



Assessment of Deposit Money Banks Credit, Banking Sector Depth and ... Nzogbu, U. I., Et. al. (2026)

Assessment of Deposit Money Banks Credit, Banking Sector Depth and Economic Growth in Nigeria: An Econometric Investigation 1987-2024

NZOGBU, Ugochukwu I.¹

Email: elgopen@yahoo.co.uk
elgopeny.u.i@gmail.com
08068575248

TSENKWO, Joseph B.¹

Email: tsenkwoj@gmail.com
07035256816

GOSHIT, Gideon G.¹

Email: goshite@unijos.edu.ng
08036055243

¹Department of Economics, University of Jos, Plateau State, Nigeria

Abstract

This study investigates how deposit money banks' credit and the banking sector's depth affect Nigeria's economic growth. Despite reforms, Nigeria struggles to turn financial expansion into sustained economic growth. Using a causal design and the ARDL model, the study finds significant short- and long-term effects of banking sector depth proxies on GDP. Results show banking sector's financial depth boosts growth; deposit money banks' credit and deposit liabilities positively impact GDP, highlighting banking's role in mobilising deposits and credit. However, the negative private credit-to-GDP ratio suggests private credit is directed to less productive sectors. The study recommends focusing on productive sector credit, improving financial inclusion, optimising interest rates, and strengthening banking stability. Effective reforms and robust financial intermediation are essential for Nigeria's sustainable growth.

Keywords: Deposit money banks' credit, banking sector depth, Economic Growth (GDP)

Introduction

Economic growth depends on a strong financial system and the effectiveness of deposit money banks (DMBs) in allocating credit. Studies link banking sector depth to growth, highlighting the importance of credit distribution for development. Models like the supply-leading hypothesis, the economic theory of bank credit, and the quantity theory of credit emphasise bank credit's role in growth. Financial liberalisation suggests deeper systems boost economic expansion, especially in developing countries. DMBs promote innovation (Schumpeter, 1911), create money (Hahn, 1930; Werner, 1992), and facilitate transactions (Werner, 2018). Liberalisation encourages banking depth, capital accumulation, and growth. Developed countries like the US, Germany, and Japan have extensive financial systems, with private credit exceeding 100% of GDP and M2 over 120%. Demand deposit liabilities to GDP are around 50-60%, for example, about 40-50% in the US and 130-140% in Japan, supporting growth. Some African nations, such as South Africa, Morocco, and Tunisia, have moderately developed systems, with private credit-to-GDP ratios from 60% to 100%. South Africa's demand deposits are 60-70%, Egypt's about 40-50%, aiding 3-4% annual growth. Nigeria's financial system is shallow, with private credit at 20%, M2 at 30%, demand deposits at 20-30%, and 2% growth. Opportunities exist to reform Nigeria's sector for higher growth (IMF, 2023; World Bank, 2023a). In developing countries, economic growth depends on financial system depth. Bank credit is crucial for investment, growth, innovation, and job creation. Banking sector depth shows how well savings are mobilised and used productively. Limited credit access, underdeveloped markets, and



Assessment of Deposit Money Banks Credit, Banking Sector Depth and ... Nzogbu, U. I., Et. al. (2026)

weak institutions hinder these benefits. A deep financial system fosters growth by efficiently allocating credit and expanding markets, with bank credit boosting investment, innovation, and employment (Loveth, Felix, & Nkamere, 2025). Countries with high deposit-to-GDP ratios tend to mobilise more deposits for lending, boosting economic growth. Lower ratios, like Nigeria's 20-30%, suggest limited financial inclusion and credit, hindering growth. Despite DMBs' credit to the private sector rising from ₦21 billion in 1987 to ₦26,177 billion in 2024, the CPS to GDP ratio stays below the World Bank's 25% threshold (World Bank, 2018). This study examines how bank credit and banking sector depth influence Nigeria's economic growth, offering empirical evidence to reassure researchers and policymakers that data-driven decisions can promote sustainable economic growth and development.

Objectives of the Study

This study aims to investigate the impact of deposit money banks' credit and banking sector financial depth on Nigeria's economic growth. Specifically, the objectives are:

1. To examine the effect of deposit money banks' credit on economic growth in Nigeria.
2. To assess the influence of banking sector depth on economic growth in Nigeria.
3. To investigate the joint impact of deposit money banks' credit and banking sector depth on economic growth in Nigeria.

