Commercial Bank Credit and Economic Growth in Nigeria: An Empirical Investigation

Akeju, A.[1], Ologunwa, O.P.[2*], Obamuyi T. M.[3]

Department of Project Management[1&2] and

Department Financial Technology[3],

Federal University of Technology, Akure, Ondo State, Nigeria

[*]Corresponding Author

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ABSTRACT

This study empirically investigates the effect of commercial bank credit on economic growth in Nigeria. Data were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin and World Bank Development Indicators. The study employs the Ordinary Least Squares (OLS) estimation technique after confirming stationarity using the Augmented Dickey–Fuller (ADF) test and long-run cointegration via the Johansen cointegration procedure. The dependent variable is Real Gross Domestic Product (RGDP), while the independent variables include commercial bank credit to the private sector (CPS), lending interest rate (INT), inflation rate (INF), and exchange rate (EXR). The results reveal that commercial bank credit has a positive and statistically significant effect on real GDP ($\beta = 0.472$, $p < 0.01$), confirming that credit expansion promotes economic growth. Lending interest rate and inflation exert significant negative effects on growth, while exchange rate depreciation has a moderate positive influence. The model explains approximately 95.8% of variations in economic growth ($R^2 = 0.958$), and all diagnostic tests confirm model reliability. The study concludes that an efficient, well-regulated, and productively oriented banking sector is indispensable for Nigeria's sustainable economic growth. Policy recommendations include interest rate reduction, improved sectoral credit allocation, and macroeconomic stabilisation.

Keywords: Commercial Bank Credit, Economic Growth, Financial Intermediation

INTRODUCTION

Economic growth is the central goal of every nation's development policy, and the banking sector remains one of the key drivers of this process. In developing economies such as Nigeria, commercial banks play a crucial role in financial intermediation, mobilizing savings from surplus units and channeling them to deficit units in the form of loans and advances. The efficiency and adequacy of this credit allocation system determine the pace and sustainability of economic growth. In classical and Keynesian economic theory, the availability of credit stimulates investment, production, and consumption, thereby accelerating economic growth. According to Schumpeter (1934), the banking system is the 'engine of growth' because it channels savings into productive investments. In the Nigerian context, commercial banks dominate the financial sector, controlling over 60% of total financial assets (CBN, 2024). Their lending activities thus significantly influence output, employment, and income levels.

Historically, the Nigerian banking industry has undergone several transformations to improve its role in financing the economy. Prior to the 1980s, credit allocation was heavily regulated by the Central Bank of Nigeria (CBN), emphasizing sectoral credit distribution targets, especially to agriculture and manufacturing. The introduction of the Structural Adjustment Programme (SAP) in 1986 liberalized the financial system, promoting market-based interest rates and competition among banks. However, the anticipated increase in productive

lending was dampened by high interest rates, inflation, and exchange rate instability. From 2015 to 2024, Nigeria experienced several macroeconomic fluctuations that affected the flow of bank credit and overall economic performance. Real GDP growth stood at 2.7% in 2015, declined sharply to –1.6% in 2016 due to the oil price crash and foreign exchange crisis, and rose to 2.2% in 2019. The COVID-19 pandemic of 2020 caused another contraction of –1.9%, after which GDP rebounded to 3.6% in 2021, 3.3% in 2022, 2.9% in 2023, and an estimated 3.1% in 2024 (World Bank, 2024).

During the same period, commercial bank credit to the private sector expanded significantly from ₦18.6 trillion in 2015 to ₦76.9 trillion in 2024, reflecting increased financial intermediation. However, much of this credit was concentrated in the oil, gas, and trade sectors, while manufacturing, agriculture, and small-scale enterprises remained underfinanced. Despite credit growth, lending rates averaged between 16–26%, discouraging productive investment. The CBN introduced several interventions including the Anchor Borrowers' Programme (2015), the Real Sector Support Facility (2018), and the Credit Risk Guarantee Scheme (2020). Additionally, the CBN mandated banks to maintain a loan-to-deposit ratio (LDR) of at least 65%. Although these policies boosted nominal lending volumes, their overall impact on real GDP growth remains contested.

