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IMPACT OF DEPOSIT MONEY BANKS LOANS TO SMALL SCALE ENTERPRISE ON NIGERIA'S ECONOMIC GROWTH

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Abstract
This study examines the impact of Deposit Money Banks loans to small-scale enterprises on Nigeria's economic growth for the period 2001–2023. The study specifically evaluates the contribution of Deposit Money Banks loans to small-scale enterprises to gross domestic product growth, analyses the relationship between total private sector credit and economic growth, and assesses the effect of lending rates on this relationship. An ex post facto research design was adopted, using secondary time series data on Deposit Money Banks loans, total private sector credit, lending rate, and real gross domestic product obtained from the Central Bank of Nigeria Statistical Bulletin. Data were analysed using descriptive statistics, correlation analysis, and multiple regression with EViews version 13.0. The findings reveal that Deposit Money Banks loans to small-scale enterprises have a positive and significant impact on Nigeria's economic growth, demonstrating that targeted financing of small enterprises enhances productivity and employment. In contrast, total private sector credit exhibited a significant negative relationship with gross domestic product, indicating inefficiencies in credit allocation, while lending rates unexpectedly showed a positive association with gross domestic product, reflecting macroeconomic adjustments in Nigeria. The study concludes that improving access to credit for small-scale enterprises, ensuring efficient allocation of private sector credit, and maintaining lending rates that support growth are crucial for sustainable economic development in Nigeria.
Keywords: Deposit Money Banks, Small-Scale Enterprises, Private Sector Credit, Lending Rate

Introduction

Small businesses, which in most nations account for more than half of employment, sales, and value added, are essential to attaining fair and sustainable industrial diversification and dispersal. Since gaining independence in 1960, Nigeria's industrial sector has not expanded significantly, primarily because of its reliance on oil products (Imafidon, 2025). Poor focus on the growth and promotion of the small and medium-sized sub-sector, which is thought to be the main driver of economic expansion, is the reason for the industrial sector's poor performance. A crucial component of skill development and a pillar of economic recovery is the development of entrepreneurship. As demonstrated by Asian Tigers, which accomplish macroeconomic goals like

ISSN: 2805-3931
2805-3923

full employment, income distribution, local technology development, indigenous entrepreneurship, reducing rural-urban migration, and supporting the entire industrial sector, small-scale enterprises are essential to accelerated industrialisation, growth, and development (El-Yaqub, Ismail, & Usman 2025). Research on how loans from commercial banks affect the economic growth of small businesses in Nigeria is therefore desperately needed.

According to Kharel et al. (2024), the private sector has been acknowledged as a crucial contributor to inclusive and sustainable growth in emerging nations. Growth, employment, poverty alleviation, food security, service delivery, climate change mitigation, environmental sustainability, and tax contributions are just a few of the sectors it supports (Adekoya, 2018). In order for any country to meet its goals for economic growth, the private sector plays a critical role in creating gross domestic investment and effectively allocating resources (Abdullahi, 2022). Deposit money banks offer short-, medium-, and long-term lending services to people, companies, and governments. These banks support development and investment initiatives, which help a nation expand (Izuagie, 2022). They are vital organisations for financial resource allocation, savings, and mobilisation, which makes them vital for economic development and expansion. Financial resources might be mobilised by banks for profitable investments, which would improve their performance (Haruna & Chiebonam, 2022). Profitability, liquidity, and solvency are the top priorities for deposit money institutions regardless of their revenue streams or governmental rules. Adeyemo & Adewale (2024) define economic growth as the ongoing enhancement of a nation's ability to satisfy consumer demand for products and services as a result of higher productivity and production scale. The annual percentage growth in real GDP over a certain time period is used to calculate it.

Statement of the Problem

Small-scale businesses have been known as key contributors of job creation, innovation, and economic sustainability. In Nigeria, however, they have not been making much in terms of contribution to gross domestic product, and this is largely attributed to continuous problems in financing. The Deposit Money Banks which provide the largest amount of formal credit are also apt to assist in growth of such enterprises but because of interest to be paid on loans, only those with good collateral are successful in obtaining the loans and lending would be done based on risk (Duro, 2018).

In spite of the gradual increase in total credit provided by the private sector over the years, the performance of the economy in Nigeria has been mixed with continued high level of unemployment and under product utilization (Aliyu *et al,* 2022). specific loans targeted at small-scale businesses have also exhibited jagged patterns and this raises questions with regard to the effectiveness of financial intermediation and result in growth of the real sectors (Eburajolo & Aisien 2019). In addition, empirical research findings show discrepancy in the impacts of bank loans and lending rates towards economic performance in Nigeria.

This case presents a serious vacuum in perceiving the possibility that Deposit Money Banks' lending to small-scale businesses does not directly affect the growth of the economy and what determines the efficiency and cost of credit distribution process in influencing the relationship. These issues must be addressed to design effective policies which will enhance the ability of the small-scale enterprises to fuel inclusive and sustainable economic growth.

The main objective of this study is to examine the impact of Deposit Money Banks Loans to Small Scale Enterprises on Nigeria's Economic Growth for the period 2001 to 2023. other specific objectives are to: evaluate the contribution of Deposit Money Banks loans to small-scale enterprises on Nigeria's economic growth, analyze the relationship between total private sector

ISSN: 2805-3931
2805-3923

credit and GDP growth in Nigeria, examine the effect of lending rate on the relationship between Deposit Money Banks loans and Nigeria's economic growth.

