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Commercial Banks Lending Interest Rate And The Performance Of Some Selected Economic Sectors Of Nigeria Economy (2000-2018)

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***Abstract:** This study examines the commercial banks lending interest rate and the performance of some selected economic sectors of Nigeria economy (2000-2018). The connections or relationship between the selected sectors variables were ascertained. The objective of this study was to determine how banks lending interest rate affect the allocation of loans to the various economics sectors. Simple linear regression technique was used to determine the significant effects of the bank's lending interest rate on the loan allocated to the real economic sector as the sectors performance measurement. The Pearson Correlation was used to determine the extent of the relationship between the dependent variable and the independent variables and the ANOVA was used to ascertain the significant differences between the variables examined. The empirical result indicated a significant relationship between bank's lending interest rate and the loan allocated to the all the selected real economic sectors. An upward or downward review of banks lending interest rate significantly determines the changes in the allocated loans to the selected real economic sectors. It was recommended that government should adopt policy measures to favor the sectors in terms of lowering the monetary policy rate, partner with private sectors to finance the establishment of industries and mandates banks to increase the dedicated ratio of their credits to the sectors.*

***Keywords:** Commercial banks, Lending Interest Rate, Loan allocations, Real economic sectors, Monetary policy, Manufacturing sector, Agricultural sector, Small and medium scale sector.*

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I. INTRODUCTION

A. BACKGROUND TO THE STUDY

Finance is very essential for any economy seeking to achieve economic progress. Banks remain the major sources of financial credit needed for investment by both individuals and firms. The real economic sectors of Agriculture, manufacturing and the small and medium scale sectors are strategic for the growth and development of the Nigeria economy. However, the credit supplied to these economics units by the government and financial institutions is insufficient with high interest rate, making it difficult to obtain. Arikpo and Adebisi (2017).

Agriculture is one of the real economic sectors selected for this study. This sector is widely known as the bedrock of the Nigeria economy with over 70% of the rural dwellers engaged in various Agricultural activities for the provision of foods and raw materials for industries. The performance of the agricultural sector largely depends on the provision of affordable financial services to both the Rural and Urban population engaged in the Agriculture. Commercial Banks are the major sources of such financial services in form of loans and advances. Unfortunately, the provided funds remain insufficient with high interest on the available fund. Adewole, Adekanmi and Gabriel (2015).

Manufacturing sector is another real economic sector selected for this study. This sector determines the growth and development of any nation. The sector is underperforming in Nigeria dues to many factors ranging from lack of skilled manpower, high cost and transportation of raw materials; high taxation, hash governments policies, high cost of production and high lending interest rate on the commercial banks credits. Problem of funding has made it difficult for manufacturing firms to invest in modern machines, information and communication technology and human resources development needed to raise productivity. Sogules and Nkoro (2016)

Small and Medium scale enterprises is the third selected sector for this study. This sector cut across all other real economic sectors such as small and medium scale manufacturing, Agriculture, Mining, construction etc. This sector is included in the study because of its significant role as an engine of growth of the Nigeria economy. This sector like other real sectors is facing the difficulties of obtaining credits facilities from the commercial banks as a result of their inability to pay back loans with interest as due fall. Small and Medium scale Enterprises is one of the sector that contributes to the economies of both developed and developing countries in job creation, innovative products and technologies, intermediate roles to the large industries, import substitution products, and correctors of rural-urban migration. Oke and Aluko (2015).

The three selected sectors for this study are the bedrock for the development of the Nigerian economy. However, they are challenged by inadequate credits facilities as a result of poor funding and unbearable lending interest rates on the credits facilities. The crucial needs for economic growth and development make it imperative to look into their access to financial credits and the sufficiency of credits allocated to the sectors.

B. STATEMENT OF THE PROBLEM

Every nation depends largely on her real economic sectors for economic growth and development. The real economic sectors as Agriculture, Manufacturing, Small and Medium Scale business sectors are the engine room, bedrock and the major catalyst of growth and development due to their contributions to the economy in job creation, diversification of the economy from mono-economy of oil dependant, creations of innovative products and technologies, play intermediate roles among various economic sectors, creates import substitution products and helping the nation to increase its foreign exchange earnings, enables local labor to acquire skills and correct rural-urban migration challenges. These significant roles is inadequately performed by the sectors due to poor access to financial credits and high lending interest rate on the credits facilities from the commercial banks among other factors.

C. RESEARCH QUESTIONS

This study is investigating the relationship between commercial banks lending interest rate and the performance of some selected economic sectors of the Nigeria economy by answering the following questions:

- ✓ What is the relationship between commercial banks lending interest rate and the performance of Agricultural sector of the Nigeria economy?
- ✓ What is the relationship between commercial banks lending interest rate and the performance of manufacturing sector of the Nigeria economy?
- ✓ What is the relationship between commercial banks lending interest rate and the performance of small and medium scale sector of the Nigeria economy?

