

The Sectoral Distribution of Commercial Banks' Credit and Economic Growth in Nigeria

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DOI : <https://doi.org/10.51583/IJLTEMAS.2026.150600254>

Received: 11 May 2024; Accepted: 16 May 2024; Published: 01 August 2026

ABSTRACT

The study examined the sectoral distribution of commercial banks' credit and economic growth in Nigeria. The specific objectives include to: Examine the effect of commercial bank's loans and advances to agricultural sector on economic growth in Nigeria. Ascertain the effect of commercial bank's loans and advances to mining and quarrying sector on economic growth in Nigeria. The study adopted pre-test estimation of descriptive statistics, unit root and bound tests to ensure that the data set is stationary and fit for the analysis. Auto-Regressive Distributed Lag Model (ARDL) method of analysis was adopted for the estimation. The data utilized for the analysis were extracted from CBN statistical bulletin. The study revealed that commercial bank's loans and advances to agricultural sector for the period of this study has positive and insignificant impact on gross domestic product in Nigeria, commercial bank's loans and advances to mining and quarrying sector for the period of this study has positive and insignificant impact on gross domestic product in Nigeria. Hence, sectoral distribution of commercial bank's loans, advances have not contributed significantly to the Nigerian economic growth. Thus, the study concluded that sectoral distribution of commercial bank's credit had positive and insignificant impact on economic growth of Nigeria. The study recommends that monetary authorities should deregulate interest rate to make funds available for agricultural sector and mining and quarrying sector to expand their business, increase productivity and boost the economy at the end. Government should devise measures to closely monitor the utilization of credits given to every sector of the Nigerian economy in order to enthrone accountability and ensure that the projects for which the credits were obtained are carried out.

Keywords: Commercial Banks' Credit, Economic Growth, Auto-Regressive Distributed Lag Model

INTRODUCTION

Historically, Nigeria's growth has been tied to its status as Africa's largest oil producer. However, in recent years, the structure of the economy has shifted significantly towards services. Oil sectors contributes less than 10% to the total GDP, it accounts for roughly 80% of government revenue and over 90% of export earnings (NBS,2023). Services (Telecommunications, Finance, and Real Estate) and Agriculture are the true engines of growth. In Q3 2025, the non-oil sector contributed 96.6% to the GDP (Trading Economics, 2025). The contribution of the banking system towards the growth of an economy is primarily credited to the role it plays in savings mobilization and allocation of resources to deficit sectors of the economy (Nwakoby and Ananwude, 2016). Access to credit enables enterprises to enhance their productive capacity and their potential to grow (Mathias & Inedu,2022). Commercial bank loans and advances constitute a major source of capital for the real sector of the economy, enabling the starting and sustaining of businesses. These banks act as intermediaries between surplus and deficit spending units, accepting deposits from customers and channeling part of these deposits into sectors such as manufacturing, mining and quarrying, real estate and construction, transport and communication and agriculture (Mathias & Inedu,2022). Commercial banks are financial intermediaries that accept deposits from surplus units and provide loans and advances to deficit units within the economy. These loans and advances play a pivotal role in economic development by providing the capital needed for businesses to invest, expand, and sustain their operations. Businesses, particularly in sectors such

as manufacturing, mining and quarrying, real estate and construction, transport and communication and agriculture, utilize these funds to purchase factor inputs (labour, land, and capital), thereby contributing to the production of goods and services. Loans and advances can take various forms, including overdrafts, term loans, trade credits, and specialized financing arrangements. The effectiveness of these loans in promoting economic growth largely depends on factors such as interest rates, repayment terms, and the borrowers' capacity to utilize the funds productively (Mathias and Inedu, 2022). However, the effects of bank loans and advances on economic growth are significantly influenced by how these funds are utilized and the terms of repayment. Nuri and Ibrahim (2019) highlighted that the development of any sector is closely tied to funding from the financial system. Similarly, Greenwood and Jovanovic (1990) argued that financial intermediaries improve resource allocation, provide better information, and foster growth. The availability of credit can influence saving rates, investment decisions, technological innovations, employment levels, aggregate demand, and, ultimately, long-term economic growth.