Literature Review

Conceptual Review

Small and Medium Enterprises

Small and medium-sized businesses (SMEs) are defined differently in each country and lack a common definition. Financial strength, sales value, initial capital outlay, relative size, independent ownership, industry type, and staff count are some of the characteristics that identify SMEs in Nigeria (Adebisi & Ewa, 2020). Businesses that employ between ₦1.5 million and ₦200 million in total capital, including working capital and personnel, are classified as SMEs by the Small and Medium Industries Equity Investment Scheme (SMIEIS). SMEs are often owner-run, modest companies that provide simple products and services.

Finance, which includes investing and buying, is essential to corporate operations. In Nigeria, SMEs are financed by financial organisations like banks. Development finance organisations and commercial banks are examples of formal funding sources. Despite the high risk and default rates they face, the Central Bank of Nigeria (CBN) has pushed commercial banks to give SMEs more loans. This problem was addressed by the creation of Development Finance Institutions (DFIs), each of which was designed to advance a particular economic sector. In order to support the industrial sector, the Bank of Industry (BOI) was established in 2001. It offers small and medium-sized enterprises (SMEs) soft loans with low interest rates and little to no collateral. Along with its partnerships with commercial banks, BOI has strong external working links with both domestic and foreign development organisations. Established in 2000, the Bank of Agriculture (BOA) offers finance and agricultural supplies to small and medium-sized enterprises (SMEs), cooperative groups, and rural farmers. For SMEs to expand and thrive, access to financing is crucial in both developed and developing nations. The Federal Mortgage Bank of Nigeria, Education Bank, and Nigeria Import Export Bank are additional DFIs.

The Role of Deposit Money Banks and Lending Rates in Promoting Economic Growth through Small-Scale Enterprises.

As middlemen between the surplus and deficit units, Deposit Money Banks (DMBs) play a vital role in Nigeria's financial system. Providing credit facilities to various economic sectors, including small-scale enterprises (SSEs), is one of their primary functions. These loans are crucial sources of funding for SMEs, enabling them to expand their operations, generate employment, and boost national productivity (Adebisi & Ewa, 2020). The lending rate, or the interest rate applied to the borrowed funds, is one of the variables affecting small enterprises' ability to obtain loans. High lending rates are likely to deter small businesses from investing because they are linked to significant expenses for the lender (Kanu & Nwadiubu, 2021). On the other hand, lowering lending rates may motivate borrowing and support the expansion of small enterprises, both of which would boost the economy's output.

According to Okoye et al. (2024), SMEs have a significant impact on economic growth, which is often measured by GDP in the form of employment, productivity, and investment levels. Deposit Money Banks' provision of reasonably priced credit to small businesses boosts their output, employment, and incomes, all of which contribute to an increase in GDP. According to Olateju and Ibikunle (2023), the relationship among bank loan availability, interest rates, and SMEs' productivity is crucial in determining the direction of Nigeria's economic development.

Benefits of Small and Medium Scale Enterprises

The importance of SMEs as the cornerstone of long-term development and economic progress is emphasised by the Nigerian government. In both rich and developing economies, SMEs are the

ISSN: 2805-3931
2805-3923

main driver of growth, fostering entrepreneurship, creating jobs, and reducing poverty (Solomon et al., 2024). They help produce goods and services, build a pool of skilled and semi-skilled workers, create jobs, and lessen income inequality. Small and medium-sized businesses (SMEs) contribute to a number of industries in developing nations, including the production of leather goods, textiles, and agro-based subsectors. Over 60% of the workforce is employed by SMEs in some nations, which are financed and managed by a single family. SMEs are therefore essential to the general growth of any economy, but they are particularly important in emerging nations like Nigeria.

Financial Challenges of Small and Medium Enterprises

Nigeria's economic growth depends heavily on SMEs, yet one of the biggest challenges is that they often lack access to efficient and reasonably priced financing sources. According to Adewale et al. (2024), the banking system, which is meant to be the primary source of funding for SMEs, is not supporting new economic projects sufficiently, especially in the agricultural sector. SMEs have been difficult for commercial and merchant banks to finance, and while Micro Finance Institutions (MFIs) have grown, their lending sizes are still small, and their interest rates are high because of administrative expenses. In developing nations like Nigeria, financial limitations have been found to be a significant barrier to the growth of SMEs (Adewale & Adeyemo, 2024). According to research, there are four issues with funding SMEs: low equity capital, risk, cost of capital, and unsuitable bank loan conditions. SMEs continue to face financial difficulties and financial starvation in spite of government policies and initiatives (Adewale & Adeyemo, 2024). The lack of access to funding makes it questionable how well SMEs in Nigeria's informal sector, which is primarily made up of SMEs, would do.

Theoretical Review

The Neoclassical Growth Theory

Robert Solow's 1956 proposal, known as the Neoclassical Growth Theory, places a strong emphasis on the contribution of capital accumulation and savings to economic growth. It implies that real and small and medium-sized businesses (SMEs) see an increase in capital formation as savings rise, which raises productivity and labour utilisation. Nonetheless, the idea contends that economic development requires a constant pace of increase. Increased financing allocation to the real and production sectors, a larger labour pool, and improved labour and capital efficiency are all important components in raising the long-term growth rate.

The research has relied much on the Neoclassical Growth Theory because it best supports the research study considering the effects of Deposit Money Banks loans to small-scale enterprises (SMEs) to the growth of Nigerian economy. The Neoclassical Growth Theory comes in as an elaborate model developed in 1956 by Robert Solow, which focuses on capital formation, savings and effective utilization of resources in economic growth. The theory assumes that the higher the input of money into productive sectors of the economy the more will be the labour productivity which will, subsequently, result in economic growth. As Solow pointed out, the availability of finance especially to the sectors that are productive, is significant to an occurrence of sustainable economic growth. On the other hand, this theory means that the SMEs which could readily acquire the loans offered by the Deposit Money Banks would increase their productivity, extend their operations and could add to the overall development of the economy. This is right in line with what this research study aims to achieve that is, to analyze how the loan facilities of the Deposit Money Banks have improved the economy of Nigeria through SMEs.