D. OBJECTIVES OF THE STUDY

The objective of this study is to determine the relationship between commercial banks lending interest rates and the performance of some selected economic sectors of the Nigeria economy (2000-2018).

The specific objectives of this research are

- ✓ To determine the significant relationship between Commercial banks lending interest rates and the performance of Agricultural sector (proxy by the credits allocated to the Agricultural sector) of the Nigeria economy.
- ✓ To determine the significant relationship between Commercial banks lending interest rates and the performance of manufacturing sector (proxy by the credits allocated to the Manufacturing sector) of the Nigeria economy.
- ✓ To determine the significant relationship between Commercial banks lending interest rates and the performance of small and medium scale sector (proxy by the credits allocated to the Small and Medium Scale sector) of the Nigeria economy.

E. STATEMENT OF HYPOTHESES

A research hypothesis is a tentative statement of expectation or prediction that would be tested by the research analysis. It is a tentative statement about the relationship between two or more variables. Therefore, the statement of hypothesis for this research is stated below:

HYPOTHESIS ONE

H_o: There is no significant relationship between Commercial banks lending interest rates and the performance of Agricultural sector (proxy by the credits allocated to the Agricultural sector) of the Nigeria economy.

HYPOTHESIS TWO

H_o: There is no significant relationship between Commercial banks lending interest rates and the performance of manufacturing sector (proxy by the credits allocated to the Manufacturing sector) of the Nigeria economy.

HYPOTHESIS THREE

H_o: There is no significant relationship between Commercial banks lending interest rates and the performance of small and medium scale sector (proxy by credits allocated to the Small and Medium Scale sector) of the Nigeria economy.

F. SIGNIFICANCE OF THE STUDY

The primary objective of any government is to adopt policy measures that ensure economic growth and development. The contributions of the selected sectors to the growth and development of the national economy is very low due to poor funding. It is therefore crucial for government to adopt policy measures that can effectively propel them for

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maximum performance and adequate contributions to the economy.

The outcome of this research is expected to guide government and central bank of Nigeria in the monetary policy regulation of interest rate to specifically favor the selected real economic sectors by improving the sectors access to adequate funds that would boost their performance and contributions to the economy. This research would further contribute to knowledge by bridging the gap in literature and showing the economic needs to monitor commercial banks lending interest rate on credits to the real economic sectors.

II. REVIEW OF RELATED LITERATURES

A. CONCEPTUAL FRAMEWORK

COMMERCIAL BANK

Commercial bank is a privately owned financial institution whose main activity is the acceptance of deposit from public, borrowing and lending money to various economic units. It's a legal entity that mobilizes funds from the surplus units for lending to the deficit units of the economy with interest charge for economic activities. Commercial banks perform other functions like the provision of investment advisory services, foreign exchange services, issuing of traveler's cheque to customers and standing as guarantor for its customer. Arikpo and Adebisi (2017).

CONCEPT OF BANK CREDIT

Credit is the extension of money from lender to the borrower. Commercial banks serve as the intermediary between the surplus and deposit units of the economy. They serve as debtors to the depositors and creditors to the borrowers, thereby connects surpluses to the borrowers in form of credits. Commercial bank credit is a process of making fund available for use by another sector of the economy based on some agreed terms in respect of repayment with interest. Loan/credit may be simple, fixed payment, coupon bond and discount bond. Makinde (2016).

AGRICULTURAL SECTOR

This is a sector of the Nigeria economy that deals with different activities ranging from farming, forestry, animal husbandry and fishery. It is the engine that contributes to the growth of the overall economy in terms of employment generations, provision of industrial raw materials, reduction of rural urban migration, products exportations etc despite the poor performance of the sector. This sector is being commercialized by the small, medium and large scale enterprises. Adewole, Adekanmi and Gabriel (2015)

MANUFACTURING SECTOR

The manufacturing sector is the economic sector that deals with the transformation process of producing goods for human uses. This sector has been widely acknowledged as the springboard for sustainable economic development. The Nigeria government has being interested in the promotion of this sector to generate efficient self-sustaining growth; self-reliant approach to development and its contributions substantially to a wide range of developmental objectives. Manufacturers Association of Nigeria (MAN) has classified this sector into large, medium and small scales. It is obvious that the growth, performance and productivity of Nigeria's manufacturing sector at present has taken the turn for the worse and the sector no longer plays the key role it played to propel the economy decades ago. This is due to unfavorable conditions for operations ranging from lack of the infrastructural facilities to the difficulties in obtaining high interest rate credits from the commercial banks in Nigeria. Sogules and Nkoro (2016)

SMALL AND MEDIUM SCALE ENTERPRISES (SMES)

Small and Medium Scale Enterprises (SMEs) is the sector that cut across all other real economic sectors of Nigeria economy. There are small and medium scale Agriculture, small and medium scale manufacturing, small and medium scale mining, etc. They are often independently owned and engage in varieties of activities. Oke and Aluko (2015).