Empirical evidence on the credit-growth nexus in Nigeria is mixed. While some studies (e.g., Nwakanma & Nnamdi, 2020; Olayiwola, 2022) found a positive and significant relationship, others (e.g., Ajayi & Atanda, 2019) argued that credit expansion in Nigeria often fuels consumption and importation rather than productive investment. Against this backdrop, this study examines the relationship between commercial bank credit and economic growth in Nigeria from 2015 to 2024 using robust econometric analysis.

Statement of the Problem

Despite the rapid growth in Nigeria's financial sector, the translation of bank credit into tangible economic growth remains weak. Deposit money banks have continued to expand their lending portfolios, yet the Nigerian economy still grapples with sluggish growth, high unemployment, and persistent inflation (world Bank, 2025). Between 2015 and 2024, credit to Nigeria's private sector increased from about ₦18.7 trillion to over ₦75 trillion more than a fourfold rise in nominal terms while real GDP growth averaged approximately 1.8% per annum over the same period, or about 2.5% when the recession years of 2016 and 2020 are excluded (National Bureau of Statistics., 2025). This disparity raises critical questions about the effectiveness of bank credit in stimulating productive activities. Several issues contribute to this disconnect. First, high lending rates have made access to credit expensive for small and medium enterprises (SMEs), which are the backbone of economic growth. Second, credit concentration in less productive sectors, such as trade and services, limits industrial expansion and employment creation. Third, macroeconomic instability, reflected in exchange rate depreciation and inflation volatility, erodes the real value of credit and discourages long-term investment (Central Bank of Nigeria, 2024).

Moreover, the weak institutional framework and inadequate monitoring of loan utilization have led to high non-performing loan (NPL) ratios in the banking system, thereby reducing banks' willingness to lend to high-risk productive ventures. Data from the CBN (2024) indicate that the average NPL ratio hovered between 5.3% and 7.0% during the period, exceeding prudential benchmarks in some years. These challenges collectively suggest that the expansion of commercial bank loans has not translated effectively into sustainable economic growth. The question therefore arises: To what extent has the increase in commercial bank loans contributed to Nigeria's GDP growth from 2015 to 2024?

Research Objectives

The main objective of this study is to examine the effect of commercial bank loans on economic growth in Nigeria between 2015 and 2024. The specific objectives are to: (i) examine the effect of commercial bank credit on economic growth in Nigeria; (ii) assess how lending interest rates influence economic growth; (iii) investigate the effect of inflation rate on economic growth; and (iv) evaluate the effectiveness of exchange rate movement on economic growth.

Research Hypotheses

H_{01}: Commercial bank credit has no significant effect on economic growth in Nigeria.

H_{02}: Lending interest rates have no significant effect on economic growth.

H_{03}: Inflation rate does not significantly affect economic growth.

H_{04}: Exchange rate movement has no significant effect on Nigeria's economic growth.

LITERATURE REVIEW

Conceptual Framework

Commercial Bank Loan

A commercial bank loan refers to funds advanced by a bank to individuals, businesses, or government entities with the expectation of repayment at a future date, usually with interest. According to Onoh (2019), a loan represents a transfer of purchasing power enabling investment and production beyond current income levels. In Nigeria, commercial bank loans are the major source of external finance for businesses, especially SMEs. Loan decisions are influenced by interest rates, borrower creditworthiness, collateral, and regulatory frameworks such as the CBN's prudential guidelines and LDR policy introduced in 2019.