Although the other theory which is the Pecking order theory also applies, it complements it as a different point of view. It brings out the preference of firms in their financing especially the small and medium sized enterprises that give the most regard to internal funds then to debt and

ISSN: 2805-3931
2805-3923

eventually equity. SMEs in the Nigerian environment tend to use internal source of finance but due to macroeconomic factors namely inflation, devalued currency among others external source of finance in terms of loans is very important to their existence and development. This theory highlights the difficulty by SMEs in accessing funds and justifies the analysis of the study on the contributions of the loans of Deposit Money Banks in bridging this gap. In conclusion both theories have their own worth but in the overall opinion, the Neoclassical Growth Theory will directly contribute towards the study since financing is needed to spur the growth of an economy especially investments in the SMEs.

Empirical Review

Imafidon (2025) examined the effect of deposit money bank credit on small and medium scale enterprises (SMEs) in Nigeria, particularly in that of wholesale and retail trade. Secondary data covering 20102023 were used in the study where the Central Bank of Nigeria (CBN) Statistical Bulletin was utilized. Based on the dynamic OLS model and descriptive statistics, Pearson correlation, unit root test, the post-regression diagnostics, and Q-statistics method, the result indicated that deposit money banks credit to SMEs positively and significantly affected the performance of wholesale and retail trade. The lending interest rates (LINTR), on the other hand, had a negative and significant effect on the sector as well as rate of inflation (INFR) and rates of broad money supply (BMS) had a positive and significant effect on the sector. Due to the high level of credit provision as shown in the study, there is a strong indication that proper credit provision is imperative in promoting activities of SMEs in wholesale and retail trade, thus the call by the study to policy makers to ensure that the financial system is strengthened to enhance credit access to SMEs.

El-Yaqub, Ismail, and Usman (2025) assessed the effect of financing small and medium enterprises (SMEs) on sustainable development in Nigeria between 1992 and 2023. Considering poverty reduction indicators as a proxy of sustainable development and implementing ARDL-ECM model, it was found that the rate of adjustment towards an equilibrium was 93 percent. In the short run, CBSM, MFSM, AGS and non-commercial bank credit to SMEs (NCSM) impacted positively and significantly on sustainable development whereas SCS and PLR impacted negatively and significantly. In long-term perspective, MFSM and PLR were harmful to sustainable development, but AGS and SCS have positive and significant effects, and CBSM had negative though insignificant impact. The study established that SME financing contributes much to the reduction of poverty, sustainable development and proposed reduction in the charging of lending rates and enhanced access of credit with microfinance integrations.

Kharel, Poudel, Upadhyaya, and Nepal (2024) investigated the effect of private sector credit (PSC) on economic growth in Nepal using data spanning 1975–2022. The analysis of key economic indicators, real GDP (RGDP), PSC, gross capital formation (GCF) were performed in time-series econometric analysis using the regression modeling, cointegration, and the vector error correction model. The results showed that there was a substantial long run correlation between the variables however; PSC played an imperative positive role on economic growth. It was also revealed that approximately 40.07 percent of the disequilibrium in the past period undergoes the balancing in response to the long-run equilibrium on an annual basis in the Nepal economy as a crosscheck on the fact that the economy is sensitive to the credit provision powers. The authors stated that the use of credit in the private sector contributed to the development of a sustainable economy and advised that more studies were needed to investigate the area of diversification of credit as a means of ensuring that its contribution towards steady increase in economic growth was maximized.

ISSN: 2805-3931
2805-3923

Abdullahi (2022) analyzed the impact of monetary policy on private sector performance in Nigeria employing data of 19812021 annuity and Autoregressive Distributed Lag (ARDL) approach. The unit root tests showed that the majority of variables were integrated of order one with real exchange rate being integrated at level. The results revealed that a long-run relationship exists between the credit to the private sector, the broad money supply, real interest rate, and real exchange rate; this is confirmed when the ARDL bounds test showed that no one of the variables forestalls that the relationship holds. It was found empirically that broad money supply had a major positive impact on the performance of the private sector both in the short and even in the long run, whereas the real interest rates and exchange rates wielded a vital adverse impact. The research showed that central bank measured money supply in an optimal position to improve the growth of the private sector and the researcher advised on the continuation of the expansionary monetary policy, reduction of interest rate and control of devaluation of the currency to bolster the naira and enhance the growth of the private sector.

Izuagie (2022) investigated the effect of bank deposits on bank lending and their contribution to economic growth in Nigeria during 1986–2018, concentrating on the period of liberalization and bank merging. The study has used error correction modeling (ECM) to analyze the linkage among the bank deposits, lending activities and economic growth. The results indicate that they were positive and significant long-run with the ratio lying between 0.4017 and 0.5070 and hence the long-run relationship was held to be significant with an increase in the deposits of the banks leading towards an increased lending capacity of banks, which aids in economic growth. The model was also proved to have no positive autocorrelation by the research. It has advised that credit allocation to the privet sector be enhanced to ensure on-going growth and it has encouraged the Central Bank of Nigeria (CBN) to enhance policy implementation so as to ensure that business friendly environment is established to attract investment so as to foster capital inflow.