B. EMPIRICAL REVIEW OF LITERATURES

Many empirical studies have investigated the relationship between commercial banks interest rates and credits allocation and the performance or growth of the real economic sectors. Some studies concluded on the significant positive relationship, some revealed a significant negative relationship while others revealed insignificants relationship between variables in their findings.

Arikpo and Adebisi (2017) examined the effects of deposit money banks financing on real sector output in Nigeria. The study specifically assessed the effect of private sector credit, interest rate spread, deposit mobilization and banks holding of treasury bills on trade and agricultural sectors outputs in Nigeria. The study used the Vector Error Correction Mechanism (VECM) for data analysis and revealed that deposit money banks financing have a long term significant effect on the trade sector but does not have any long run effect on the agricultural sector in Nigeria and interest rate spread has an inverse effect on the trade sector output but a positive effect on the agricultural sector output.

Ubesie (2017), examine the effect of deposit money banks' credit on small and medium scale enterprises growth in Nigeria for the period of 1986 to 2015, using ordinary least squares regression method to analyse the data. It was found that DMBs credit to SME has no significant effect on SMEs growth in Nigeria.

Bada (2017) assessed the relationship between banks' credit and real sectors for the period of 31 years covering 1984-2014, sourced data on manufacturing and agricultural outputs, commercial banks credits to private sector, interest rate, prime lending rate, M2, exchange rate, prime lending rate and agriculture credit guarantee scheme fund secondarily from CBN annual report. The study empirically disclosed that banks

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credits have significant impact on Agricultural and Manufacturing sector in Nigeria.

Kareem, Osisanya and Isiaq (2017), examined the effect of commercial banks financing on agricultural sector output in Nigeria, covering the period 1981 to 2014, using Ordinary Least Square method. The study showed that 99.6% of the variation in real agricultural gross domestic product is explained by commercial banks loan to agriculture.

Udoka, Mbat and Duke (2016), examined the effect of commercial banks credit on agricultural output in Nigeria covering the period 1970 to 2014. The study employed data sourced from Central Bank of Nigeria Statistical bulletin. Ordinary Least Square technique was employed to estimate the parameter which shows the relationships between the explanatory variables and the agricultural production in Nigeria. The result showed that there was positive and significant relationship between commercial banks credit to the agricultural sector and agricultural production in Nigeria.

Makinde (2016) examined the impact of deposit money banks' loan and advances on the growth of mining and quarrying, manufacturing and the building and constructions sectors, service sector and agriculture sectors from 1986 to 2014. By employing regression analysis, the study found that unlike mining and quarrying, manufacturing and the building and constructions sectors and service sector have benefited in a little way from the deposit money banks credit. It shows significant positive effect on agricultural sector, implying that agricultural sector has benefited from the funds thereby driving economic growth of Nigeria.

Sogules and Nkoro (2016) analyzed the long run relationship between bank loan and advances and performance of manufacturing sector from 1970-2013 in Nigeria using Johansen cointegration technique. Evidence from the study showed that long run relationship existed in the model. The short run ECM showed negative significant relationship between bank loan and advances and performance of manufacturing sector.

Ebele and Iorember(2016), examined the impact of commercial bank credit on manufacturing in Nigeria, covering the period from 1980 to 2015. The study employed secondary data for the analysis, Cochrane-orcutt method was employed because of the presence of serial correlation as revealed by Durbin Watson test statistic result instead of OLS. The result showed that inflation and interest rate have negative effect on manufacturing sector output, while loans and advances and broad money supply have positive effect on the manufacturing sector output in Nigeria.

Dori (2016), examined the impact of agricultural credit guarantee scheme fund on agricultural and Economic Development of Nigeria based on secondary data and using descriptive statistics and content analysis. The result revealed that in Nigeria the scheme had increased the flow of credit to the farmers and has expanded the beneficiaries acquisition and adoption of modern farming inputs, output, earning and finally standard of living. It has also enhanced food production, food security, import substitution on food locally produced, agricultural export commodities, GDP, foreign exchange earnings and rural development in Nigeria.