This research advances credit-depth-led growth literature, offering policy insights on credit management and the impact of banking sector depth on economic growth. Findings help policymakers make informed decisions, stressing the importance of capitalising deposit money banks (DMBs) for effective lending. Results also guide monetary and regulatory authorities on using credit expansion and banking sector depth for sustainable growth, considering macroeconomic stability and institutional factors.

Research Questions

1. What is the impact of deposit money banks' credit on Nigeria's economic growth?
2. How does banking sector depth, measured by private sector credit to GDP ratio, demand deposit liabilities to GDP ratio, and interest rate spread, influence Nigeria's economic growth?
3. What is the combined effect of deposit money banks' credit and the financial depth of the banking sector on Nigeria's economic growth?

Literature Review

The framework examines how the deposit money banks' credit and banking sector depth impacts Nigeria's economic growth, using indicators such as Private Sector Credit/GDP, demand deposit liabilities to GDP, and interest rate spread. It considers macroeconomic stability via the monetary policy rate as a mediator, with the loan-to-deposit ratio controlling for banks' intermediation in growth. The study cites the theory of Credit Rationing (Stiglitz & Weiss, 1981), which explains how information asymmetry causes credit rationing, limiting effective credit distribution. It also discusses the Financial Liberalisation Theory, noting that liberalisation does not always improve credit allocation due to information asymmetry, and mentions the quantity theory of credit, which describes how deposit money banks' credit impacts growth. Stiglitz and Weiss (1981) developed the credit rationing theory, showing that limited information causes credit restrictions. Information asymmetry hinders banks' lending. They argue that financial liberalisation does not always improve credit allocation because savings go into investments. Riskier borrowers accept higher rates, worsening adverse effects and moral hazard, leading to credit rationing where lenders cannot accurately assess risk. The Financial Liberalisation Theory (Shaw, 1973; McKinnon, 1973) claims that liberalising financial systems boosts growth in developing economies by enhancing efficiency, cutting costs, and



Assessment of Deposit Money Banks Credit, Banking Sector Depth and ... Nzogbu, U. I., Et. al. (2026)

expanding credit access. It promotes savings and affordable borrowing, strengthening financial institutions. The theory assumes that a liberalised system effectively channels resources to productive sectors, driving economic growth. The Quantity Theory of Credit (QTC) (Werner, 1992; 1997) explains credit's role in economic growth, distinguishing between credit for real-sector activities and non-productive sectors. It emphasises banks' ability to create money and urges policymakers to focus on bank credit rather than the money supply, promoting credit flow into growth sectors. It is a valuable framework for understanding economic expansion and growth. Research highlights the bank credit's role in economic growth, especially in developing economies. Studies (King & Levine, 1993; Beck et al., 2000; Adebisi & Ewa, 2020; Amos, 2020; Ajudua, 2023; Ornan & Miftahu, 2023; Khom, Omkar, Yadav & Pramshu, 2024; Onigah, 2024) link private-sector credit to growth and capital accumulation. However, weak institutions and poor regulation can limit the effectiveness of credit (Demetriades & Hussein, 1996). In sub-Saharan Africa, high non-performing loans and limited financial inclusion constrain credit impact (Odhiambo, 2008). Credit's effectiveness depends on institutional quality and macroeconomic stability. Banking sector depth, measured by private-sector credit and demand deposit liabilities to GDP, is linked to growth (Levine, 2005; Rajan & Zingales, 1998). Deeper systems improve resource allocation, reduce costs, and aid risk management. Results from developing economies are mixed, with shallow markets and weak institutions limiting benefits (Nguena & Nchofoung, 2020; Adenuga & Omotosho, 2020). In sub-Saharan Africa, financial depth supports growth but has a modest impact compared to developed regions (Al-Homaidi et al., 2020; Loveth, Felix, & Nkamere, 2025). Also, Ikhsan and Satrianto (2023) show that banking sector depth has a significant effect on economic growth, but it is dependent on financial market efficiency. Context matters; Banking sector depth drives growth, but its effectiveness depends on the institutional quality and macroeconomic environment.