Haruna and Chiebonam (2022) analyzed the effect of interest rates on the growth of Nigeria’s industrial sector by adopting the quarterly data since 2010Q3 and until 2020Q1 obtained through the Central Bank of Nigeria. A descriptive type of survey design was used in the study, explaining the variables as; inter-bank lending rate (IBR), open buy back rate (OBB), standing lending facility rate (SLF) and standing deposit facility rate (SDF) and 91-day treasury bill rate (91TBR) whereas the dependent variable was industrial sector GDP. Findings pointed to the fact that the standing lending and deposit facilities had a significant effect to the growth of the industrial sector and this reiterates the importance of interest rate manipulation in the promotion of productive sector activities. The authors advised that commercial banks should provide competitive interest rates to achieve a balance between profitability and delivery of credit on a higher scale whilst the central bank should balance the monitory policy in line with performance of the industrial sector and the overall growth of the economy.

Ezeaku et al. (2017) evaluated how financing for SMEs affected the expansion of Nigeria's industrial sector between 1981 and 2014. Credit to SMEs, interest rates, inflation, and exchange rates were the study's independent factors. The multiple regression model was estimated using the ordinary least squares method of estimation. According to the study, lending to SMEs boosted economic expansion, but interest rates had the opposite effect. According to the empirical results presented in Adewole and Aderemi's (2021) paper, there is a significant and positive relationship between GDP, gross fixed capital formation, and commercial bank credit to private individuals, as well as an advantageous and substantial relationship between output growth and SMEs. The impact of commercial bank loans on the output of Nigerian private enterprises was examined by Kanu and Nwadiubu (2021), who found a slight inverse link between the productivity of these businesses and the amount of loans available to them.

ISSN: 2805-3931
2805-3923

Methodology

The study utilized an expo-facto research design to examine the relationship between variables. The sample period was 2001-2023, chosen because Bank of Industry (BOI) was reconstructed from the Nigerian Industrial Development Bank (NIDB) Limited in 2001. Secondary data was used, including time series annual data on Deposit Money Banks loans to SMEs, total credit to the private sector, lending rate, and Real Gross Domestic Product (Proxy for the Nigerian Economy) in Nigeria. Secondary data was chosen over primary data due to its accessibility and reliability.

The study adopted purposive sampling techniques, focusing on the objective variables such as Deposit Money Bank loans to Small-Scale Enterprises, total credit to the private sector, lending rate, and Real GDP proxy of Economic Growth in Nigeria. Data analysis was facilitated using EViews software (Version 13.0), and the output was presented in tables using both inferential and descriptive statistics. The study aimed to understand the relationship between variables and the impact of these variables on economic growth, lending rate, and total credit to the private sector in Nigeria.

Model Specification

To evaluate the association between economic growth and the financing variables of SMEs (lending rate, total credit to the private sector, and Deposit Money Bank loans to small-scale enterprises), regression analysis was employed. In regression analysis, the relationship between independent and dependent variables is estimated. Regression analysis has four stages, according to Gujarati (2003): model formulation, model estimate, model assessment, and testing the model's forecasting ability.

Multiple regression is the type of model used. The independent variables are total credit to the private sector and Deposit Money Bank loans to small businesses, while the dependent variable is economic growth, as measured by RGDP. To ensure a strong model, the loan rate was used as a control variable. Functionally, the model is described as follows:

RGDP= f (CBL, LR, DBL) ………………………………………………………... 1

Linearly, it is specified as:

$RGDP = \beta_0 + \beta_1 DMBL + \beta_2\ TCPS + \beta_3 LR + \mu$……………………………2

Where:

RGDP= Real GDP (Economic growth measure);
DMBLs = Deposit Money Bank Loan to SMEs.
TCPS = Total Credit to Private Sector (represents other means of financing SMEs)
LR = Lending rate.
β_0 = Intercept of the regression model
β_1 -β_3 are parameters of the regression model (Equation 2) to be estimated. They measure the effects of Deposit Money Bank Loan to SMEs, Total Credit to Private Sector, Lending rate, on economic growth respectively.
μ = Error term

Results And Discussion

Table 4.1: Descriptive Statistics

	RGDP	DMBLS	TCPS	LR
Mean	5.18363	61.26232	11818.86	16.54382
Median	5.487793	41.1004	10440.96	16.86808
Maximum	14.60438	465.37	39293.15	24.85
Minimum	-1.92	10.74789	844.4862	5.27

ISSN: 2805-3931
2805-3923

Vol.3 Issue 1 3(1) Al-Hikmah International Journal of Finance (AHIJoF)

Std. Dev.	4.017685	94.10139	9395.483	3.733726
Skewness	0.184287	3.635462	1.04333	-0.89803
Kurtosis	2.784499	16.20464	4.274622	5.542936
Jarque-Bera	0.174692	217.761	5.729697	9.28853
Probability	0.91636	5.17E-48	0.056992	0.009617
Sum	119.2235	1409.033	271833.8	380.5079
Sum Sq. Dev.	355.1194	194811.6	1.94E+09	306.6956
Observations	23	23	23	23

Source: Author's Computation, (2025)

The descriptive statistics provided in table 4.1 show that the Real GDP of Nigeria increased at the average annual rate of 5.18 per cent between 2001 and 2023. It has got a standard deviation of 4.02 meaning that economic growth over the years is moderately volatile. The negative minimum (-1.92%) shows that at least one year of contraction of the economy had occurred and the maximum of 14.60 represents that the economy had reached a highest growth year.

During the study period, DM BLS has had an average of 61.26 billion which on comparison based on the standard deviation (94.10 billion) and extreme maximum (465.37 billion) indicate that the disbursement of loans to SME was erratic with the years experiencing a significant rise in the loan amounts. The high positivity of skewness and the extreme values of the kurtosis also specify the presence of outliers and non-normal distribution, which is beyond doubt due to Jarque-Bera probability being 0.0000.