Sectoral allocation of credit refers to the distribution of loans and advances to specific sectors of the economy, such as manufacturing, mining and quarrying, real estate and construction, transport and communication and agriculture. This allocation is critical because different sectors have varying levels of productivity, labour intensity, and capital requirements. For instance, the agricultural sector is highly labour-intensive and often requires long-term credit facilities due to the seasonal nature of production, while the manufacturing sector may demand shorter credit cycles for inventory and capital equipment. The efficiency and productivity of credit allocation depend on factors such as government policies, institutional frameworks, and the capacity of borrowers to utilize the funds effectively (Mathias & Inedu, 2022). Results of previous studies on the effect of commercial banks' credit allocated to agricultural sector on economic growth in Nigeria are mixed. For example, the studies by Ubesie, et al. (2019) and Nteegah (2017) indicate that commercial banks' credit allocated to agricultural sector had no significant effect on economic growth in Nigeria and the studies by Akujuobi and Nwezeaku (2015) and Oladapo and Adefemi (2015) shows that commercial banks' credit allocated to agricultural sector had a significant positive effect on economic growth in Nigeria. Hence, there is no specific agreement on the extent to which sectoral distribution of commercial bank's loans, advances impact on economic growth in Nigeria. More so, the focus of this study is on the influence sectoral distribution of commercial bank's loans, advances have on economic growth. The variables used includes commercial banks' credit distributed to agricultural, manufacturing, construction, mining and quarrying, and services sectors and utilized gross domestic product to measure for economic growth in Nigeria. Thus, this study explores sectoral distribution of commercial bank's loans, advances and economic growth in Nigeria from 2008-2024.

Model Specification

Adejayan and Sulaiman (2017) examined the Impact of sectoral distribution of Commercial banks' loans and advances on economic growth in Nigeria. Adejayan and Sulaiman (2017) adopted commercial banks' loans and advances to Manufacturing sector (CMAN, representing Production sector), commercial banks' loans and advances to Export sector (CEXP, representing General Commerce sector) and commercial banks' loans and advances to Transport and Communication sector (CTC, representing Service sector) was used to capture sectoral distribution of commercial banks' loans and advances to different sectors of the economy, while Real Gross Domestic Product (RGDP) was used to capture economic growth. This study was modified to reflect the following variables such as, commercial bank's loans and advances to agriculture (CBLA), commercial bank's loans and advances to mining and quarrying (CBLMQ), while real gross domestic product (RGDP) was adopted as measure for economic growth.

$RGDP = (CBLTA, CBLMQ)$

The study captured the relationship that exists between them in the equation below.

Where commercial bank's loans and advances to agriculture is CBLA, commercial bank's loans and advances to mining and quarrying is CBLMQ, while real gross domestic product is RGDP.

Description of Variables

Dependent Variables

Real gross domestic product: Real gross domestic product is a macroeconomic measure of value of economic output adjusted for price changes.

Independent Variable

Commercial bank's loans and advances to agriculture: commercial bank's loans and advances to agriculture are loans and advances granted to the agriculture sector by commercial banks is adopted as an independent variable.

Commercial bank's loans and advances to mining and quarrying: commercial bank's loans and advances to mining and quarrying is adopted as an independent variable.

Pre-Test Analysis

Descriptive Statistics

This test will examine the mean, the median and the standard deviation, and other statistical properties of the dataset.

Unit Root Tests

To check the stationarity of this study to avoid generating a spurious result, this study adopted Augmented Dicky Fuller (ADF) unit root tests at the 5 percent significance level to determine the order of integration of the variables under consideration.

Co-integration Tests

Co-integration test was carried out to ascertain whether there could be long-run equilibrium relationship between the dependent variables and the independent variables.

Method of Data Analysis

This study employed the autoregressive distributed lag (ARDL) model proposed by Pesaran et al. (2001). The ARDL approach is based on the ordinary least square (OLS) estimation of a conditional unrestricted error correction model (UECM) for cointegration as developed by Pesaran et al. (2001). It is mainly used to establish whether one variable is dependent on another or a combination of other variables. It entails establishing the coefficient(s) of regression for a sample and then making inferences on the population. The simple regression equation is stated thus; $Y = b_0 + b_1X_1 + \mu$. Where: Y = the variable been predicted, b_0 = the intercept, b_1 = the slope, X = the variable used to predict Y, μ = the error term. The *intercept* (b_0) is the value of the dependent variable when the independent variable is equal to zero while the *slope* of the regression line (b_1) represents the rate of change in Y as X changes. Because Y is dependent on X, the slope describes the predicted values of Y given X.