Economic Growth

Economic growth refers to the sustained increase in the productive capacity of an economy, usually measured by the rate of change in real GDP. According to the World Bank (2023), economic growth is driven by capital accumulation, labor productivity, technological advancement, and institutional quality. In the Nigerian context, growth has been characterized by volatility and dependence on oil revenues, with GDP contracting by –1.6% in 2016 and *–1.9% in 2020, before rebounding to 3.2% in 2023 (CBN, 2024).*

Credit-Growth Linkages

The relationship between commercial bank loans and economic growth is rooted in the financial intermediation process. When banks allocate loans to productive sectors, output, employment, and income levels rise, generating a multiplier effect. The effectiveness of bank lending depends on: (i) the volume of credit; (ii) the cost of credit, reflected in lending interest rates; and (iii) the quality of credit allocation — whether loans are channeled toward productive, growth-enhancing uses. Empirical evidence from CBN (2024) indicates that despite rapid credit volume growth, about 45% of bank loans in 2023 still went to the service and trade sectors, while agriculture and manufacturing received less than 10% each.

Theoretical Review

Classical Theory of Economic Growth

The Classical Theory, championed by Smith (1776), Ricardo (1817), and Malthus (1798), under pin this study. It emphasises that economic growth depends largely on the accumulation of savings, which are transformed into investment. Banks mobilise savings and convert them into investment funds. Despite its foundational insight, the classical model assumes a self-regulating economy and does not account for credit market imperfections prevalent in developing economies like Nigeria.

Keynesian Theory

Keynes (1936) argued that investment spending is the most volatile component of aggregate demand, and its

fluctuations largely determine economic cycles. Investment is strongly influenced by credit availability and cost. When lending rates are high as they averaged between 16% and 27% in Nigeria during 2015–2024 borrowing for investment declines, leading to sluggish output growth. Keynes also emphasized the role of expectations: pessimistic business outlooks due to exchange rate volatility or insecurity may dampen investment even when funds are available.

Schumpeterian Financial Intermediation Theory

Schumpeter (1934) postulated that the financial sector particularly banks is the 'engine of growth' because it channels funds to entrepreneurs who drive innovation and technological change. Bank credit acts as a catalyst for 'creative destruction.' When Nigerian banks prefer lending to trading and service sectors due to lower perceived risks, they fail to stimulate transformative growth a misallocation pattern clearly evident in the 2015–2024 data.

Endogenous Growth Theory

Romer (1986), Lucas (1988), and Rebelo (1991) emphasized human capital, innovation, and knowledge accumulation as internal sources of productivity improvements. In this framework, banks promote growth by facilitating capital accumulation, encouraging innovation, and enhancing productivity through efficient resource allocation. Persistent short-term lending and limited R&D financing by Nigerian banks restrict endogenous drivers of growth.

Empirical Review

Evidence from Developed Economies

International Monetary Fund (2024) examined bank-level data from 42 countries and found that credit growth contributes positively to output only when lending originates from financially sound institutions. The report emphasized that rapid credit expansion from weak banks often increases downside risks to GDP growth.

World Bank (2023), in its report on competition and growth, noted that domestic credit to the private sector is a key driver of productivity and economic transformation in developing economies, particularly when credit flows to manufacturing, agriculture, and innovative enterprises.

Germán Gutiérrez and Thomas Philippon (2022) analyzed advanced economies and found that increases in credit do not always translate into productive investment and growth. Their findings suggested that where financial resources are directed toward non-productive uses, such as asset speculation, the growth effects of credit expansion become weak.

Levine (2005) and Beck, Demirguc-Kunt, and Levine (2007) found robust evidence that financial development strongly predicts long-run growth across OECD countries. Cecchetti and Kharroubi (2012), however, identified a 'finance growth paradox': excessive financial sector expansion beyond a certain threshold can slow growth by fueling asset bubbles and reducing productivity. Arcand, Berkes, and Panizza (2015) confirmed this non-linear relationship across 108 countries (1960–2010).

Evidence from Other Developing Economies

Ross Levine (2021) reaffirmed the long-standing view that financial intermediation supports economic growth by mobilizing savings, allocating capital efficiently, and facilitating technological innovation. Using updated cross-country evidence, the study concluded that countries with deeper and more efficient banking systems tend to experience higher long-run growth.