The mean of TCPS was 11.82 trillion and the standard deviation amounted to 9.40 trillion. It is also skewed positively and this means that there are big values in small number of years. The result of the Jarque-Bera shows that the distribution is near normal but not normal, as its p is near 0.057 (the near significance).

Lending Rate (LR) averaged at 16.54 with a fairly narrow variation in comparison to the credit variables. But the left skew would mean that the majority of the values are higher than the mean and the high kurtosis (5.54) would suggest the presence of extreme values. huge Jarque-Bera ($p < 0.01$) noted that lending rate distribution was not normal.

In general, the descriptive analysis shows that, on the one hand, the economic development (RGDP) of Nigeria did not change significantly during the time frame and was relatively stable, whereas the variables related to credit (DMBLS and TCPS) were highly variable and non-normally distributed implying uneven trends in the loan's disbursement patterns and credit access.

Non-normality was also indicated in the value of the lending rate which implies abnormalities in the monetary policy or the performance of the market.

Table 4.2: Correlation Matrix

	RGDP	DMBLS	TCPS	LR
RGDP	1	-0.11178	-0.6917	0.614847
DMBLS	-0.11178	1	0.631631	-0.63082

ISSN: 2805-3931
2805-3923

TCPS	-0.6917	0.631631	1	-0.84272
LR	0.614847	-0.63082	-0.84272	1

Source: Author's Computation, (2025)

The correlation matrix results indicate correlation coefficient between RGDP and DMBLS as -0.11178 and the relationship is weak negative. This implies that consistent linear relationship between SME loans and economic growth is minimal at best, during the study period. That is, when there is more lending to small-scale business or less, the growth of the GDP of Nigeria cannot be expected to be influenced in a predictable manner. This poor association may be an indication of institutional inefficiencies of SME lending patterns or other uses of SME loans, or it may indicate time delays in the realization of effects of the SME loans on macroeconomic performance.

A stronger negative association is also noted between RGDP and TCPS with its correlation coefficient standing at -0.6917. This shows a high negative association between overall private sector credit and the growth. The implication of this is somewhat intuitive- and we can find here the suggestion that the more funds are given as credit to the private sector the more the growth in the real GDP is likely to decline. This may reflect a form of credit misallocation where the banking loan money does not go into the productive sectors to stimulate GDP, or economic distortions like non performing loans and lack of capacity to absorb credit in the real sector.

On the other hand, the correlation between RGDP and LR is very high at 0.6148 which implies that when lending rate goes up, GDP goes up as well. Although this may appear contrary because a higher interest rate is not likely to encourage investments, it could be a wider economic situation where e.g. hikes in rates are accompanied by an expanding economic situation or where a GDP growth is causing inflationary pressure and, in response, monetary bodies have to raise interest rates.

In the case of independent variables, DMBLS and TCPS have a positive relationship of 0.6316 and this means the lending in SMEs goes up with the increase in the overall private sector credit. Such relationship is anticipated, as SME loans is a part of the overall private sector credit. Nevertheless, there is a high negative effect on both of the variables and the lending rate. In particular, DMBLS and LR are correlated to a tune of -0.63 and 0.6308, whereas TCPS and LR have an even greater negative correlation of -0.84 and 0.8427. These findings support the opinion that it is the higher lending rate that repels credit, especially in economies like the SMEs that are more responsive to lending cost. Having the condition of a negative relationship so significant seems to imply that the monetary policy has a great impact on determining how much credit is availed to the privates.

The correlation shows significant information on the structure of the relationships of the variables. However, of greatest interest is the adverse relationship that exists between the growth of GDP and the growth of credit creation in the private sector, indicating that there is a likelihood that the process of economic growth in Nigeria might not be benefiting significantly of credit growth. The observed positive relationship between the lending rate and the GDP might not mean much stimulation as they can be as a result of monetary responses to economic cycles. Further, negative relationships between the credit variables and the lending rate are substantial and thus confirm that the fluctuations of the interest rates have significant impact on the access to credit particularly by small-scale businesses. These conclusions point out the importance of sound credit targeting, effective application of loans as well as control of interest rates that make sure that monetary flows play meaningful role in the growth of the real sector.

ISSN: 2805-3931
2805-3923

Table 4.3: Regression Result
Dependent Variable: RGDP
Method: Least Squares
Date: 07/14/25 Time: 17:45
Sample: 1 23
Included observations: 23

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DMBLS	0.025895	0.007018	3.689967	0.001451
TCPS	-0.00031	6.23E-05	-4.9807	7.18E-05
LR	0.438026	0.039577	11.06763	5.60E-10
R-squared	0.678288	Mean dependent var		5.18363
Adjusted R-squared	0.646117	S.D. dependent var		4.017685
S.E. of regression	2.390044	Akaike info criterion		4.701609
Sum squared resid	114.2462	Schwarz criterion		4.849717
Log likelihood	-51.0685	Hannan-Quinn criter.		4.738857
Durbin-Watson stat	1.116584			

Source: Author's Computation, (2025)

The regression result shows that DMBLS, TCPS and LR are statistically significant determinants in the Nigerian economic growth over the study period.

Deposit Money Banks Loans to Small-Scale Enterprises (DMBLS) take the coefficient of 0.025895 with p-value of 0.0015, which is of statistical significance to the 1 percent level. This implies that in all other things held constant a 1 billion Nigeria naira change in DMBLS is linked to rising real growth in GDP by 0.026 per cent points. This is a good and important finding and confirms the hypothesis that SME financing positively influences the rate of economic growth thus showing that the first objective of the study is carried out. It implies that the larger the amount of financing that banks give to these small-scale businesses, the more the economic performance might improve due to the resultant productivity of the businesses.

