IMPACT OF DOMESTIC CREDIT ON ECONOMIC PERFORMANCE IN NIGERIA

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Abstract

This study examined the impact of domestic credit on economic performance in Nigeria from the period 1991-2022. The study utilized ARDL bound test approach to analyze the result. Gross domestic product, unemployment rate and interest rate were used as the measure for economic performance indicators, while net credit to the private sector and net credit to the public sector were adopted as measure of domestic credit. The findings showed that gross domestic product had positive but non-significant impact on both credit to the private and public sectors in Nigeria. While unemployment rate had negative and non-significant impact on both credit to the private and public sectors in Nigeria. The study recommended that, government and its agencies must take proactive steps in ensuring that prudent level of public debt, regular debt sustainability analyses, adequate monitoring of credit channels are maintain within the financial system, so as to achieve a balance between facilitating credit availability for economic growth and avoiding excessive credit expansion, which could lead to financial instability.

Keywords: Domestic Credit, Gross Domestic Product, Interest Rate, Unemployment Rate.

1.0 INTRODUCTION

Domestic credit mobilization and effective utilization is one of the primary variables that facilitate economic performance. Domestic credit refers to the total amount of financial resources sourced organically through local financial intermediation and dominated in local currency for macroeconomic activities. Domestic credit refers to financial resources provided by financial institutions to the private and public sectors; moreover, domestic credit reflects a country's financial development (Bui, 2019).

Individuals borrow domestic credit for consumption and investment, business organisations borrow to invest in plant, raw materials, and machinery, and the government borrows loans to mitigate the cyclical pattern of tax revenues and to invest in infrastructure projects (Cecchetti & Schoenholtz, 2011 in Begum, Aziz, & Sotto, 2018). According to Adekunle and Ayeni (2021), the credit channel via which financial sector expansion influences economic growth focuses on the proper distribution of mobilized financial resources inform of credit to the real and productive sectors. Omodero (2019),

opined that finance is the natural livewire of an economy, allowing the private and public sectors to expand their enterprises and implement new ideas. The availability of credit and the functioning of the public and private sectors are significantly impacted by a country's domestic credit.

When the nation's regular public earnings are insufficient to meet the ever-increasing needs in the process of social development, developing countries frequently turn to borrowing. In Akpansung and Gidigbi (2020), borrowing may also result from significant investments in infrastructure, conflicts, funding for development, natural disasters, economic downturns, and budget deficits. Nonetheless, domestic credit continues to be vital for sustaining increased investment, which is essential for long-term economic growth, particularly in developing nations like Nigeria.

Domestic financing fosters capital formation, technical advancement, and innovation, all of which support large-scale production economies and boost specialization. Domestic credit to both sectors is becoming more important in order to increase both public and private sector investment (Edward, 2018). This is because, as some prior studies have shown, domestic credit has long been recognised as a fundamental determinant of economic success (Shumpeter, 1911 in Khan Sheraz & Liaqat, 2020).

Domestic credit, which includes loans, overdrafts, and advances to the private sector, plays an important role in economic performance because it not only channels domestic savings into productive investment by the private and public sectors, but it also improves the productivity of the formal sectors of the economy (Nzomoi et al., 2012 in Khan Sheraz & Liaqat, 2020). A well-established and functional domestic credit system has proven to be a suitable alternative source of finance not just for investment objectives, but also for bridging budget gaps and improving monetary policy implementation (Mbate, 2013 in Khan Sheraz and Liaqat, 2020).

According to Pandey (2006) in Odufuye (2017), the standards and practices of the domestic industry determine whether or not a consumer would be granted a domestic credit term. According to Begum and Aziz (2019), banks lend money to people, businesses, and the government. Akpansung and Babalola (2011) noted that the Central Bank of Nigeria has been perceived as playing a leading and catalytic role both before and after the structural adjustment era in 1986 by using direct controls to regulate overall credit expansion as well as to determine the proportion of bank loans and advances going to high priority sectors and others.

However, the Nigerian central bank stated in Akpansung and Babalola (2011) that loan flow to priority sectors fell short of targets and did not have a favourable effect on output, investment, or the level of domestic prices. These undoubtedly raised some concerns about the robustness, efficiency, and productivity of domestic lending in the Nigerian economy. The majority of empirical researchers have not thoroughly examined the nonlinear relationship between domestic credit and economic growth, making it difficult to determine the ideal threshold of domestic credit to promote economic growth.