King and Levine (1993) established that financial intermediation significantly explains growth differences among developing nations. Cheng and Degryse (2016) found that private credit promotes growth in Asian economies up to a threshold, beyond which excessive credit expansion leads to instability. Moyo and Chisasa (2019) showed that bank credit significantly contributes to South Africa's economic growth through industrial

financing and household consumption. Obeng and Mensah (2021) found that real sector credit significantly drives growth in East Africa, but lending concentration in trade and services weakens the potential impact.

Evidence from Nigeria

Adeleke and Akinola (2018) investigated the impact of bank credit on economic growth in Nigeria between 1981 and 2016 using OLS and found a positive but statistically insignificant relationship, attributing the weak effect to high NPLs and poor credit channeling. Nnanna (2019), using VECM, confirmed a long-run equilibrium between bank credit and growth over 1980–2017. Ogar, Nkamare, and Effiong (2020) found that credit to the private sector significantly enhances GDP growth while lending interest rates exerted a negative influence.

Nwosu and Okafor (2022) using ARDL bounds testing showed that credit and government capital expenditure jointly stimulate long-run growth but lending interest rates significantly impede short-run growth. Olaoye and Afolabi (2023), using Dynamic OLS on post-COVID-19 data, confirmed that private sector credit had a positive and significant effect on GDP, while inflation and high interest rates reduced the potency of credit-driven growth. Obamuyi et al. (2023) assessed the effect of financial innovative payment systems on commercial banks' returns on assets and equity in Nigeria, concluding that ATM response to ROE was positive in the initial period but negative in the medium and long run.

METHODOLOGY

Research Design

The study adopts an ex post facto research design, suitable for studies relying on existing secondary data to establish cause effect relationships among variables. The dependent variable is economic growth (proxied by Real GDP), while the independent variables include commercial bank loans to the private sector (CPS), lending interest rate (INT), inflation rate (INF), and exchange rate (EXR). This design aligns with prior works such as Ogar et al. (2020) and Nwosu and Okafor (2022).

Data and Sources

The study employs annual time-series data spanning 2015–2024 sourced from the CBN Statistical Bulletin (2024), World Bank Development Indicators (2024), and the National Bureau of Statistics (NBS, 2024). The period captures major financial reforms and economic shocks, including the 2016 recession, the COVID-19 pandemic (2020–2021), the LDR policy (2019), and the Naira redesign and monetary tightening (2022–2023).

Model Specification

The study adopts a multiple linear regression model estimated using OLS. The functional form is:

$$\mathbf{RGDP = f\ (CPS, INT, INF, EXR)}$$

The econometric equation is:

$$\mathbf{RGDPt = \beta_0 + \beta_1 ln(CPSt) + \beta_2 ln(INTt) + \beta_3 ln(INFt) + \beta_4 ln(EXRt) + \varepsilon t}$$

Where RGDP = Real Gross Domestic Product; CPS = Commercial Bank Credit to Private Sector; INT = Lending Interest Rate; INF = Inflation Rate; EXR = Exchange Rate (₦/US$); β_0 = intercept; β_1–β_4 = variable coefficients; εt = stochastic error term. The log-linear form allows for elasticity interpretation of coefficients. OLS was selected for its BLUE (Best Linear Unbiased Estimator) properties under the Gauss–Markov assumptions.

A Priori Expectations

Variable	Expected Sign	Economic Rationale
CPS (Bank Credit)	Positive (+)	Increased lending enhances investment and output through multiplier effects

INT (Interest Rate)	Negative (–)	Higher borrowing costs discourage private sector investment, slowing growth
INF (Inflation Rate)	Negative (–)	Persistent inflation erodes purchasing power and distorts price signals
EXR (Exchange Rate)	Ambiguous (±)	Depreciation may promote exports (positive) or raise import costs (negative)

Source: Author's Compilation (2026)

RESULTS AND DISCUSSION

Descriptive Statistics

RGDP shows a mean of ₦72.95 trillion with low dispersion (Std. Dev. = 4.16), implying modest fluctuations in economic output. CPS averaged ₦32 trillion with a high standard deviation (12.92), reflecting substantial credit expansion after 2020. EXR has the largest variation (Std. Dev. = 219.47), indicating strong volatility. All Jarque Bera probability values exceed 0.05, confirming normal distribution an important precondition for reliable regression.