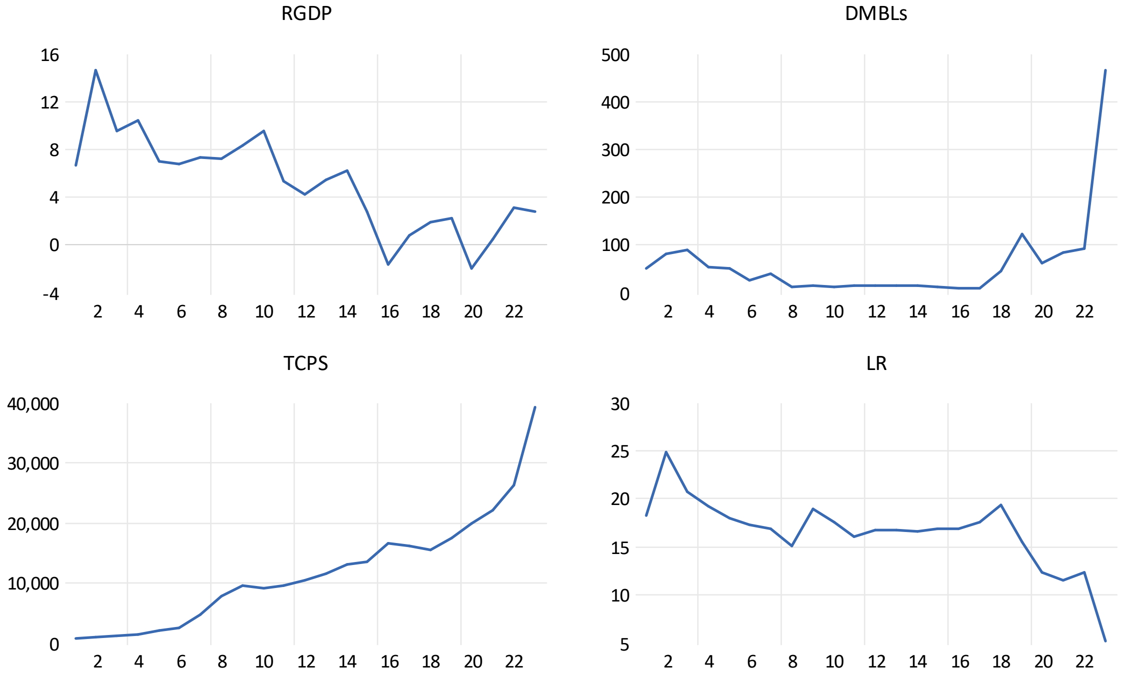
On the other hand Total Credit to Private Sector (TCPS) has a coefficient value of -0.00031, with a p-value of 0.00007 which is also significant at a 1-percent level. The minus sign however means that expansion in the credit of this sector is pegged with a reduction in the real GDP growth. To be more specific, a 1 billion increase in TCPS causes -0.031 percent in GDP growth, other things equal. This observation is opposed to the inherent understanding and indicates that despite the growth in the private sector credit over the years, there is a possibility that it is not effectively directed in productive use. It may imply weak performance by lent funds as well as inefficient allocation of credit or structural inefficiency in absorbing credit particularly when the lent funds are either channeled into consumption or non-growth-enhancing sectors.

It is revealed that Lending Rate (LR) is significantly positive with coefficient 0.438026 and extremely important p- value 0.00000000056 (5.60E-10). Such an outcome denotes that a 1 percent increment on the lending rate corresponds to a 0.438 percentage point increment in the growth in GDP. Although this might be shocking since the interest rates should normally discourage borrowing and economic activities, it might be the economic situation in Nigeria where the interest rates go high when there is periods of oil-based expansions or economic tightening after the

inflationary creations. It can also allude to reverse causation which is that growth pressures result in the monetary authorities raising interest rates.
As regards model fit, R-squared value stands at 0.6783 which means that about 67.83% of variations in RGDP can be attributed to changes in DMBLS, TCPS and LR. The adjusted r-squared, which adjusts by the number of predictors is 0.6461 indicating that there is still a good degree of the extent to which the model is able to explain it with regards to macroeconomics. The standard error of the regression (2.39) is reasonable, whereas the relatively small values of Akaike and Schwarz Information Criteria (4.70 and 4.85 respectively) confirms the model efficiency. Nonetheless, Durbin-Watson shows the result of 1.12 that is lower than an acceptability level of ~2.0 meaning that positive autocorrelation influences exist in residuals. It implies that possible miscalculations within the model can be associated over time, and additional diagnostic tests or model modifications (including the robust standard errors tests or a time series method) may be called upon.

On the empirical basis, the regression analysis supports well the core argument of the research that Deposit Money Banks Loans to Small-Scale Enterprises has significant influence on improvement of economic growth in Nigeria and they are intended to be positive in nature. But when the shock result turns out to be that the Total Credit to Private Sector has a negative effect, it suggests that wider credit distributions are not, necessarily, associated with growth because of ineffective use, or weak financial intermediation. The unanticipated positive effect of lending rate on GDP growth can be a specific feature of the macroeconomic mechanisms in Nigeria, i.e., the level of inflation control, responses to policies, or sector unequilibrium. On the whole, the model proves to have a highly significant explanatory power and the significance of a special credit policy geared toward SMEs and the overall credit growth in advancing the economy of Nigeria.