As a result, opinions regarding the role of domestic credit in economic growth remain generally quite diverse (Bui, 2019). Furthermore, most research focused on one dimension of economic performance indicators, namely growth as represented by GDP, without giving attention to economic development indicators, limiting their reach. Finally, the scopes of existing research were primarily focused on regional levels and economic blocs, leaving national economies, particularly rising economies like Nigeria, with a significant knowledge gap.

The study is structured as follows; section 2 focuses on the review of theoretical and empirical literature, while section 3 dwells on the methodology. The results are presented and discussed in section 4, while section 5 concludes the study and makes some vital policy recommendation.

2.0 THEORETICAL AND EMPIRICAL LITERATURE

The supply-leading theory, first presented by Patrick in 1966, makes the theoretical claim that the growth of a strong financial sector is a prerequisite for economic growth (Akintola, Oji- Okoro, and Itodo, 2020).

According to this theory, financial intermediaries facilitate the mobilization of savings for investments, draw in foreign capital, and enable more equitable capital allocation among rival entrepreneurs—all of which promote growth (Badun, 2009 in Muhoza, 2019). The theory further states that, because financial institutions such as deposit money banks and commercial banks exist and provide their financial assets, liabilities, and related financial services ahead of demand, resources from surplus units to deficit units are efficiently allocated, leading to the growth of other economic sectors.

However, the growth-led hypothesis, also known as the demand-following theory, postulates that, the expansion of actual economic activity drives up demand for financial services, which in turn propels the growth of the financial sector. According to this theory, financial growth is causally related to economic growth. The financial industry grows as a result of the real sector's rising need for financial services.

Nevertheless, there are as many research on this issue as there are different results, methods, and conclusions. According to Akpansung and Babalola (2011), there has been conflicting empirical evidence and ongoing debate over the relationship between finance and economic growth. According to research by Thierry et al. (2016) in Bui (2019), Samad and Masih (2016), and Bakari (2021), there is a favourable correlation between domestic credit and economic growth, which has been demonstrated by numerous academics worldwide.

Bui (2019) refuted Pagano and Pica's (2012) claim that there is always a positive correlation between domestic credit and economic development. It may even have a negative impact on the rate of economic expansion (Levine, 2005; Cournède & Denk, 2015). A study by Ayunku (2018), the relationship between financial development and economic growth has been the topic of much theoretical and empirical discussion.

Yet the relationship between domestic credit and economic growth, as well as differing perspectives on the direction of causality between the two, has been widely debated by early writers (Schumpeter, 1911; Kuznets, 1955; Patrick, 1966) in (Akintola, Oji-Okoro, & Itodo, 2020). As previously indicated, these opposing viewpoints can be classified as "supply-leading" and "demand-following" ideas.

Nestor and Ebikela (2020) used ARDL to assess the impact of domestic debt on Nigerian economic growth. Public debt was discovered to be a strong predictor of economic growth. Ebelebe and Amaefule (2020) used ARDL to examine the influence of private domestic investment on Nigeria's manufacturing sector production.

The findings indicate that private domestic investment has a positive and significant impact on Nigeria's manufacturing sector output. Iheonu et al. (2020) used the augmented mean group to evaluate the influence of financial sector development on domestic investment in selected ECOWAS countries. Domestic lending to the private sector Granger causes domestic investment in ECOWAS, according to the findings. Sadaf and Syed (2020) used fully modified ordinary least squares (FMOLS) as an analytical tool to investigate the impact of banking sector lending on Pakistan's sectoral and sub-sectoral economic growth.

According to the findings, the quantity of private sector credit has a positive but minor influence on the aggregate level of economic growth. Hameed, Batool, and Hussain (2020) used ARDL to assess the short- and long-run effects of domestic debt on South Asian Association for Regional Cooperation (SAARC) countries' economic growth. The study's findings reveal that domestic debt has a negative effect on economic growth in both the short and long run.