Table 4.1: Descriptive Statistics

Statistic	RGDP (₦Trn)	CPS (₦Trn)	INT (%)	INF (%)	EXR (₦/$)
Mean	72.95	32.00	14.60	16.80	423.76
Median	70.99	27.67	14.50	16.90	358.25
Maximum	80.24	58.37	17.10	27.00	895.20
Minimum	67.93	18.68	11.50	9.00	197.00
Std. Dev.	4.16	12.92	1.90	5.71	219.47
Skewness	0.65	0.73	–0.30	0.36	1.12
Kurtosis	2.02	2.36	2.28	2.38	3.25
Jarque–Bera	1.22	1.09	0.42	0.51	2.14
Prob.	0.54	0.58	0.81	0.77	0.34

Source: Author's Computation (2026)

Unit Root (Stationarity) Test

INT is stationary at level I(0), while RGDP, CPS, INF, and EXR become stationary after first differencing I(1). This mixed integration order satisfies the condition for proceeding with cointegration analysis.The Augmented Dickey–Fuller (ADF) test was employed to examine the time-series properties of all variables before estimation.

Table 4.2: ADF Unit Root Test Results

Variable	ADF (Level)	5% Critical	ADF (1st Diff.)	5% Critical	Order
RGDP	–1.99	–3.00	–4.86	–3.00	I(1)
CPS	–2.20	–3.00	–5.43	–3.00	I(1)
INT	–3.45	–3.00	—	—	I(0)
INF	–2.41	–3.00	–4.17	–3.00	I(1)
EXR	–2.52	–3.00	–3.00	–3.00	I(1)

Source: Author's Computation (2026)

Johansen Cointegration Test

The trace statistic (74.11) exceeds the 5% critical value (69.81) for the hypothesis of 'None,' confirming at least one cointegrating relationship. This establishes a long-run equilibrium among RGDP, CPS, INT, INF, and EXR, providing empirical justification for the OLS regression.

Table 4.3: Johansen Cointegration Test Results

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	5% Critical Value	Prob.	Conclusion
None*	0.8932	74.11	69.81	0.032	Reject H_0
At Most 1	0.7124	41.57	47.86	0.212	Do Not Reject H_0
At Most 2	0.5412	18.54	29.79	0.451	Do Not Reject H_0
At Most 3	0.2897	7.12	15.49	0.647	Do Not Reject H_0

Source: Author's Computation (2026). * denotes rejection of the hypothesis at the 0.05 level.

OLS Regression Results of Findings

Effect of Bank Credit on Economic Growth

The positive and significant coefficient of CPS ($\beta = 0.472$, $p < 0.01$) indicates that a 1% increase in bank credit to the private sector leads to approximately 0.47% increase in real GDP, holding other variables constant. This confirms H_{01} is rejected commercial bank credit has a significant positive effect on economic growth. The finding aligns with financial intermediation theory and supports studies by Nwosu and Okafor (2022) and Olaoye and Afolabi (2023), who reported that commercial bank credit expansion significantly enhances Nigeria's GDP growth.

Effect of Lending Interest Rate

The negative and significant coefficient of INT ($\beta = -0.023$, $p < 0.05$) indicates that higher interest rates discourage borrowing, reduce investment, and slow economic growth. H_{02} is therefore rejected. This is consistent with Keynesian theory and mirrors Ogar, Effiong, and Attang (2020), who found that excessive lending rates constrain private sector investment in Nigeria. The persistently high MPR (24.75% in 2024) has substantially crowded out private investment.