Research Methodology

This study used a causal research design to examine variable relationships, integrating theoretical and empirical literature for insights (Kerlinger & Howard, 2013). It analysed annual data from 1987 to 2024 due to data availability. Key variables like GDP, deposits, interest rates, and ratios showed consistent trends, shocks, and correlations with past values. Data included real GDP, deposit credit, ratios, liabilities, interest spread, bank rate, and loan-to-deposit ratio from the Central Bank of Nigeria's bulletins.

Model Specification

Based on existing literature, the relationship among deposit money banks' credit, banking sector depth, and economic growth can be expressed as influenced by Werner (2018), Tursoy and Faisal (2018), and Le, Ho, and Vu (2019). This adapted framework for this study is expressed implicitly and functionally as follows:

$$GDP = f(DBCPS, IRS, BSFC, CBSP, BNKR, LTDR) \dots 1$$

Where: DBCPS is the deposit money bank credit, IRS is the interest rate spread, BSFC measures the banking system financing via private sector credit to GDP, CBSP indicates the deposit money bank contribution via demand deposits to GDP, BNKR is the monetary policy rate, and LTDR is the loan to deposit ratio. Introducing natural logs to equation (1) could improve estimation efficiency of parameters over the linear model; thus, equation (1) is expressed as:

$$\ln GDP = \lambda_0 + \lambda_1 \ln DBCPS + \lambda_2 \ln IRS + \lambda_3 \ln BSFC + \lambda_4 \ln CBSP + \lambda_5 \ln BNKR + \lambda_6 \ln LTDR + \mu_t \dots 2$$



www.foefugusau.com.ng
des@fugusau.edu.ng

DOI: <https://doi.org/10.64348/zije.2026356>

Assessment of Deposit Money Banks Credit, Banking Sector Depth and ... Nzogbu, U. I., Et. al. (2026)

Where: GDP, DBCPS, IRS, BSFC, CBSP, BNKR, LTDR are as earlier specified, \ln denotes natural logarithms, λ_0 is the intercept, $\lambda_1 - \lambda_7$ are coefficients of variables, and μ_t is a serially uncorrelated error term.

A priori, DMBs credit to the productive sector ($\lambda_1 > 0$), DMB/GDP ratio ($\lambda_3 > 0$), and demand deposit liabilities to GDP ($\lambda_4 > 0$) are expected to influence GDP positively. In contrast, the Interest Rate Spread ($\lambda_2 < 0$) likely impacts GDP negatively in developed countries but may increase it in developing countries. The Bank Rate (λ_5) has an uncertain effect, and the Loan-to-Deposit Ratio (λ_6) is expected to affect GDP positively. Overall, increases in DMBs credit to the productive sector, DMB/GDP ratio, and deposit liabilities to GDP should boost GDP, while a higher Interest Rate Spread likely reduces it. The effects of the Bank Rate and Loan-to-Deposit Ratio are uncertain. These expectations align with economic theories (Keynes, 1936; Shaw, 1973; Werner, 2018).

Estimation Technique

ARDL and UECM models were used since the variables were integrated at different orders (I(0) and I(1)). The ARDL specification of the model in equation (2) is:

$$\Delta \ln GDP = \lambda_0 + \lambda_1 \ln DBCPS_{t-1} + \lambda_2 \ln CBSP_{t-1} + \lambda_3 \ln BSFC_{t-1} + \lambda_4 \ln IRS_{t-1} + \lambda_5 \ln BNKR_{t-1} + \lambda_6 \ln LTDR_{t-1} + \sum_{i=0}^n \mu_7 \Delta \ln DBCPS_{t-1} + \sum_{i=0}^n \mu_8 \Delta \ln CBSP_{t-1} + \sum_{i=0}^n \mu_9 \Delta \ln BSFC_{t-1} + \sum_{i=0}^n \mu_{10} \Delta \ln IRS_{t-1} + \sum_{i=0}^n \mu_{11} \Delta \ln BNKR_{t-1} + \sum_{i=0}^n \mu_{12} \Delta \ln LTDR_{t-1} + \Omega ECM_{t-1} + \mu_t \quad \dots 3$$

In equation (3), Δ is the change operator, n is the lag length, and μ_t is the error term. Ω is the adjustment speed, and ECM is the residual from equation (3). Ω is expected to be negative and statistically significant. The equation's long-run and short-run estimators are represented by the parts with and without the difference operator, respectively. The bound test checks for cointegration by testing the joint significance of $\lambda_1 - \lambda_6$ using F-statistics. The null hypothesis (H_0) is no cointegration ($\lambda_1 = \lambda_2 = \dots = \lambda_6 = 0$), tested against the alternative hypothesis (H_1 : at least one $\lambda \neq 0$).