2.1 Review Summary of Related Study

AUTHOR(s)/(YEAR)	TOPIC/PERIOD	OBJECTIVE(S)	METHODOLOGY	MAJOR FINDING(S)
Akintola, Oji-Okoro and Itodo (2020)	Financial sector development and economic growth in Nigeria: An empirical re-examination (2000-2019)	Investigated the impact of the financial sector development on economic growth in Nigeria	Autoregressive distributed lag (ARDL) model	Financial deepening, banking system liquidity, and the all-share index all had a positive and significant long-run impact on real output growth.
Akpansung and Babalola (2011)	Banking sector credit and economic growth in Nigeria: An empirical investigation (1970-2008)	Examined the relationship between banking sector credit and economic growth in Nigeria over the period	Granger causality test/ a two-stage least squares (TSLS) regression models	GDP to private sector credit (PSC) and GDP to industrial output index (IND) have unidirectional causal relationships. Private sector financing has a positive impact on economic growth.
Yakubu, Abokor and Balay (2021)	Re-examining the impact of financial intermediation on economic growth: Evidence from Turkey (1970-2017)	Investigated the impact of financial intermediation on economic growth in Turkey.	ARDL Model	Financial intermediation has significant effects on economic growth in both the short and long run, but the effect was only beneficial in the short run.
Begum and Aziz (2019)	Impact of domestic credit to private sector on gross domestic product in Bangladesh (1983-2017)	Determined impact of domestic credit to private sector on gross domestic product	Vector autoregressive (VAR)	Negative and statistically significant (at 10% level) relation between real GDP and domestic credit to private sector (PRC) but insignificant relationship between public credit (PUC) and real GD
Muhoza (2019)	Financial intermediation and economic growth in the East African Community (EAC): A financial index approach (1985-2017)	Examined the effect of financial intermediation on economic growth	PCA	Financial intermediation has a positive and significant effect on economic performance of the EAC countries in the long run

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Adekunle and Ayeni (2021)	Credit channels of financial sector development and economic growth in Nigeria (1986-2018)	Provided a nexus between credit channels of financial sector development and economic growth	ARDL	A long-run relationship exists between credit channels of financial sector development and economic growth; credit to the core sector and government impedes but encourages economic growth in the short run.
Omodero (2019).	Domestic debt and private sector credit in Nigeria: An empirical investigation (1988-2018)	Examined the impact of government domestic debt on private sector credit in Nigeria	OLS	Unlike interest rates, domestic debt has a significant beneficial impact on private sector financing. While the inflation rate was insignificant in explaining private sector credit growth.
Bakari (2021)	The nexus between domestic investment and economic growth in G7 countries: Does internet matter? (1991-2018)	Examined the effect of the internet on the relationship between domestic investment and economic growth.	Panel data analysis	Domestic investment has a positive impact on economic growth, the internet has no effect on economic growth, and the effect of domestic investment on economic growth has been shown to be unaffected by the Internet.
Nestor and Ebikela (2020)	Effect of domestic debt on economic growth in Nigeria (1981-2016)	Examined the effect of domestic debt on economic growth in Nigeria	ARDL	Public debt was found to be a significant determinant of economic growth.
Camba and Camba (2020)	The dynamic relationship of domestic credit and stock market liquidity on the economic growth of the Philippines (1995-2018)	Explored the dynamic relationship of domestic credit and stock market liquidity on the economic growth of the Philippines	ARDL and Granger causality test based on vector error correction model (VECM)	Domestic lending and stock market liquidity have a long-run impact on GDP growth and GDP per capita. The VECM confirmed a long-run relationship between domestic credit and stock market liquidity and GDP growth. When a disturbance occurs in the entire system, GDP per capita, domestic credit, and stock market liquidity show no meaningful dynamic adjustment to a new equilibrium.

Yusuf and Mohd (2021)	The impact of government debt on economic growth in Nigeria. (1980-2018)	investigated the effect of government debt on Nigeria's economic growth	ARDL	External debt was a long-term growth constraint, but it had a short-term growth-enhancing benefit. Domestic debt had a strong favourable impact on long-term growth while having a negative impact on short-term growth.
Abeka et al. (2021)	Financial development and economic growth nexus in SSA economies: The moderating role of telecommunication development (1996-2017)	Examined how telecommunication infrastructure acts as absorptive capacities in the relationship between FD and economic growth in SSA.	S-GMM	Telecommunication infrastructure enhances the effect of financial development on the economic growth of SSA economies
Iheonu et al. (2020)	Financial sector development and investment in selected countries of the Economic Community of West African (ECOWAS) States: empirical evidence using heterogeneous panel data method (1985-2017)	Investigated the impact of financial sector development on domestic investment in selected countries of ECOWAS	Augmented mean group	Domestic investment and domestic credit to the private sector were both positively but insignificantly affected by credit to the private sector. Granger stimulates ECOWAS domestic investment.
Ofori-Abebrese, Pickson and Diabah (2017)	Financial development and economic Growth: Additional evidence from Ghana (1970-2013)	Investigated the relationship and the causal direction between financial development and economic growth	ARDL Model	The amount of credit from domestic sources to the private sector remained positively significant in relation to economic growth, establishing the Ghanaian economy's dependence on changes in domestic credit to the private sector and a unidirectional causality running from variations in economic growth to domestic deposits in Ghana.