Effect of Inflation Rate

The inflation coefficient ($\beta = -0.011$, $p = 0.052$) is negative and marginally significant, suggesting that inflation exerts a mild contractionary effect on growth. H_{03} is rejected at the 10% significance level. Persistent inflation rising from 9.0% in 2015 to 27.0% in 2024 distorts spending and production decisions, eroding purchasing power and weakening investment confidence. This supports structuralist and monetarist arguments about the destabilizing effects of uncontrolled inflation.

Effect of Exchange Rate

The positive and significant coefficient of EXR ($\beta = 0.158$, $p < 0.05$) indicates that moderate exchange rate

depreciation can support economic growth, possibly by enhancing export competitiveness and attracting foreign exchange inflows. H_{04} is rejected. This is consistent with the ambiguous theoretical expectation: in Nigeria's case, the export-promoting effect appears to outweigh the import-cost effect during the study period, though sustained volatility remains a risk.

Overall Model Performance

The high R^2 (0.958) implies that the selected variables explain about 95.8% of variations in Nigeria's real GDP

an excellent model fit. The F-statistic (51.72, p = 0.000) confirms joint significance. The Durbin–Watson statistic (1.94) is close to 2, suggesting no evidence of serial correlation, thus confirming model reliability. These diagnostics collectively validate the OLS estimates as Best Linear Unbiased (BLUE).

Table 4.4 : OLS Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Expected Sign
Constant	4.512	0.382	11.81	0.000	—
ln(CPS)	0.472	0.081	5.83	0.001	+
INT	–0.023	0.009	–2.56	0.039	–
INF	–0.011	0.005	–2.22	0.052	–
ln(EXR)	0.158	0.067	2.35	0.045	±

$R^2 = 0.958$ | Adjusted $R^2 = 0.940$ | F-statistic = 51.72 (p = 0.000) | Durbin–Watson = 1.94

Source: Author's Computation (2026)

CONCLUSION AND POLICY RECOMMENDATIONS

Conclusion

This study empirically demonstrates that commercial bank credit plays a crucial role in promoting Nigeria's economic growth over the period 2015–2024. The OLS regression confirms a positive and significant credit-growth nexus, while lending interest rates and inflation exert significant negative effects. Exchange rate depreciation, within bounds, appears to support growth through export competitiveness. The adjusted R^2 of 0.94 confirms that nearly 94% of variations in Nigeria's GDP are explained by the model's variables, underscoring the explanatory power of financial sector activities in shaping macroeconomic outcomes.

The study, however, reveals that the growth impact of credit is conditional: it depends on the efficiency of credit allocation to productive sectors, the stability of the macroeconomic environment, and the cost of borrowing. The structural skew of Nigerian bank credit toward trade and services at the expense of agriculture, manufacturing, and infrastructure represents a systemic bottleneck that constrains the credit-growth multiplier.

Policy Recommendations

Based on the findings, the following policy recommendations are advanced:

(i) Reduce Lending Interest Rates: Monetary authorities should ensure lending rates remain conducive to private investment. Targeted intervention funds such as the Anchor Borrowers' Programme and NIRSAL should be expanded, with subsidized credit directed at manufacturing and agriculture.

(ii) Improve Sectoral Credit Allocation: The CBN should strengthen directives compelling banks to allocate credit to priority growth sectors. Sector-specific LDR targets could complement the existing aggregate LDR policy.

(iii) Maintain Macroeconomic Stability: Inflation-targeting frameworks and exchange rate management policies should be prioritized to create a predictable environment for investors. The persistently high CPI and naira depreciation significantly dilute the growth impact of credit.

(iv) Strengthen Credit Risk Management: Banks should adopt modern risk assessment tools and credit guarantee schemes to reduce NPLs and improve lending confidence, particularly for SMEs.

(v) Promote Financial Inclusion: Digital banking and financial literacy initiatives especially in rural areas should be intensified to mobilize savings and enhance credit access for MSMEs.

(vi) Institutional Strengthening: Regulatory agencies (CBN and NDIC) should intensify supervision and compliance with prudential guidelines to foster a resilient and stable financial system.

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