Presentation of Results

Descriptive Statistics Result

Table 1's descriptive statistics highlight variable characteristics. GDP has the highest mean (9.5060), while BSFC is the lowest (2.1462). Most means align with medians, indicating symmetry. EXR shows high variability (1.3427). Most variables are negatively skewed, especially IRS (-1.9626). IRS also has the highest kurtosis (6.6022), with GDP the lowest (1.9718). Jarque-Bera tests show IRS and BNKR deviate from normality ($p < 0.05$). These stats reveal distribution traits and areas for further analysis, such as IRS's and BNKR non-normality.

Table 1: Result of VIF Test for Variables in Model

	GDP	DBCPS	IRS	BNKR	BSFC	CBSP	LTDR
Mean	9.506	7.0295	2.3504	2.5893	2.1462	2.4223	4.1619
Median	9.9268	7.4576	2.5618	2.6027	2.1776	2.4509	4.1684
Maximum	12.2178	10.1065	3.0301	3.2581	2.8252	3.1066	4.5729
Minimum	5.5	2.7594	0.5068	1.7918	1.4223	1.6306	3.6259
Std. Dev.	2.0644	2.4081	0.5544	0.2822	0.383	0.3715	0.2132
Skewness	-0.4756	-0.44	-1.9626	-0.6777	-0.1915	-0.1891	-0.5698
Kurtosis	1.9718	1.7871	6.6022	4.8231	2.0646	2.5648	3.0865
Jarque-Bera	2.9428	3.3686	42.5747	7.7416	1.5324	0.4987	1.9591
Probability	0.2296	0.1856	0	0.0208	0.4648	0.7793	0.3755
Sum	342.216	253.064	84.6139	93.2164	77.2629	87.2042	149.829
Sum Sq.Dev	149.167	202.965	10.7569	2.7879	5.133	4.8298	1.5906



Assessment of Deposit Money Banks Credit, Banking Sector Depth and ... Nzojbu, U. I., Et. al. (2026)

Observations	36	36	36	36	36	36	36
---------------------	----	----	----	----	----	----	----

Source: Eviews 10.0

Multicollinearity Test

The VIF results in Table 2 indicate no severe multicollinearity, with all values below 10. The average VIF of 3.0617 suggests moderate correlation among independent variables, which is acceptable for reliable analysis.

Table 2: Multicollinearity Test Result (Variance Inflation Factor)

Variable	Coefficient variance	Centered VIF
DBCPS	0.001	4.6914
BSFC	0.0449	5.6538
CBSP	0.0256	3.0595
BNKR	0.0229	1.5881
IRS	0.0081	1.9285
LTDR	0.0369	1.4489
Mean of VIF	0.0232	3.0617

Source: Eviews

Unit Root Test Result

The Vogelsang-Perron unit root test with a breakpoint confirms mixed integration, matching the ADF results. GDP, IRS, and LTDR are I(0), while DBCPS, CDSP, BSFC, BNKR, and EXR are I(1) and effectively capture gradual shifts in the series's mean.

Table 3: Results of Vogelsang and Perron Unit Root Test With Break Point (Innovation Outliers)

Variables	At Level				At First Difference				Decision
	Test Statistics	Critical value@ 5%	Prob. Value	Break Date	Test Statistics	Critical Value@ 5%	Prob. Value	Break Date	
GDP	-5.426	-4.4437	0.01*	1991	-5.685	-4.4437	0.01*	1995	I (0)
DBCPS	-2.827	-4.4437	0.774	1992	-6.816	-4.4437	0.01*	2007	I (1)
CBSP	-3.69	-4.4437	0.288	2005	-5.537	-4.4437	0.01*	1995	I (1)
BSFC	-3.792	-4.4437	0.24	2000	-7.837	-4.4437	0.01*	1997	I (1)
BNKR	-3.658	-4.4437	0.303	1993	-7.895	-4.4437	0.01*	2011	I (1)
EXR	-4.363	-4.4437	0.063	1998	-9.939	-4.4437	0.01*	1999	I (1)
IRS	-6.741	-4.4437	0.01*	1997	-14.56	-4.4437	0.01*	1993	I (0)
LTDR	-5.773	-4.4437	0.01*	2009	-5.739	-4.4437	0.01*	2010	I (0)

