283	-3.67	122.81	-7.57	26.78	86.96	647.41	16.27
2012	14,649.28	37.42	9,332.48	-6.95	471.13	-4.06	90.42225	77.55	120.91	-1.55	23.44	-12.44	738.05	14.00
2013	15,751.84	7.53	6,497.96	-30.37	498.70	5.85	94.05558	4.02	132.29	9.42	108.10	361.11	830.30	12.50

2014	17,131.45	8.76	8,328.57	28.17	544.31	9.15	112.11015	19.20	61.93	-53.19	224.03	107.24	916.25	10.35
2015	18,675.47	9.01	10,124.09	21.56	545.66	0.25	187.24734	67.02	102.01	64.72	0.15	-99.93	1,203.33	31.33
2016	21,082.72	12.89	10,678.15	5.47	517.91	-5.09	196.19499	4.78	102.91	0.88	384.80	254573	1,683.20	39.88
2017	22,092.04	4.79	11,232.22	5.19	525.84	1.53	194.02494	-1.11	156.29	51.87	3.87	-98.99	2,419.71	43.76
2018	22,521.95	1.95	11,786.28	4.93	525.84	0.00	207.96332	7.18	155.98	-0.20	94.69	2,345.56	2,619.12	8.24
2019	24,922.94	10.66	12,340.34	4.70	531.63	1.10	262.630	26.29	132.85	-14.83	165.02	74.27	2,154.96	-17.7