Oke and Aluko (2015) examined the impact of Commercial Banks in financing small and medium scale enterprises (SMEs) in Nigeria for the period 2002 to 2012. The authors collected annual data from ten Commercial Banks and adopted panel data regression analysis. The results indicate that Commercial Banks have significant impact on SMEs' financing which implies that Commercial banks are capable of making SMEs grow.

Evans, Munir, Douglas and Stephen (2015) studied the impact of loan interest rates on the performance of small and medium-sized enterprises in Lurambi Sub- County, Kenya. The study used descriptive research design and correlation and found that loan interest rate has a significant impact on the performance of SMEs in Kenya.

Iloh and Chioke (2015) examined the relationship between Commercial Bank credits indicators and availability of credit facility to small and medium scale enterprises in Nigeria. Using data extracted from the Central Bank of Nigeria (CBN) Statistical Bulletin for the period, 1980-2010 and adopting the generalized least squares estimation technique, the results showed that Commercial Banks' credits to SMEs have significant effect on Nigeria's economic growth by positively affecting gross domestic product.

Adewole, Adekanmi and Gabriel (2015) investigated sectoral distribution of commercial banks' loans and advances to agricultural sector, by analyzing liquidity ratio, cash reserve ratios and money market minimum rediscount rates for the period of 2002-2014 in Nigeria. The study applied multiple regression of ordinary least square and discovered that cash reserve requirement, liquidity ratio and discount rate have no significant effect in financing agricultural sector. Hence, the study concluded that discount rate, liquidity ratio and cash reserve lower the degree of agricultural credit in Nigeria.

Agunwa, Iyanya, and Proso (2015) evaluated the effect of deposit money banks on agricultural output in Nigeria, using least square regression estimation technique. They found that commercial banks credit and government expenditure have positive and significant influence on agricultural productivity while interest rate has negative effect on agricultural output.

Bello and Mohammed (2015), examined the impact of financial intermediation on the SMEs performance in Nigeria using ordinary least square method of analysis. The result revealed that financial intermediation, bank loans and advances, bank lending rate, exchange rate and monetary policy have positive and significant influence on SMEs performance in Nigeria.

Olanrewaju (2015), empirically investigated the effect of banking sector reforms on the output of manufacturing sector in the Nigerian economy between 1970 and 2011 with a view to examining the extent of the impact of banking sector reforms on the manufacturing sector. The study utilized annual time series data from 1970 to 2011, adopting the Cointegration analysis and error correction mechanism (ECM). The result revealed that Bank assets, Lending rate, Exchange rate (EXR) and real interest rate have low and positively significant effect on manufacturing output while financial deepening and interest rate have negative and significant impact on the output growth of manufacturing sector in Nigeria.

Nnamocha and Charles (2015) studied the influence that bank loan and advances have on agricultural production in Nigeria between 1970 and 2013 using error correction mechanism; the study indicated that there existed presence of

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long run relationship among the variables. The study revealed that bank loans and advances and industrial output positively contributed to agricultural output in Nigeria on the long run while industrial output was only found to affect agricultural production in the short-run.

Imoughele and Ismaila (2014) investigated empirically the impact of Commercial Banks' credit on small and medium scale enterprises in Nigeria between 1986 and 2012, using co-integration and error correction modeling technique. The findings revealed that SMEs and selected macroeconomic variables included in the model are co-integrated indicating a long run relationship between them. The findings further revealed that savings, time deposit and exchange rate have significant impact on SMEs' output in Nigeria, while interest rate has adverse effect.

Dada (2014), examined the effect of banks' credit on SMEs development in Nigeria from 1992 to 2011. The study used secondary sources of data and ordinary least square method. The result showed that bank credits' to SMEs and savings and time deposits have a positive influence on SMEs development in Nigeria.

Oleka, Sabina and Onyeze (2014), explored the impact of intermediation roles of banks on the performance of the manufacturing sector in Nigeria for the period of 8 year covering 2005-2013 Using descriptive and inferential statistics. The results showed that the intermediation process of commercial bank positively contributed to real sector. The study concluded that there is competitiveness in the intermediation role of banks.

Adolphus and Deborah (2014), analyzed the role of banks in financing the agriculture and manufacturing sectors in Nigeria from 1981 to 2010. The study employed descriptive statistics combined with multiple regression analysis. The findings revealed that there exists a significantly weak correlation between commercial bank lending and the contribution of agriculture to GDP and a significantly positive correlation between merchant bank lending and agricultural contribution to GDP.

Imoughele and Ismaila (2014), examine the effect of bank's credit on the output of SMEs in Nigeria using Co-integration and Error Correction Model (ECM). The empirical result revealed savings time deposit and exchange rate have a significant effect on SMEs output while credit to SMEs and total government expenditure have direct but insignificant effect on the output in Nigeria.