Source: Eviews 10.0

The Vogelsang-Perron test shows GDP, IRS, and LTDR are level I(0), while DBCPS, CBSP, BSFC, BNKR, and EXR are first differences I(1). Break points indicate structural changes and are linked to policy reforms: CBSP (1995), IRS (1997), EXR (1999), DBCPS (2007), BNKR (2011), with some breaks

Assessment of Deposit Money Banks Credit, Banking Sector Depth and ... Nzogbu, U. I., Et. al. (2026)

for GDP, BSFC, and LTDR in various years. The ARDL estimation used this test, and the Quandt-Andrews test found no structural breaks in the model's variables.

ARDL Bounds (Cointegration) Test

The ARDL bounds cointegration test from Table 4 confirms cointegration since the F-statistic exceeds the upper bound critical value at 5%, indicating a significant long-term relationship and rejecting the null of no level relationship.

Table 4: ARDL Bounds Test Result

Estimated Model	Optimal Lag	F- Stat	Is there cointegration
$\ln GDP_t = f(\ln DBCPS, \ln CBSP, \ln BSFC, \ln IRS, \ln BNKR, \ln LTDR)$	2,3,3, 3, 2, 3,3	3.6865**	YES
Critical Values	I (0)	I (1)	
1%	2.88	3.99	
5%	2.27	3.28	
10%	2.88	2.94	

Source: Eviews 10.0

Note: The Akaike Information Criteria (AIC) was used to select the optimal lag for each cointegration model. I (0) and I (1) denote lower and upper bounds of the ARDL.

ARDL RESULT

Long-run estimates from Table 5 show that DBCPS, BSFC, CBSP, and IRS are significant at 5%. DBCPS positively influences growth, while BSFC has a negative impact. In the short term, GDP, IRS, and LTDR (1-year lag) are significant. Additionally, DBCPS, CBSP, BNKR (lags 1 and 2), and BSFC (lag 2) are also statistically significant. Deposit Money Banks Credit to Productive Sector (DBCPS) positively influences Nigeria's GDP (0.7344, $p < 0.05$), supporting the idea that credit drives growth, as Schumpeter and Werner noted. Private Sector Credit to GDP (BSFC) negatively impacts (-0.7600, $p < 0.05$), suggesting unproductive credit may harm growth, per Arcand et al. (2015). Demand Deposit Liabilities to GDP (CBSP) positively affect growth (0.0569, $p < 0.05$), indicating financial intermediation supports growth. The Interest Rate Spread (IRS) also positively impacts (0.0604, $p < 0.05$), possibly reflecting efficient lending or high risk. Loan-to-Deposit Ratio (LTDR) and Monetary Policy Rate (BNKR) lack significant long-term effects.

Table 5: ARDL Result

Dependent variable = $\ln GDP (2, 3, 3, 3, 2, 3, 3)$

Variable	Coefficient	Std. Error	t-Statistic	P-Value
LONG-RUN ESTIMATES				
$\ln DBCPS$	0.7344	0.0391	18.7795	0.0000**
$\ln BSFC$	-0.76	0.03	-25.322	0.0000**
$\ln CBSP$	0.0569	0.0257	2.2161	0.0342**
$\ln IRS$	0.0604	0.0091	6.6492	0.0003**
$\ln LTDR$	-0.0474	0.027	-1.7536	0.1229
$\ln BNKR$	0.0032	0.0155	0.2088	0.8405
SHORT-RUN ESTIMATES				
$\Delta \ln GDP (-1)$	0.4618	0.093	4.9678	0.0016**
$\Delta \ln DBCPS (-1)$	-0.2881	0.0813	-3.5454	0.0094**
$\Delta \ln DBCPS (-2)$	0.1836	0.0362	5.0723	0.0014**
$\Delta \ln BSFC (-1)$	0.0371	0.0668	0.5555	0.5959