Figure 1: Trend Analysis of Study Variables (2001–2023)



Source: Author's Computation, (2025) The study examines the trends of four major variables in Nigeria's economic growth over the past two decades: Real Gross Domestic Product (RGDP), Deposit Money Banks loans to small-scale enterprises (DMBLS), Total Credit to the Private Sector (TCPS), and Lending Rate (LR).

In the first graph shows Nigeria's annual Real Gross Domestic Product (RGDP) trajectory, with the highest growth in early 2000 reaching over 14%. However, a decline began in 2004 and only modest recovery in 2008-2014. Since 2015, performance has deteriorated, reaching negative ground in 2016-2017. In 2020, instability may be caused by the COVID-19 pandemic. By 2023, the RGDP level is slightly up.

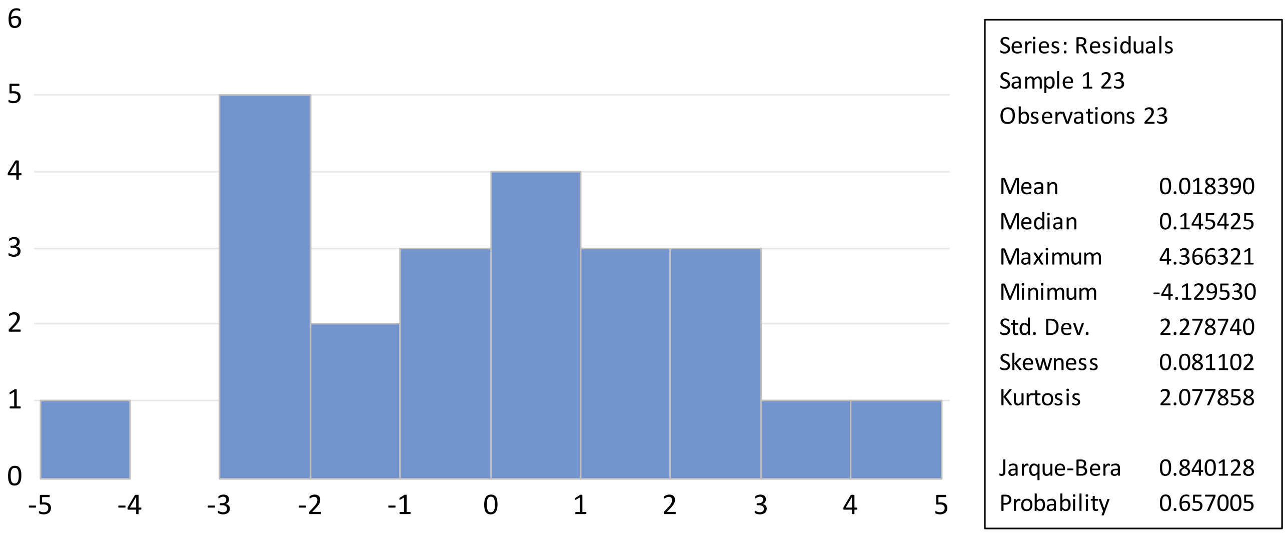
The second graph shows an immobile and flat-line pattern between 2001 and 2018, with few credits disbursed to small-scale enterprises due to fiscal restrictions, loaning riskiness, or lack of proper SME banking systems. However, a dramatic increase in DMBLS in 2022 and 2023 suggests policy measures towards higher SME finance and increased understanding of SMEs' potential for economic recovery.

The third graph shows a continuous positive trend in Total Credit to Private Sector (TCPS) from 2001-2023, driven by the expansion of financial intermediation and larger lending activities in the Nigerian economy. The rate of increase escalates after 2015, reaching nearly 40 trillion naira by 2023. However, the regression results show that TCPS is negatively related to RGDP, suggesting an inefficiency in credit application.

The fourth graph shows a high but gradually decreasing trend in Lending Rate (LR) between 2001 and 2023, with a short-term increase in 2018 recording its lowest number of final years. These changes correspond to wider monetary policy changes of the Central Bank of Nigeria, affecting inflation, liquidity levels, and economic stability. The regression model shows a positive association between lending rate and economic growth, suggesting that when monetary policy was tightened or rates were high, it did not necessarily discourage economic activities, especially in credit-worthy sectors.

In conclusion, the study highlights the importance of credit quality, timing of policy, and sectoral targeting in ensuring sustainable economic growth in Nigeria.

Figure 2: Histogram of Regression Residuals (Normality Test)



Source: Author’s Computation, (2025)

ISSN: 2805-3931
2805-3923

The histogram of the residuals of the regression model is given in Figure 2 and the statistics of interest are provided with this figure. This value plays a critical role in gauging the validity of the assumption of normality of Ordinary Least Squares (OLS) regression which is requisite in sound inference especially in hypothesis testing and the development of confidence intervals.

Based on the histogram, it seems that the residuals are distributed somewhat symmetrically and in the form of a bell, but rather jagged because the sample is not large enough (size is 23 observations). Most of the residuals are concentrated in the middle (between -2 and +2), and less on either tail. This spreading graphically shows a sense of approximate normality.

This visual interpretation can be supported by the statistical measurements. The residual means are about 0.018 and almost equals to 0 so there is no important system contained in the residuals. The standard deviation value of 2.23 indicates the moderately scattered data around the mean. The skewness value 0.0811 indicates that the distribution is almost symmetrical and the value of kurtosis 2.08 is close to the normal distribution value of 3, which means that the distribution has neither heavy, nor light tails.

The most significant one is that the Jarque Bera statistic is 0.8401, with a probability (p-value) of 0.6570. The p-value is quite big to reject the null hypothesis of the Jarque-Bera test since it is much bigger than alpha levels (0.01, 0.05, or even 0.10). This means that the residuals do not deviate appreciably to a normal curve and therefore meet the requirement of normal assumption of OLS regression.