Nwosa and Oseni (2013) examined the impact of bank loans on manufacturing output in Nigeria between 1992 and 2010. Utilizing error correction modeling technique, the findings indicated that banks' credit to the SMEs had significant impact on manufacturing output both in the short run and long run.

Imoughele and Ismaila (2013), investigated the impact of deposit money bank credit accessibility and sectoral output performance in the Nigerian economy for the period which spanned between 1986 and 2010. An augmented growth model was estimated via the Ordinary Least Square (OLS) techniques to ascertain the relationship between various commercial bank credits and sectoral output growth. The variables were tested for stationarity and co-integration analysis was also carried out using the Augmented Dickey-Fuller test. Also error correction test was performed. The study found that the various commercial bank credit supply and other included variables has a long run relationship with sectoral output performance i.e agricultural, manufacturing and services sector output. The study also reveal that commercial bank credit has direct and insignificant impact on sectoral output performance but cumulative supply and demand for credit in the previous period has direct and significant impact on the growth of agriculture, manufacturing and the services sectors output.

C. IDENTIFIED GAP IN LITERATURE

Based on the literature reviewed, a gap has been identified that need to be filled. The Gap in literatures is that no empirical investigation measures the effect of commercial bank lending interest rate on the performance of the selected real economic sectors of Agriculture, Manufacturing, and the small and medium scale enterprises in a particular study to determine their individual and collective contributions to the economy of Nigeria.

D. THEORETICAL FRAMEWORK

Over the years, theories on the connection between commercial banks interest rate and real economic sectors performance have flourished resulting into different strands of opinions among different schools of thought. This was predicated on the fact that real sectors performance is capable of translating into economic growth and development. Hence this has generated a lot of attention among the various schools of thought such as Neo Classical, Keynesian and others.

KEYNESIAN THEORY: Keynes theory was propounded by John Maynard Keynes in 1936. This theory was established amidst of economic recession. From his ideas, the Keynes book titled "the general theory of employment, interest and money". The most important aspect of this theory was an indication that macro-economy theories influenced by the aggregate demand which was not equal to the productive capacity of the economy. The theory further argues that the aggregate demand was the capricious and imbalance for the significant period, if authority does not arbitrate to assist in the comprehensive demand to diminish redundancy, the economic barriers may fallout from different factors. Prior to the above statement, a situation in which aggregate demand for goods and services does not meet the supply will be referred to classical economics, (Keynes, 2007)

THE SUPPLY LED FINANCE THEORY: This theory was first developed by Patrick (1966) as reported in Arikpo and Adebisi (2017) who stressed that finance is one of the leading aspects of economic development. Supply led finance theory is growth inducing or growth induced, which means finance (credit) is the most significant factor for promoting economic development in the real sectors. The provision of funds through financial institutions to support the creation, transformation, expansion of industries, boosting of Agriculture and developmental projects is an element of the supply led theory.

FINANCIAL REPRESSION THEORY: This is associated with the work of Mckinnon (1973) and Shaw (1973). The theory emphasizes that financial development would contribute most significantly to the growth of economic activities if the authorities were not to interfere in the operations of the financial institutions. According to the proponents of the theory, poor performance by banks and other financial institutions is thus often attributed to interest rate regulation, ceiling on deposit and loan rates and official guidelines pertaining to lending operations. Such interferences results in a low and often negative rate of return on financial assets and therefore inefficient savings mobilized and channeled into investment projects. The theorists advocated a positive real interest rate and financial liberalization to ensure an optimal financial structure for development as well as eliminating the fragmentation of market.

THE CREDIT CHANNEL THEORY MECHANISM OF MONETARY POLICY

The credit channel theory mechanism of monetary policy describes how a central bank policy changes the amount of credit that banks issue to firms and consumers for purchases which in turn affect the real economic sectors. This theory has been sub-divided into two, the balance sheet and Bank lending channels (Lamont and Richard, 2007).

THE BALANCE SHEET CREDIT CHANNEL THEORY: This Theory stressed that external finance premium facing a borrower depends on borrower's net worth, the lender, the external finance premium and overall term of credit. The theory further stated that the quality of borrower's sheet similarly affects their investment and spending decisions. The balance that channel arose due to shift from central bank's policy not only affect interest rate but also the financial position of borrowers.

THE BANK LENDING CHANNEL THEORY: The bank lending channel stated that monetary policy also affects the external finance premium by shifting the supply of the intermediated credit, especially loans from commercial banks. It indicated that if supply of bank loan is disrupted for some reasons, bank dependent borrowers may not be necessarily shut off but incur cost of finding lenders.