Assessment of Deposit Money Banks Credit, Banking Sector Depth and ... Nzogbu, U. I., Et. al. (2026)

$\Delta \ln BSFC (-2)$	-0.3517	0.0452	-7.7892	0.0001**
$\Delta \ln CBSP (-1)$	0.1781	0.0333	5.3392	0.0011**
$\Delta \ln CBSP (-2)$	0.1485	0.0221	6.7142	0.0003**
$\Delta \ln IRS (-1)$	0.0896	0.0103	8.6957	0.0001**
$\Delta \ln LTDR (-1)$	0.0743	0.0208	3.5728	0.0091**
$\Delta \ln LTDR (-2)$	0.0229	0.0177	1.2913	0.2376
$\Delta \ln BNKR (-1)$	-0.1139	0.0187	-6.0786	0.0005**
$\Delta \ln BNKR (-2)$	-0.0882	0.0142	-6.2116	0.0004**
$ECM (-1)$	-0.6103	0.0795	-7.6802	0.0001**

R-squared value is 0.99246, the Adjusted R-squared is 0.98276, the Standard Error of the regression is 0.01519, the Akaike Information Criterion is -5.2417, the Schwarz Criterion is -4.3801, and the Hannan-Quinn Criterion is 4.9518. The F-statistic is 8933.12, as sourced from EViews 10.0. Diagnostic assessments in Table 6 confirm the model's reliability: no evidence of serial correlation or heteroscedasticity per Breusch-Godfrey and ARCH tests ($p > 0.05$). Variables are normally distributed, confirmed by Jacque-Bera ($p > 0.05$). Models are well-specified, as shown by Ramsay Reset ($p < 0.05$), and the error terms are white noise, making estimates efficient and reliable.

Table 6: Residual Diagnostic Result for Model

Test statistics	F-Statistics	P-Value
Normality (λ_2 -JARQUE- BERA)	1.0906	0.5797
Serial Correlation (λ_2 -BREUSCH-GODFREY)	0.0285	0.8715
Heteroscedasticity (λ_2 -ARCH)	0.0335	0.8559
Ramsey Reset (λ_2 -RESET)	3.5903	0.1069

Source: Eviews

The Stability tests (CUSUM and CUSUMSQ) in Figures 1 and 2 show that the residuals are within 5% critical bounds. Therefore, the ARDL models for the study are stable, efficient, and reliable.

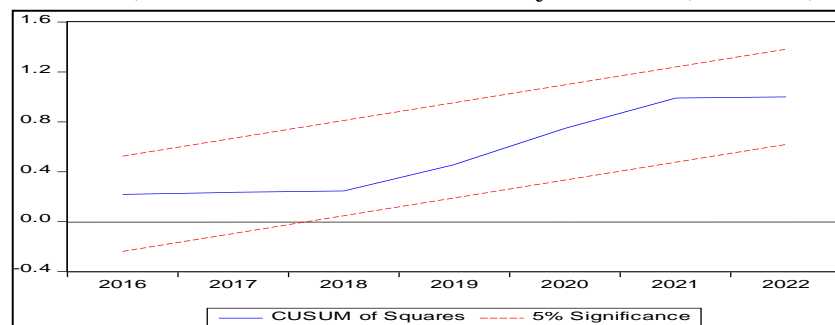


Figure 1 shows CUSUM

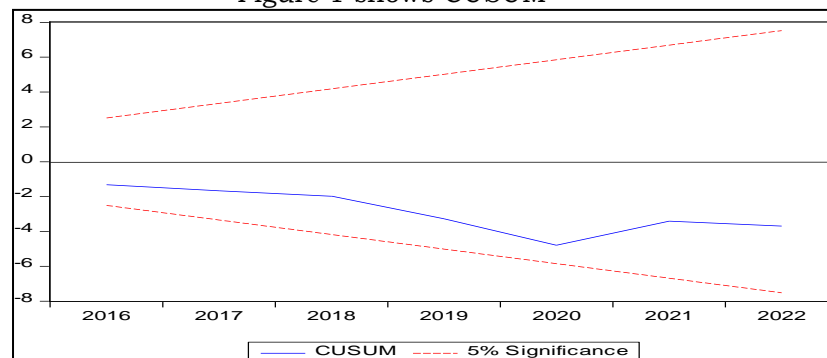


Figure 2 shows the CUSUM of Squares.