RESULTS AND INTERPRETATION

Table 4.1 Descriptive Statistics

	RGDP	CBLMQ	CBLA
Mean	122255.1	2951.177	828.2653
Median	102575.4	2171.370	525.9500
Maximum	277493.8	8528.590	2854.510
Minimum	39954.21	846.9400	106.3500
Std. Dev.	68399.20	2271.431	805.0583
Skewness	0.819298	1.483456	1.332204

Kurtosis	2.781492	3.975761	3.656502
Jarque-Bera	1.935695	6.909561	5.333798
Probability	0.379900	0.031594	0.069467
Sum	2078336.	50170.01	14080.51
Sum Sq. Dev.	7.49E+10	82550376	10369902
Observations	17	17	17

Source: Researcher's Eview 9, 2026.

Note: **CBLA** = Commercial bank's loans and advances to agricultural sector, **CBLMQ** = Commercial bank's loans and advances to mining and quarrying sector, **RGDP**= Real gross domestic product.

Table 4.1 present the descriptive statistics. The table explains the aggregative averages of the mean, median and standard deviation, a measure of spread and variation which were used for consistency and robustness checks of the results. The skewness, kurtosis and Jarque-Bera probability values demonstrated the series normality test. The minimum row showed the lowest values of each variable and the maximum row gave the highest values of each variable. All variables are positively skewed. Among the variables only real gross domestic product exhibited platokurtic behavior while commercial bank's loans and advances to agricultural sector and commercial bank's loans and advances to mining and quarrying sector exhibited leptokurtic behavior

Table 4.2 Augmented Dickey-Fuller (ADF) Unit Root Test

Variables	ADF Statistic.	Critical value @ 5%	Order of integration	Inference
RGDP	-3.129735	-3.081002	I(1)	Stationary
CBLA	-3.900267	-3.828975	I(0)	Stationary
CBLMQ	-3.508059	-3.081002	I(1)	Stationary

Source: Researcher's Eview9, 2026

Table above presents the summary results of the ADF unit root tests. The result in table 4.4 indicates that commercial bank's loans and advances to mining and quarrying sector and gross domestic product are stationary at order 1 while commercial bank's loans and advances to agricultural sector is stationary at level.

Table 4.3 ARDL Bounds Test

Test Statistic	Value	k
F-statistic	33.19861	2
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
5%	3.79	4.85

Source: Researcher's Eview9, 2026

From the table above, a bound test cointegration was carried out. The bound test result revealed that f-statistics of 33.19861 is greater than lower bound of 3.79 and upper bound of 4.85 test under 5% level of significance. Hence, this study establishes that there is a presence of cointegration and further establishes the existence of long run relationship between the dependent and independent variables in the model.

Table 4.4: ARDL Cointegrating and Long Run Form

Variables	Coefficient	Std. error	t-statistics	p-value
D(CBLA)	6.397807	14.028981	0.456042	0.6572
D(CBLMQ)	3.673137	4.206382	0.873229	0.4012
CointEq(-1)	-0.047568	0.074105	-0.641892	0.5341
Long Run Coefficients				
CBLA	134.499489	214.852941	0.626007	0.5441
CBLMQ	77.219439	175.714756	0.439459	0.6688
C	75361.875217	66142.894514	1.139380	0.2787

Source: Researchers' Eview 9, 2026.