The histogram and the related statistics show that the error of the regression model is normally distributed. This proves one major assumption of the classical linear regression model, which increases the confidence placed behind the parameters of the model, the tests presented and the entire accuracy in the inference.

Discussion of Findings

This study set out to examine the impact of Deposit Money Banks' (DMBs) loans to small-scale enterprises (SMEs) on Nigeria's economic growth from 2001 to 2023, incorporating total private sector credit (TCPS) and lending rate (LR) as additional explanatory variables. The results offer important insights into the dynamics between financial intermediation and the real sector of the Nigerian economy.

The descriptive analysis shows that Nigeria's real GDP (RGDP) grew at an average of 5.18% with moderate volatility, while DMB loans to SMEs (DMBLS) were highly erratic, marked by very low disbursements in earlier years and a steep rise after 2022. Total private sector credit (TCPS) demonstrated a persistent upward trend, whereas lending rates, although generally high, trended downward over the study period. Correlation analysis revealed a weak and negative association between DMBLS and GDP growth, a stronger negative association between TCPS and GDP, and a surprisingly positive association between lending rates and GDP.

The multiple regression results provide more definitive evidence. DMB loans to SMEs exhibit a statistically significant and positive effect on Nigeria's economic growth, affirming the hypothesis that targeted financing of SMEs stimulates productivity, job creation, and overall economic performance. This finding is consistent with Imafidon (2025), who found that bank credit positively and significantly impacts SME performance in Nigeria's wholesale and retail sectors, and Izuagie (2022), who established a long-run positive link between bank deposits, lending activities, and growth. It also aligns with the Neoclassical Growth Theory, which posits that capital formation via financial intermediation raises productivity and accelerates economic growth.

ISSN: 2805-3931
2805-3923

Conversely, total private sector credit (TCPS) demonstrates a significant but negative relationship with GDP. This contradicts conventional economic expectations and suggests inefficient credit allocation or structural weaknesses within Nigeria's credit system. Similar observations were made by Abdullahi (2022), who highlighted that broad money supply enhanced private sector performance while real interest rates and exchange rate dynamics negatively influenced outcomes. This finding underscores the persistent challenges of credit misallocation, non-performing loans, and inadequate absorption capacity in Nigeria's private sector, where expanded lending does not automatically translate into real sector productivity.

Another notable outcome is the significant positive coefficient of lending rate (LR) on GDP, contrary to the theoretical expectation that higher borrowing costs stifle investment. This anomaly may reflect Nigeria's macroeconomic environment, where rising interest rates coincide with economic expansions, inflationary pressures, or oil price booms, prompting the monetary authorities to tighten policy. Haruna and Chiebonam (2022) similarly observed that certain interest rate components significantly influenced Nigeria's industrial sector growth, and El-Yaqub et al. (2025) found that lending rates negatively affect sustainable development in the long run but exhibit mixed short-run effects. The positive LR-GDP relationship in this study may thus be an outcome of reverse causation, where periods of growth prompt monetary tightening rather than the other way around.

Overall, the findings reveal a dual narrative: while credit directed explicitly toward SMEs bolsters economic growth, the broader expansion of private sector credit does not yield proportional growth dividends. This reinforces the importance of credit quality, targeted SME financing, and policies that enhance the absorptive capacity of the productive sectors. The results echo Adewole and Aderemi (2021), who emphasized that SMEs, as engines of growth, require accessible and well-structured financing to drive sustainable economic development. They also corroborate Ezeaku et al. (2017), who demonstrated that SME financing significantly improves manufacturing sector performance.
In summary, the empirical evidence from this study validates the theoretical assertion that productive financing stimulates growth but warns against the assumption that all credit is growth-enhancing. The findings highlight the critical need for stronger credit targeting, monitoring, and policy interventions to ensure that increased financial intermediation translates into broad-based and sustainable economic growth in Nigeria.

Conclusion
This study investigated the impact of Deposit Money Banks' (DMBs) loans to small-scale enterprises (SMEs) on Nigeria's economic growth between 2001 and 2023, incorporating total private sector credit (TCPS) and lending rates (LR) as key explanatory variables. The analysis revealed that DMB loans to SMEs significantly and positively influence economic growth, underscoring the role of targeted SME financing in enhancing productivity, employment generation, and overall macroeconomic performance. Conversely, total private sector credit exhibited a negative and significant relationship with GDP, suggesting that the broad expansion of credit has not translated into proportional economic gains, possibly due to inefficient allocation or misuse of funds. Furthermore, lending rates showed an unexpected positive association with GDP growth, reflecting Nigeria's macroeconomic dynamics, where periods of economic expansion often coincide with higher interest rates driven by policy responses to inflation and financial stability concerns.

ISSN: 2805-3931
2805-3923

Overall, the findings highlight the importance of improving access to and the effectiveness of credit directed toward SMEs, ensuring that financial intermediation aligns with productive sector needs, and strengthening institutional frameworks to optimize the growth impact of bank lending. The study concludes that Nigeria's economic performance will benefit significantly from policies that prioritize credit quality and SME-focused financing over mere expansion of aggregate private sector credit.

Recommendations

1. **Increase SME Financing:** DMBs should expand affordable credit to SMEs through tailored products and simplified access, as such loans have proven to drive economic growth.
2. **Ensure Productive Credit Allocation:** Regulators must strengthen oversight to ensure private sector credit is directed toward growth-enhancing activities, reducing misallocation and non-performing loans.
3. **Maintain Growth-Friendly Lending Rates:** Interest rate policies should balance stability and investment by keeping rates at levels that encourage productive borrowing, especially for SMEs.

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