Discussion of Findings

Deposit money banks' credit (DBCPS) and interest rate spread (IRS) positively influence Nigeria's economic growth, supporting financial intermediation by mobilising deposits and extending credit. The interest rate spread's (IRS) positive effect suggests banks' profitability may drive credit supply, boosting growth. The monetary policy rate (BNKR) has a positive but insignificant impact on GDP, indicating weak or indirect effects, possibly due to transmission issues like rate pass-through problems. The loan-to-deposit ratio's (LTDR) insignificant positive effect means lending is not solely based on deposits. Conversely, the negative, significant credit-to-GDP (BSFC) ratio suggests increased private-sector credit may reduce GDP growth, possibly due to credit flowing into less productive sectors, distressed borrowing, unproductive investments, or crowding out public investments. In the short term, all variables, Deposit Money Banks' Credit (DBCPS), Demand Deposit Liabilities to GDP (CBSP), Private Sector Credit to GDP (BSFC), Monetary Policy Rate (BNKR), and Loan-to-Deposit Ratio (LTDR) significantly impacted GDP, showing banking sector influence on Nigeria's short-term growth. Long-term results diverged, with BNKR and LTDR seen as insignificant, indicating short-term growth is more affected by financial sector fluctuations. The lack of effects from lagged interest rates and the two-year lag of LTDR suggest these influences are transient or rapidly adjusted. This implies policy effects take time to influence growth or are offset by other factors, highlighting the importance of short-term dynamics. This study's findings imply that promoting deposit mobilisation and credit, especially to productive sectors, can foster growth. The negative impact indicates a need to direct private credit away from less productive or speculative activities. The limited effect of monetary policy rates suggests reviewing credit market channels and banking challenges. The insignificance of the loan-to-deposit ratio may imply that banks' lending depends on other factors like risk appetite and sector preferences.

Conclusion

This study shows that deposit money banks' credit, demand deposit liabilities to GDP, and interest rate spread significantly drive Nigeria's economic growth, emphasising the banking system's role and depth. Policies fostering banking sector depth and efficient credit can boost growth. The study also finds banking sector depth variables like bank demand deposits to GDP ratio, private sector credit GDP ratio, the monetary policy rate, and the loan-to-deposit ratio have short-term effects, with sustained long-term influence of bank credit, demand deposits, and the interest rate spread on economic growth and development.

Policy Recommendations

1. CBN and Deposit money banks should prioritise credit to the real sector, expand financial inclusion, increase banking access, and improve financial literacy to boost savings and demand deposits.
2. They should also promote competition to optimise interest rate profitability with affordable credit.
3. CBN should strengthen banking stability by implementing reforms, ensuring efficient financial intermediation, and risk management.
4. The Federal Government, through the CBN, should monitor macroeconomic stability to support banking sector performance through targeted interventions (such as granting low-interest loans for priority sectors).



Assessment of Deposit Money Banks Credit, Banking Sector Depth and ... Nzogbu, U. I., Et. al. (2026)