The negative coefficient of the error correction term (-0.047568) indicates that the study conforms to theoretical exposition of the error correction modeling with the negative value of the error correction term. The speed of adjustment from the disequilibrium is corrected at the speed of 4% yearly. The Auto-Regressive Distributed Lag Model (ARDL) results of the first objective revealed that commercial bank's loans and advances to agricultural sector for the period of this study for both short and long run had positive and insignificant impact on gross domestic product in Nigeria. The coefficient of commercial bank's loans and advances to agricultural sector are 6.39 and 134.4 for short run and long run equation respectively; indicating that the increase in gross domestic product is due units of increases in commercial bank's loans and advances to agricultural sector. Again this was confirmed by the p-value > 0.05 level of confidence. The Auto-Regressive Distributed Lag Model (ARDL) results of the second objective revealed that commercial bank's loans and advances to mining and quarrying sector for the period of this study for both short and long run had positive and insignificant impact on gross domestic product in Nigeria. The coefficient of commercial bank's loans and advances to mining and quarrying sector are 3.67 and 77.2 for short run and long run equation respectively; indicating that the increase in gross domestic product is due units of increases in commercial bank's loans and advances to agricultural sector. Again this was confirmed by the p-value > 0.05 level of confidence.

DISCUSSION OF FINDINGS

The findings of the research were interpreted in line with the objectives:

Objective I: Examine the effect of commercial bank's loans and advances to agricultural sector on economic growth in Nigeria.

The result obtained from test of hypothesis one revealed that commercial bank's loans and advances to agricultural sector for the period of this study has positive and insignificant impact on gross domestic product in Nigeria. The coefficient of commercial bank's loans and advances to agricultural sector is 0.09; indicating that a unit increase in gross domestic product is due to 9% increases in commercial bank's loans and advances to agricultural sector. This finding is in consonance with the research of Ozor, (2018) studied commercial banks' credit to the agricultural sector on economic growth of Nigerian Economy. Autoregressive Distributed Lag (ARDL) approach was adopted for estimation. The study found that significant relationship exists between Nigeria's commercial banks' credit to agricultural sector and economic growth. The study further revealed that under most of the models, commercial banks' credit key explanatory variables were statistically insignificant contrary to apriori expectations. On the basis of these findings, the study therefore concluded that the impact of commercial banks' credit to the agricultural sector on the economy is mixed and largely insignificant in Nigeria. However, this study is in contrary with the study of Courage and Aisien (2019) analyzed the effects of commercial bank credit to the real sector on Nigeria's economic growth from 1981 to

2015 using co-integration and error correction mechanisms. The study found that commercial bank credit to the agricultural sectors significantly affects economic growth in both the short and long term.

Objective II: Ascertain the effect of commercial bank's loans and advances to mining and quarrying sector on economic growth in Nigeria.

The result obtained from test of hypothesis three reveal that commercial bank's loans and advances to mining and quarrying sector for the period of this study has positive and insignificant impact on gross domestic product in Nigeria. The coefficient of commercial bank's loans and advances to mining and quarrying sector is 0.84; indicating that a unit increase in gross domestic product is due to 84% increases in commercial bank's loans and advances to mining and quarrying sector.... The outcome of this finding is consonance with the study of Kurotamunobaraomi and Giami (2024) investigated the relationship between sectoral credit allocation of deposit money banks and economic growth in Nigeria from 2003 to 2022 using ordinary least squares (OLS) regression model. They found, an insignificant positive relationship between banks' credit distributed to mining and quarrying sector and GDP in Nigeria.

CONCLUSION

The study evaluated sectoral distribution of commercial bank's credit and economic growth in Nigeria. The objectives include to: Examine the effect of commercial bank's loans and advances to agricultural sector on economic growth in Nigeria. Ascertain the effect of commercial bank's loans and advances to mining and quarrying sector on economic growth in Nigeria. The study adopted pre-test estimation of descriptive statistics, unit root test and bounds test to ensure that the data set is stationary and fit for the analysis. The Auto-Regressive Distributed Lag Model (ARDL) method of analysis was adopted for the estimation. The study revealed that commercial bank's loans and advances to agricultural sector for the period of this study has positive and insignificant impact on gross domestic product in Nigeria, Commercial bank's loans and advances to mining and quarrying sector for the period of this study has positive and insignificant impact on gross domestic product in Nigeria. Hence, sectoral distribution of commercial bank's credit has not contributed significantly to the Nigerian economic growth. Thus, the study concluded that sectoral distribution of commercial bank's credit had positive and insignificant impact on economic growth of Nigeria. The study recommends that monetary authorities should deregulate interest rate to make funds available for agricultural sector and mining and quarrying sector to expand their business, increase productivity and boast the economy at the end.

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