THEORY OF LOAN PRICING: Thompson reuters (1965) propounded this theory and asserted that banks should not always increase interest rates to maximize their incomes, as this can affect the borrowers' perception to credits. Chodechai (2014) argued that increasing interest rates might cause adverse selection problem. He further stated that this might be an acceptable rate for risk loving borrowers but they might venture into high risk business which can adversely affect their performance. Consequently, this theory predicts that high-interest rates lead to low-performance.

THE LOANABLE FUND THEORY: The neo-classical loanable fund theory of interest rate propounded by Dennis Robertson, postulated that savings and investment are responsible for determination of interest rate in the long run. The demand for loanable fund for investments depends on the expected rate of profit as compared with the rate of interest. This demand is met by past savings or through dis-saving and are interest elastic. According to Ojima and Fabian, (2015) the loanable fund regards the rate of interest as a function of four variables: savings, investment, the desire to hoard and the money supply. The theory holds the proposition based on the general equilibrium theory of interest rate determined by the demand for and supply of loan and advances. The demand for capital stems from investment decision on the real sector while the supply of capital results from savings in the country deposit money bank. The theory of loanable funds provides a link between commercial bank credits and the real sectors, it buttresses the fact that borrowing for investment in the real sector is interest rate elastic since it is determined by the existing rate of interest.

However, this research work anchored on and adopted the credit channel theory mechanism of monetary policy comprises of the Balance Sheet Credit channel theory and the bank lending channel theory as the theoretical base and guide, because the theory gives the ground upon which the relationship between commercial banks interest rate on credit and the performance of the real sectors and economic growth can be tested and analyze.

III. METHODOLOGY

A. RESEARCH DESIGN

The researcher employed the ex-post facto (after-the-fact) research design, which enabled the investigation to be conducted without the researcher's interference with the sources and nature of the original research data used. This research design is more suitable since the situation for study already exists and data are available. As a quasi experimental study, the researcher only examined how the independent variable affects the dependent variable prior to the study. Econometric procedures such as simple linear regression techniques, correlation analysis and ANOVA were employed to determine the relationships between the dependent variable and the explanatory variables.

B. SOURCES OF DATA COLLECTION

The data collected for this study was obtained mainly from secondary sources. Annual time series data from 2000 to 2018 on bank interest rate, loan allocated to the Agricultural sectors, loan allocated to the manufacturing sectors and the loan allocated to the small and medium scale sectors were obtained from Central Bank of Nigeria (CBN) annual statistical bulletin 2019.

C. METHOD OF DATA COLLECTION

This research data is purely secondary data made publicly available on the CBN statistical website. It is obtained through internet browsing into the Central Bank of Nigeria (CBN) annual statistical bulletin 2019.

D. DESCRIPTION OF RESEARCH VARIABLES

The research variables includes: commercial bank lending interest rate (CBLIR) which is the independent variable and determined the performance of the selected sectors proxy by the amount of credit allocated to the dependent variables, such

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as the Loan allocated to the Agricultural sector (LAAS = dependent variable1), Loan allocated to the manufacturing sector (LAMS = dependent variable2), and the Loan allocated to the Small and medium enterprises sector (LASMSS = dependent variable3). All the variables are expressed in their natural forms and rates.

E. MODEL SPECIFICATION AND VARIABLE MEASUREMENT

Commercial banks lending interest rate has being one of the major determinants of credits the various units or segment of the real economic sectors of the Nigeria economy. In other to achieve logical conclusion on this research work, simple linear regression techniques, correlation analysis and ANOVA would be use to determine the effects of the commercial banks lending interest rates on the credits accessed by the various real economic sectors and subsector to show the level of relationship between the dependent and independent variables.

Simple Linear Regression equation adopted for this research is

$Y=a+b_1X_1 +\mu$

Where:

Y= Dependent variable of the regression equation,

a= Constant of the equation,

b= Regression coefficient or slope of the regression equation,

$X_{1,}$= independent variable of the regression equation,

μ= error term

Further developed as

$Y(LAAS) = a+b_1X_1(CBLIR)+ \mu$

Where: LAAS = Loan allocated to the Agricultural sector

CBLIR= Commercial banks lending interest rates

$Y(LAMS) = a+b_1X_1(CBLIR)+ \mu$

Where: LAMS = Loan allocated to the Manufacturing sector CBLIR= Commercial banks lending interest rates