References

- Adebisi, A., & Ewa, U. (2020). Deposit money, banks' services, and economic growth in Nigeria. *International journal of finance and accounting*, 9(2), 31–41.
- Ajudua, E., I. (2023). Deposit money, banks, credit, and the Nigerian economic growth: An empirical analysis. *Economic Insights: Trends and Challenges*, 12(2), 1–10.
- Amos, N. S. (2020). Deposit money, banks, credit, and economic growth in Nigeria. *Lafia Journal of economics and management sciences*, 5(1), 8–26.
- Arcand, J. L., B. E., & Panzza, U. (2015). Too much finance? *Journal of Economic Growth*, 20 (2)105-148
- Al-Homaidi, E. A., Tabash, M. I., Khan, S., & Taufiq, M. (2020). Bank profitability, stability, and liquidity: Evidence from an emerging economy. *Journal of Financial Economics Policy*, 2(2), 237–258.
- Beck, T., Demirgüç-Kunt, A., & Levine, R. (2000). A new database on financial development and structure. *World Bank Economic Review*, 14(3), 597–605.
- Demetriades, P. O., & Hussein, K. A. (1996). Does financial development cause economic growth? Time-series evidence from 16 countries. *Journal of Development Economics*, 51(2), 387–411.
- Hahn, L. A. (1930). Economic theory of bank credit. *Oxford revised ed.*, 147–149.
- Ikhsan, A., & Satrianto, A. (2023). The effect of financial development on economic growth in higher income countries. *Asian economic and financial review*, 13 (3), 202–215
- International Monetary Fund (IMF). (2023). *International Financial Statistics (IFS)*
- Keynes, J. M. (1936). *The general theory of employment, interest, and money*. London: Macmillan, Cambridge University Press.
- Kerlinger, F. N., & Howard, B. L. (2013). *Foundations of behavioural research* (4th Ed.)Belmont, CA: Wadsworth.
- Khom, R. K., Omkar, P., Yadav, M. U., & Pramshu, N. (2024). Effect of private sector credit on economic growth in Nepal. *Financial markets, institutions and risks*, 8(1), 142-157.
- King, R. G., & Levine, R. (1993). Finance and growth: Schumpeter might be right. *Quarterly Journal of Economics*, 108(3), 717–737.
- Le, Q., Hoa, H., & Vu, T. (2019). Financial depth and economic growth: empirical evidence from ASEAN+3 countries. *Management Science Letters*, 9(6), 851–864.
- Levine, R. (2005). Finance and growth: Theory and evidence. *Handbook of Economic Growth*, 1, 865–934.
- Loveth, O., Felix, N. E., & Nkamere, S. E. (2025). Effect of financial development on economic growth in Nigeria: 1984 -2024. *International Journal of finance, Accounting and Management science*, 2 (1). 112-133.
- McKinnon, R. I. (1973). *Money and Capital in Economic Development*. Washington, D.C: Brookings Institution.
- Ngutua, J. E., & Nchofoung, T. N. (2020). Financial inclusion and economic growth in Cameroon. *Journal of Economics and Finance*, 44(3), 495–513.
- Odhiambo, N. M. (2008). Financial development in Kenya: a dynamic test of the finance-led growth hypothesis. *Savings and Development*, 32(1), 57–74.
- Onigah, P. O. (2024). Impact of banking sector credits on economic growth in Nigeria. *Journal of Management Sciences*, 60 (3), 12-51.
- Ornan, W. Y., & Muftahu, I. (2023). Effect of banking credit on economic growth: Evidence from Nigeria. *International journal of economics and development policy-IJEDP*, 6(1), 117-134.
- Rajan, R. G., & Zingales, L. (1998). Financial dependence and growth. *American Economic Review*, 88(3), 559–586.
- Schumpeter, J. A. (1911). *The theory of economic development*. Cambridge, Massachusetts, Harvard University Press.
- Shaw, E. S. (1973). *Financial deepening and economic development*. New York: Oxford University Press.
- Stiglitz, J. E., & Weiss, A. (1981). Credit rationing in markets with imperfect information. *American Economic Review*, 71(3), 393-410.



www.foefugusau.com.ng
des@fugusau.edu.ng

DOI: <https://doi.org/10.64348/zije.2026356>

Assessment of Deposit Money Banks Credit, Banking Sector Depth and ... Nzogbu, U. I., Et. al. (2026)

- Türsoy, T., & Faisal, F. (2018). Does financial depth impact economic growth in North Cyprus? *Financial Innovation*, 4 (12), 1–13.
- Werner, R. A. (1992). *Towards a quantity theorem of disaggregated credit and international capital flows* paper presented at the Royal Economic Society Annual Conference, New York, USA.
- Werner, R. A. (1997). Towards a new monetary paradigm: A quantity theorem of disaggregated credit, with evidence from Japan. *Kredit und Kapital, Duncker & Humblot, Berlin*, 30(2), 276–309.
- Werner, R. A. (2018). Scientific macroeconomics and the quantity theory of Credit; Paper presented to *Centre for Banking, Finance and Sustainable Development*, University of Southampton Business School, 1–67.
- World Bank (2018). *World development indicators for different countries*: World Bank publication, Washington, D.C.
- World Bank. (2023). *World Development Indicators (WDI)*.