3.0 METHODOLOGY

3.1 Estimation Method

We conducted a preliminary examination of the basic statistics and time series attributes of the series before merging them in an estimation model form while estimating the model. This includes calculating the aggregative average, evaluating spread and variance, testing for linear association, and testing for stationarity (unit root tests). The Autoregressive Distributed Lag (ARDL) bound testing established by (Pesaran and Shin, 1999; Pesaran et al., 2001) was used to determine the long and short run impact of domestic credit on Nigerian economic performance. The ARDL is appropriate since it is applied regardless of whether the underlying variables being integrated are of order I (0), I (1), or I (2). The ARDL strategy is more robust and performs better for finite samples than previous co-integration strategies (Kalim & Shahbaz, 2008). Pesaran et al. (2001) employed this strategy.

The generalized ARDL (p, q) model is specified as:

$Y_t = \alpha_{0i} + \Sigma\beta_i Y_{t-1} \, p_{t=1} + \Sigma\delta_i X_{t-1} q_{t=1} + \epsilon_{it}$ ……………….………………………… (i)

Where Y_t is the dependent variable and the variables in X_t are independent variables that can be purely I(0), I(1), or co-integrated; and are coefficients; i = 1,..., k; p is the optimal lag order for the dependent variable and q is the optimal lag order for the exogenous variables. The lag durations of p and q may not be the same; this is the white noise error term. This test uses the FPSS critical values from Pesaran (1997) and Pesaran et al. (2001), as well as the decision rules listed in Table 2 below.

Table 2: Summary of FPSS Decision Rules

STATE	INFERENCE	REMARKS
FPSS > I(1)	Ho is rejected	Co-integration is inferred
FPSS < I(0) and I(1)	Ho cannot be rejected	No Co-integration
FPSS within I(1) and I(0)	Inconclusive Results	Results is inconclusive

We followed the theoretical and empirical specifications of earlier research when developing our model. A time series analysis was used for the study. in accordance with the work of Ukpabi, Eleje, and Onu (2021), as well as Kumar and Paramanik (2020), used the following models: RGDP = f

(CPS)S……………………………………………………….…… (i)

The ARDL model for the study is given in model 3.1

(1) For hypothesis one: which states that net credit to the private sector did not have positive and significant impact on gross domestic product (GDP) in Nigeria, would be tested with the model specified in equation (7) below:

$$\Delta\text{RGDP}_t = \beta_0 + \sum_{I=0}^{P} \alpha i \ \Delta\text{RGDP}_{t-1} + \sum_{i=0}^{p} \vartheta i \ \Delta\text{NCPS}_{t-1} + \delta_1\Delta\text{NRGDP}_{t-1} + \delta_3\Delta\text{NCPS}_{t-1} + \varepsilon t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots. (ii)$$

Where: RGDP is the real gross domestic product, NCPS is net credit to the private sector, Δ represents the first difference operator. $\beta0_1$ is the constant term and β_1 and β_2 represent the short-run coefficients. δ_1, ϑ is the Coefficient of Variables. e is the Error Term/

(2) Hypothesis two: which states that net credit to the private sector did not have positive and significant impact on unemployment rate in Nigeria, would be tested with the model specified in equation (8) below:

$$\Delta\text{UNER}_t = \beta_0 + \sum_{I=0}^{P} \alpha i \ \Delta\text{UNER}_{t-1} + \sum_{i=0}^{p} \vartheta i \ \Delta\text{NCPS}_{t-1} + \delta_1\Delta\text{UNER}_{t-1} + \delta_3\Delta\text{NCPS}_{t-1} + \varepsilon t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots. (iii)$$

Where: UNER is the Unemployment rate, NCPS is net credit to the private sector, Δ represents the first difference operator. $\beta0_1$ is the constant term and β_1 and β_2 represent the short-run coefficients. δ_1, ϑ is the Coefficient of Variables. e is the Error Term.