$Y(LASMSS) = a+b_1X_1(CBLIR)+ \mu$

Where: LASMSS = Loan allocated to the Small and Medium scale sector

CBLIR= Commercial banks lending interest rates

IV. DATA PRESENTATION AND ANALYSIS

A. DATA PRESENTATION

S/N	YEARS	COMMERCIAL BANK PRIME LENDING INTEREST RATES	LOANS ALLOCATED TO AGRICULTURE SECTOR	LOANS ALLOCATED TO MANUFACTURING SECTOR	LOANS ALLOCATED TO SMALL SCALE ENTERPRISES
1	2000	17.98	41.03	141.29	44.52830
2	2001	18.29	55.85	206.89	52.42840
3	2002	24.85	59.85	233.47	82.36840
4	2003	20.71	62.10	294.31	90.17650
5	2004	19.18	67.74	332.11	54.98120
6	2005	17.95	48.56	352.04	50.67260
7	2006	17.26	49.39	445.79	25.71370
8	2007	16.94	149.58	487.58	41.10040
9	2008	15.14	106.35	932.80	13.51220
10	2009	18.99	135.70	993.46	16.36649
11	2010	17.59	128.41	987.64	12.55030
12	2011	16.02	255.21	1053.21	15.61170
13	2012	16.79	316.36	1068.34	13.86346
14	2013	16.72	343.70	1179.69	15.35304
15	2014	16.55	478.91	1647.45	16.06927
16	2015	16.85	449.31	1736.19	12.94848
17	2016	16.87	525.95	2215.74	10.74789
18	2017	17.78	528.24	2171.37	10.74789
19	2018	16.44	610.15	2230.15	44.82284

Source: Researcher's computation from CBN Statistical bulletin 2019.

B. DATA ANALYSIS

SIMPLE REGRESSION ANALYSIS

Loan Allocated To The Agricultural Sector Versus Commercial Bank Lending Interest Rate

The regression equation is $Y=a+b_1X_1+\mu$ represented as

LAAS =948 - 40.1(CBLIR)+μ

Predictor	Coef	SE Coef	T	P
Constant	948	369.3	2.57	0.0.20
CBLIR	-40.13	20.57	-1.95	0.068

S = 184.473 R-Sq = 18.3% R-Sq(adj) = 13.5%

Source: Researcher's computation using SPSS

Table 1: LAAS VS CBLIR

Source	DF	SS	MS	F	P
Regression	1	129532	129532	3.81	0.068
Residual Error	17	578513	34030		
Total	18	708045			

Source: Researcher's computation using SPSS

Table 2: ANALYSIS OF VARIANCE

Correlations Between The Loan Allocated To The Agricultural Sector And Commercial Bank Lending Interest Rate

Pearson correlation of LAAS and CBLIR is = -0.428 and the P-Value is = 0.068

The simple regression result table 1 and the analysis of the variance table 2 above, shows that there is a negative association between the loan allocated to the Agricultural sector (LAAS) and the commercial bank lending interest rate (CBLIR). That it, as commercial bank lending interest rate increases by a unit, it reduces the loan allocated to the Agricultural sector (LAAS) by 40.1, with a probability of 0.068 which is slightly greater than the significant level of alpha (α =0.05), thereby indicating a significant effect of commercial bank lending interest rate (CBLIR) on the performance of the sector proxy by the loan allocated to the Agricultural sector (LAAS).

Loan Allocated To The Manufacturing Sector Versus Commercial Bank Lending Interest Rate

The regression equation or model is $Y=a+b_1X_1+\mu$ represented as

LAMS = 3820 - 159 (CBLIR) + μ

Predictor	Coef	SE Coef	T	P
Constant	3820	1305	2.93	0.009
CBLIR	-158.97	72.66	-2.19	0.043

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S = 651.670   R-Sq = 22.0%   R-Sq(adj) = 17.4%

Source: Researcher's computation using SPSS

Table 3: LAMS VS CBLIR

Source	DF	SS	MS	F	P
Regression	1	2033106	2033106	4.79	0.043
Residual Error	17	7219445	424673		
Total	18	9252551			

Source: Researcher's computation using SPSS

Table 4: ANALYSIS OF VARIANCE

Correlations Between Loan Allocated To The Manufacturing Sector And Commercial Bank Lending Interest Rate

Pearson correlation of LAMS and CBLIR is = -0.469 and the P-Value is = 0.043

The Pearson correlation ratio of -0.469 indicates a very weak negative correlation between the commercial bank lending interest rate (CBLIR) and the loan allocated to the manufacturing sector (LAMS). The regression of LAMS = 3820 - 159 (CBLIR) and the correlation r = -0.469 which is less than the f-calculated of 4.79 Shows that there is a significant negative effect of commercial bank lending interest rate (CBLIR) on the loan allocated to the manufacturing sector (LAMS) of the economy in both long and short run, despite negative contribution. For every unit change of commercial bank lending interest rate (CBLIR), it contributes a negative -159 by reducing the loan allocated to the manufacturing sector (LAMS) by 159.