(3) Hypothesis three: which states that net credit to the private sector did not have positive and significant impact on interest rate in Nigeria would be tested with the model specified in equation (9) below:

$$\Delta\text{INTR}_t = \beta_0 + \sum_{I=0}^{P} \alpha i \ \Delta\text{INTR}_{t-1} + \sum_{i=0}^{p} \vartheta i \ \Delta\text{NCPS}_{t-1} + \delta_1\Delta\text{INTR}_{t-1} + \sigma2\Delta\text{NCPS}_{t-1} + \varepsilon t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots. (iv)$$

Where: INTR is the interest rate, NCPS is net credit to the private sector, Δ represents the first difference operator. $\beta0_1$ is the constant term and β_1 and β_2 represent the short-run coefficients. δ_1, ϑ is the Coefficient of Variables. e is the Error Term

(4) Hypothesis Four: which states that net credit to the public sector did not have positive and significant impact on gross domestic product in Nigeria, would be tested with the model specified in equation (v) below:

$$\Delta\text{RGDP}_t = \beta_0 + \sum_{I=0}^{P} \alpha i \ \Delta\text{RGDP}_{t-1} + \sum_{i=0}^{p} \vartheta i \ \Delta\text{NCPUS}_{t-1} + \delta_1\Delta\text{RGDP}_{t-1} + \delta_2\Delta\text{NCPUS}_{t-1} + \varepsilon t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots. (vi)$$

Where: RGDP is the gross domestic product, NCPUS is net credit to the public sector, Δ represents the first difference operator. $\beta0_1$ is the constant term and β_1 and β_2 represent the short-run coefficients. δ_1, ϑ is the Coefficient of Variables. e is the Error Term

(5) Hypothesis Five: which states that net credit to the public sector did not have positive and significant impact on unemployment rate in Nigeria, would be tested with the model specified in equation (vii) below:

$$\Delta UNER_t = \beta_0 + \sum_{I=0}^{P} \alpha i\ \Delta UNER_{t-1} + \sum_{i=0}^{p} \vartheta i\ \Delta NCPUS_{t-1} + \delta_1 \Delta UNER_{t-1} + \delta_2 \Delta NCPUS_{t-1} + \varepsilon t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots. (viii)$$

Where: UNER is the Unemployment rate, NCPUS is net credit to the public sector, Δ represents the first difference operator. $\beta 0_1$ is the constant term and β_1 and β_2 represent the short-run coefficients. δ_1, ϑ is the Coefficient of Variables. e is the Error Term

(6) Hypothesis Six: which states that net credit to the public sector did not have positive and significant impact on interest rate in Nigeria, would be tested with the model specified in equation (12) below:

$$\Delta INTR_t = \beta_0 + \sum_{I=0}^{P} \alpha i\ \Delta INTR_{t-1} + \sum_{i=0}^{p} \vartheta i\ \Delta NCPUS_{t-1} + \delta_1 \Delta INTR_{t-1} + \delta_2 \Delta NCPUS_{t-1} + \varepsilon t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots. (ix)$$

Where: INTR is the Interest rate, NCPUS is net credit to the public sector, Δ represents the first difference operator. $\beta 0_1$ is the constant term and β_1 and β_2 represent the short-run coefficients. δ_1, ϑ is the Coefficient of Variables. e is the Error Term

Table 3: Description of Model Variables

Variables	Definition	Previous studies
Net credit to the private sector (NCPS)	This is the GDP at a base year market prices less indirect taxes net of subsidies.	Begum, Aziz and Sotto (2018), Begum and Aziz (2019).
Net credit to the public sector (NCPUS)	This refers to financial resources provided to the public sector by financial corporation. For examples, trade credit, loans and account receivables that establishes a claim for repayment.	Begum and Aziz (2019).
Gross domestic product (GDP):	This is the GDP at 2010 constant basic price. This is the GDP at a base year market prices less indirect taxes net of subsidies.	Aziz and Sotto (2018), Begum and Aziz (2019).
Unemployment rate (UNER)	This is the annual unemployment rate in Nigeria.	Akande (2019), Afonso and Blanco-Arana (2018).
Interest Rate (INTR)	This is the maximum weight average deposit/lending rate of deposit money bank.	Yakubu, Abokor and Balay (2021), Nkwede (2020).