Loan Allocated To The Small And Medium Scale Businesses Versus Commercial Banks Lending Interest Rate

The regression equation is $Y=a+b_1X_1 + \mu$ represented as LASMS = -132 + 9.23 (CBLIR) + μ

Predictor	Coef	SE Coef	T	P
Constant	-131.58	33.25	-3.96	0.001
CBLIR	9.232	1.852	4.99	0.000

S = 16.6088   R-Sq = 59.4%   R-Sq(adj) = 57.0%

Source: Researcher's computation using SPSS

Table 5: LASMS VS CBLIR

Source	DF	SS	MS	F	P
Regression	1	6856.4	6856.4	24.86	0.000
Residual Error	17	4689.5	275.9		
Total	18	11545.9			

Source: Researcher's computation using SPSS

Table 6: ANALYSIS OF VARIANCE

Correlations Between Loan Allocated To The Small And Medium Scale Businesses And Commercial Banks Lending Interest Rate

Pearson correlation of LASMS and CBLIR is = 0.771, P-Value is = 0.000

The above Pearson correlation result shows a strong contribution of commercial bank lending interest rate (CBLIR) on the loan allocated to the manufacturing sector (LAMS). The positive relationship between commercial bank lending interest rate (CBLIR) and the loan allocated to the manufacturing sector (LAMS) with the value of r = 0.771 means that changes in commercial bank lending interest rate (CBLIR) prompted a significant change in the loan allocated to the manufacturing sector (LAMS).

C. DISCUSSION OF FINDINGS

This study revealed that commercial bank lending interest rate is significantly related to the performance of the selected real sectors as indicated by the allocated credits to those real economic sectors. The result of the simple regression conducted indicated a negative relationship between the loan allocated to the Agricultural sector and the bank lending interest rate, which has an implication of poor performance by the sector and in line with the work of Makinde (2016) who examined the impact of banks' loan and advances on the growth of the real economic sectors using regression analysis. Consequently, the alternative hypothesis which postulated the significant relationship between the dependent and the independent variable was accepted.

Similarly, the simple regression shows that there is a significant relationship betweem commercial bank lending interest rate and the loan allocated to the Manufacturing sector of the economy with the economic implications of performance of the sector in both long and short run. This is supported by the work of Sogules and Nkoro (2016) who analyzed the long run relationship between bank loan and advances and performance of manufacturing sector from 1970-2013 in Nigeria using Johansen cointegration technique and concluded that there is a long run negative significant relationship between bank loan and advances and performance of manufacturing sector, which served as the bases upon which the second hypotheses was accepted.

Also, the simple regression further revealed a strong significant relationship between commercial banks lending interest rate and the loan allocated to the small and medium scale sector of the economy as an implication of the poor sector's performance. This significant relationship led the rejection of Null hypotheses and subsequent acceptance of the alternative hypotheses. This significant impacts of the independent on the dependent variables collaborate with the work done by Evans, Munir, Douglas and Stephen (2015) who studied the impact of loan interest rates on the performance of small and medium-sized enterprises in Kenya using the descriptive research design and correlation and found that loan interest rate has a significant impact on the performance of SMEs in Kenya.

V. CONCLUSION AND RECOMMENDATIONS

A. CONCLUSION

Commercial Bank credit is one of the major sources of funding the selected real economic sectors. The availability and affordability of fund facilitates the operations of the selected real sectors and enhance large scale productions for economic growth and development of the Nigeria economy. The result of the conducted study concluded that Commercial banks credits to the selected economic sectors of agriculture,

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manufacturing and small and medium scale is directly hampered by the high lending interest rate on credits allocated to the sectors by the commercial banks, thereby affecting the productivity and contributions of the sectors to the national growth and development of Nigeria economy.

B. RECOMMENDATIONS

Based on the research findings, the following is hereby recommended:

- ✓ That the federal government through the Central Bank of Nigeria should keep on encouraging the Agricultural sector's performance by lowering the monetary policy rate on credit to the sector through the commercial and Agricultural banks with a view to making credit available and accessible to the farmers in other to boost production.
- ✓ That the federal government should collaborate with private sectors for government private partnership in the establishment of manufacturing industries and empowering of the industrial banks to support the sector's financial needs and reduce the effect of banks lending interest rate on the performance of the manufacturing sector. This would reduce the challenges of obtaining banks credits facilities with high interest rate and reduce the problems of inadequate funding subject to complete transfer of ownership to the private individuals.
- ✓ That the federal government in her monetary policy should direct and mandate the increasing of the SMEs ratio of commercial banks credits facilities at a lower rate to reduce the impacts of lending interest rate on the loans and credits to the sector in other to boost the performance of the sector known as the engine of growth of the national economy.

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