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4.0 RESULT AND DISCUSIONS

4.1 Preliminary Statistical Test

As seen in table 1.2. The data set for the empirical analyses of this study are presented and analyzed. The analyses are based on the descriptive statistic, correlation matrix, unit root test statistics. The tables below, was used to explain the behaviour of our model proxies. The standard measures of central tendency like the mean as reported, showed that credit to the private sector, and credit to the public sector have the largest mean value of 10.52, and 4.26, respectively. While gross domestic product and interest rate showed a lower mean value of 4.05 and 2.62 respectively. The result showed that the variables were positively and negatively skewed which indicated the degree of the departure from symmetry with kurtosis all mesokurtic across the variables. The coefficient of variance which measures the strength of the correlative relationship of the variables were positive and normally distributed as it tends to hover around the mean.

Table 4.1: Descriptive Statistics

VAR	MEAN	MEDIAN	MAX	MINI	STD DEV.	CV	SKEWNESS	KURTOSIS
NCPS	10.523	10.063	19.625	5.241	3.432	0.326	0.815	3.33
NCPUS	4.269	4.260	11.290	0.890	2.335	0.546	0.910	4.229
GDP	4.053	4.212	15.329	-2.035	3.782	0.933	0.484	3.786
UNEMR	4.172	3.900	6.000	3.700	0.662	0.158	1.810	4.959
INTR	2.620	5.528	18.180	-31.452	9.962	3.801	-1.452	5.725
SOURCE: Authors Compilation from Eviews Result								

Correlatiom Matrix

In Table 4.2 below the correlation analysis, showed a mixture of positive and negative correlation between domestic credit and economic performance variables. There is no evidence of significant multicollinearity as indicated by the correlation matrices.

Correlation Matrix					
Variables	**NCPS**	**NCPUS**	**GDP**	**UNEMR**	**INTR**
Net Credit to the private sector (NCPS)	1				
Net Credit to the public sector (NCPUS)	0.51 (0.00)	1			
Gross Domestic Product (GDP)	0.17 (0.34)	0.15 (0.42)	1		
Unemployment Rate (UNEMR)	0.24 (0.19)	0.28 (0.12)	-0.42 (0.02)	1	
Interest Rate (INTR)	0.51 (0.00)	0.33 (0.06)	0.27 (0.14)	0.02 (0.89)	1
SOURCE: Authors Compilation from Eviews Result					

Unit Root Test

The results of the unit root test of the panel time series are shown in table 4.1.3. The unit root features of the given series were examined because the ARDL estimation technique only accepts I (1) and I (0) variables (order two I (2) variables are not permitted). The

outcome showed that, for the panel data, all variables are integrated of orders I(1) and I(0). As a result, at the 0.05 level of significance, the null hypothesis of I(2) is rejected for all the variables. The outcomes, however, support the use of the ARDL estimator without concern for data misspecification or spuriousness.

Table 4.1.4 Short and Long Run ARDL Model

UNIT ROOT TEST						
Series	ADF T-Stat	Critical Values			P. Value	Order
		1%	5%	10%		
NCPS	-5.140	-4.323	-3.580	-3.225	0.00	1(1)
NCPUS	-3.924	-3.670	-2.963	-2.621	0.01	1(1)
GDP	-7.888	-3.670	-2.963	-2.621	0.00	1(1)
UNEMR	-3.956	-3.670	-2.963	-2.621	0.00	1(1)
INTR	-4.696	-3.689	-2.971	-2.625	0.00	1(0)
SOURCE: Authors Compilation from Eviews Result						

In table 4.1.4: the result showed the short and long-run relationship between the variables.

In the ARDL results, we discovered that credit to the private sector has positive but non-significant impact on both gross domestic product and interest rate in Nigeria (RGDP/NCPS: Coeff: 0.32, P-val 0.65; INTR/NCPS: Coeff: 2.35, P-val 0.72). This implies that an increase in net credit to the private sector, will result in a slight rise in both gross domestic product and interest rate. The ARDL bound test, on the other hand, revealed that a long-run relationship exists between gross domestic product and credit to the private sector, while no long run relationship exists between INTR and NCPS, as the FPSS (GDP>10.48) is greater than the I(1) and I(0), and (INTR < 0.46) less than the I(1) and I(0), respectively. The short-run parameter of importance is error correction terms (ECT), which demonstrate how the system adjusts to long-run equilibrium at a speed of 70% for GDP and 44% for INTR. In terms of velocity of return to equilibrium from short-run deviations, it will take about (1) year and (4) months for GDP and about (2) years and (3) months to restore full equilibrium between the variables. The diagnostic tests prove that the ARDL model have good fit (GDP: R^2 = 69%; INTR; R^2 = 94 %%), is stable (GDP; RESET: P-val 0.12; INTR; P-val 0.81), have no autocorrelation residual (GDP: LM: P-val 0.60; INTR P-val 0.47) and the variance of the residual is constant (GDP/HET: P-val 0.29; INTR/HET P-val 0.52). While, net credit to the private sector showed negative and non-significant impact unemployment rate. This implied that a drop in credit to the private sector, will result in higher unemployment rate in Nigeria. The bound ARDL test result showed the existence of no long-run cointegration amongst the independent and dependent variables, as the FPSS (UNEMR < 1.51) is less than the I(0) and I(1) bound respectively. As regards the velocity of return to equilibrium from short-run deviations, it will take approximately (20) year for unemployment rate to return to equilibrium. The diagnostic tests prove that the ARDL model have good fit (UNEMR R^2 = 93%), is stable (RESET p-value = 0.51), have no autocorrelated residual (LM p-value = 0.51) and the variance of the residual is constant (HET p-value = 0.11).

Further result, showed that credit to the public sector have positive but non-significant impact on both gross domestic product and interest rate in Nigeria (RGDP/NCPUS: Coeff: 0.01, P-val 0.98; INTR/NCPUS: Coeff: 15.51, P-val 0.72). This implied that a unit rise in credit to the public sector, will result in slight increase in both gross domestic product and interest rate. However, the ARDL result showed that there is a long-run relationship between the dependent and independent variables, as the FPSS (GDP > 8.04 and INTR > 8.48) is greater than the I (0) and I (1), respectively. The short-run parameter of importance is error correction terms (ECT), which demonstrate how the system adjusts to long-run equilibrium at a speed of 92% for GDP and 19% for INTR respectively. That is, it takes approximately (1) year for GDP and (5) year and 2 months for INTR to restore full equilibrium between the variables. The diagnostic tests prove that the ARDL model have good fit (GDP: R^2 = 62%; INTR; R^2 = 78 %%), is stable (GDP; RESET: P-val 0.51; INTR; P-val 0.10), have no autocorrelation residual (GDP; LM: P-val 0.67; INTR P-val 0.09) and the variance of the residual is constant (GDP/HET: P-val 0.63; INTR/HET P-val 0.25).

Table 4.1.4 Short and Long Run ARDL Model

DEPENDENT VARIABLE – RGDP						
VARIABLES	CO-EFFICIENT		T-STAT		PROB	
Net credit to the private sector	0.32		0.45		0.65	
				Diagnostic Test		
R^2	F-STAT	FPSS	ECMt–1	LM	HET	RESET
69%	21.38	10.48 > I(0), I(1)	-0.70 ((0.00)	0.52 (0.60)	1.31 (0.29)	2.52 (0.12)

DEPENDENT VARIABLE – Unemployment Rate						
VARIABLES	CO-EFFICIENT		T-STAT		PROB	
Net credit to the private sector	-0.58		-0.69		0.49	
				Diagnostic Test		
R^2	F-STAT	FPSS	ECMt–1	LM	HET	RESET
93%	213.78	1.51 < I(0), I(1)	-0.05 (0.03)	0.52 (0.59)	5.77 (0.11)	3.94 (0.51)

DEPENDENT VARIABLE – Interest Rate						
VARIABLES	CO-EFFICIENT		T-STAT		PROB	
Net credit to the private sector	2.35		0.38		0.72	
				Diagnostic Test		
R^2	F-STAT	FPSS	ECMt–1	LM	HET	RESET
94%	6.31	0.46 < I(0), I(1)	-0.44 (0.02)	1.71 (0.47)	1.10 (0.52)	0.26 (0.81)

DEPENDENT VARIABLE – RGDP						
VARIABLES	CO-EFFICIENT		T-STAT		PROB	
Net credit to the public sector	0.01		0.02		0.98	
				Diagnostic Test		
R^2	F-STAT	FPSS	ECMt–1	LM	HET	RESET

62%	3.59	8.04>I(0), I(1)	-0.92 (0.00)	0.41 (0.67)	0.69 (0.63)	8.71 (0.51)

DEPENDENT VARIABLE – Unemployment Rate						
VARIABLES	CO-EFFICIENT		T-STAT		PROB	
Net credit to the public sector	-0.72		-0.53		0.59	
					Diagnostic Test	
R^2	F-STAT	FPSS	ECMt−1	LM	HET	RESET
0.95	73.24	1.95< I(0), I(1)	-0.03 (0.02)	0.42 (0.66)	0.93 (0.49)	2.80 (0.71)

DEPENDENT VARIABLE – Interest Rate						
VARIABLES	CO-EFFICIENT		T-STAT		PROB	
Net credit to the public sector	15.51		0.37		0.72	
					Diagnostic Test	
R^2	F-STAT	FPSS	ECMt−1	LM	HET	RESET
78%	3.75	8.48 > I(0), I(1)	-0.19 (0.02)	7.94 (0.09)	1.76 (0.25)	1.99 (0.10)

Source: Authors compilation from EViews Result.

5. CONCLUSION AND RECOMMENDATION

The need for continued economic growth has prompted countries to develop its financial system, which has resulted in the implementation of several financial reforms in Nigeria since independence. Financial reforms were conducted through financial sector liberalization under the Structural Adjustment Programmes (SAP) in 1986, banking recapitalization in 2005, and the introduction of Credit Bureaus in 2008. The goal of these reforms was to promote the growth of the financial services industry, particularly domestic lending to both the private and public sectors, in order to contribute to long-term economic growth.

However, this study aimed to examine the impact of domestic credit on economic performance in Nigeria from the period 1991-2022. The study adopts ARDL techniques in analyzing its data, while utilizing net credit to the private and public sectors as measures for domestic credit and gross domestic product, unemployment rate and interest rate as measures for economic performance for the period studied. The empirical findings of this research give more robust value addition to the body of literature in this area of research. The result showed a positive but non-significant exist between credit to the private sector, gross domestic product and interest rate (GDP/NCPS; Coeff: 0.32; P.val: 0.65; INTR/NCPS; Coeff: 2.35; P.val: 0.72) in Nigeria. This implies that a unit increase in available credit to the private sector, will slightly enhance both gross domestic product and interest rate in Nigeria. While, a negative and non-significant impact exist between credit to the private sector and unemployment rate in Nigeria (UNEMR/NCPS; Coeff: -

0.58; P.val: 0.49). This implies that a decrease in credit to the private, will result in higher unemployment rate in Nigeria.

In the other results, the findings showed that credit to the public sector have positive but non-significant impact on both gross domestic product and interest rate in Nigeria (GDP/NCPUS; Coeff: 0.01; P.val: 0.98; INTR/NCPUS; Coeff: 15.51; P.val: 0.72). This implies that a unit increase in available credit to the public sector, will slightly improve both gross domestic product and interest rate in Nigeria. While, a negative and non-significant impact exist between credit to the public sector and unemployment rate in Nigeria (UNEMR/NCPUS; Coeff: -0.72; P.val: 0.59). This implies that a drop in credit to the public, will result in higher unemployment rate in Nigeria. The conclusions drawn in this study are considered significant as it opens new research frontiers in understanding the relevance of domestic credit as a tool for economic growth. Therefore, the study recommended that, government and its agencies must take proactive steps in ensuring that prudent level of public debt, adequate monitoring of credit channels are maintain within the financial system, so as to achieve a balance between facilitating credit availability for economic growth and avoiding excessive credit expansion, which could lead to financial instability. Finally, government must conduct regular debt sustainability analyses to assess the capacity of the public sector to service its debt, taking into account the impact of unemployment on government finances. Adjust borrowing plans accordingly to maintain debt sustainability. This policy recommendations aims to help government manage the fiscal challenges posed by high unemployment rates, maintain their creditworthiness, and ensure the stability of public finance.

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