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Bank Lending Effects and Economic Productivity in Nigeria

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Abstract

This study examined the impact of bank lending to the agricultural, manufacturing sectors and economic productivity in Nigeria. The findings revealed that lending to the agricultural sector positively influenced productivity, suggesting that targeted financial support enables farmers to invest in inputs, adopt technologies, and expand operations. In contrast, lending to the manufacturing sector negatively affected productivity, indicating that current credit allocation and utilization patterns may be inefficient, with misallocation of funds, delayed returns, and structural challenges limiting the impact. Overall, the results highlight a sector-dependent divergence in the effectiveness of bank lending in Nigeria, with agriculture benefiting most, while manufacturing require improved targeting, management, and institutional support to generate positive economic outcomes.

Keywords: *bank lending, economic productivity, agricultural financing, manufacturing credit.*

Introduction

1.1 Background to the study

In spite of Nigeria's status as one of Africa's largest economies, its economic productivity remains relatively low, with per capita income stagnating over the years (Kayode et al., 2020). This low productivity is primarily due to several structural issues, such as inadequate investment in key sectors like agriculture, manufacturing which are essential drivers of economic growth (Marafa, 2021). Although these sectors hold significant potential for improving productivity, access to finance remains a critical bottleneck, limiting their capacity to innovate, expand, and contribute effectively to the economy (Nwanna & Chinwudu, 2016). As a result, Nigeria's economic productivity continues to fall short of its potential, keeping per capita income lower than expected.

While existing literature acknowledges the importance of financial access for enhancing productivity, there is a noticeable gap regarding the specific impact of bank lending to the agricultural, manufacturing sectors of Nigeria economy (Okafor et al., 2021). Previous studies primarily focus on aggregate economic indicators, without providing an in-depth analysis of sector-specific lending and its direct impact on per capita income (Okere et al., 2023). This gap in the literature leaves a void in understanding how targeted lending to these critical sectors can drive economic growth and improve national productivity. Hence, a more focused investigation is needed to establish the link between bank lending and per capita income.

The lack of sector-specific research in the context of Nigeria's economic growth raises critical questions about the role of financial institutions in enhancing productivity. Existing studies have generally examined the broader economic environment or the financial sector as a whole, without exploring the nuanced effects of lending to particular sectors (Oladipo, 2023). This gap in understanding leads to lack of clarity in policymaking, hindering effective interventions that could maximize the potential of bank lending in driving economic productivity. Therefore, the study aims to address this gap by analyzing how bank lending to the agricultural and manufacturing sectors influences per capita income in Nigeria.

1.2 Objectives of the Research

The general objective of this study is to investigate the bank lending effects on economic productivity in Nigeria. However, the specific objectives include to:

i. Investigate the impact of bank lending to the agricultural sector on economic productivity in Nigeria.
ii. Examine the impact of bank lending to the manufacturing sector on economic productivity in Nigeria.

1.3 Research Hypotheses

H01: Bank lending to the agricultural sector has no significant impact on economic productivity in Nigeria

H02: Bank lending to the manufacturing sector has no significant impact on economic productivity in Nigeria

2.0 Literature Review

Economic Productivity in Nigeria

The nature of bank lending in the Nigerian banking sector has evolved over the years, shaped by economic policies, financial regulations, and macroeconomic conditions. Historically, banks in Nigeria have been conservative in their lending practices, favoring short-term, low-risk loans over long-term, productive sector financing (Godfrey, 2022). This cautious approach stemmed from high default rates, inadequate credit infrastructure, and weak enforcement of loan repayment mechanisms (Echekoba, 2019). Consequently, lending to critical sectors such as agriculture, manufacturing, and SMEs remained low, limiting their contributions to economic growth and productivity (Fowowe, 2020). The Structural Adjustment Program (SAP) of the 1980s aimed to liberalize financial markets, but challenges such as high interest rates and inflationary pressures persisted, discouraging long-term lending (Alrabadi & Kharabsheh, 2016). Over time, the lack of credit extension to the real economy contributed to slow industrialization, weak agricultural development, and limited SME growth, affecting overall economic productivity.

The Nigerian banking sector has faced significant challenges in lending from past periods to the present, influenced by regulatory constraints, economic volatility, and institutional weaknesses. Historically, banks in Nigeria have been reluctant to extend credit to key sectors such as agriculture, manufacturing, and SMEs due to perceived risks, weak collateral systems, and high default rates (Godfrey, 2022). The structural inefficiencies in the financial system, coupled with macroeconomic instability, has led to high interest rates and severe lending conditions that make credit inaccessible to many businesses (Echekoba, 2019). Additionally, limited financial literacy and inadequate credit infrastructure have hindered the ability of borrowers to secure financing, further restricting economic growth and productivity (Fowowe, 2020). Despite policy interventions such as Agricultural Credit Guarantee Scheme Fund (ACGSF), various small business loan programs, lending to these critical sectors remains insufficient to drive sustainable development (Osunkwo, 2020).

In recent years, the outlook of lending in the Nigerian banking sector has seen both improvements and persistent challenges. Reforms such as the recapitalization of banks, the establishment of the Credit Risk Management System (CRMS), and the introduction of financial technology solutions have improved credit accessibility to some extent (Al-Shawesh & Kumar, 2022). Central Bank of Nigeria (CBN) has also implemented policies such as the Loan-to-Deposit Ratio (LDR) requirement to support banks to increase lending to the real sector (Ditimi & Oluwatobiloba, 2020). However, despite these efforts, the high cost of borrowing, inflationary pressures, and currency volatility continue to undermine the effectiveness of bank lending (Echekoba, 2019). Many small businesses and manufacturers still struggle to access affordable credit due to risk-averse banking practices and structural inefficiencies within the financial system (Agu et al., 2023). The agricultural sector, despite being a major contributor to GDP, remains underfunded due to the seasonal nature of production and concerns over repayment risks (Godfrey, 2022).

Looking ahead, the Nigerian banking sector must address critical issues in lending to improve economic productivity. The implementation of digital banking and financial technology presents opportunities to improve access to credit, especially for small business and rural farmers (Osunkwo, 2020). Strengthening financial regulations, improving credit assessment frameworks, and reducing interest rate volatility will be essential to ensuring a more inclusive banking sector (Al-Shawesh & Kumar, 2022). Additionally, targeted policy interventions such as interest rate subsidies and credit guarantees can enhance lending to priority sectors, thereby improving per capita income and overall economic growth (Ditimi & Oluwatobiloba, 2020). The future of bank lending in Nigeria will largely depend on a more efficient financial system, robust credit policies, and continued economic reforms that promote sectoral development and financial inclusion (Agu et al., 2023).

Bank lending to manufacturing sector

Bank lending to manufacturing sector was defined by various scholars based on its role in economic development. According to Agu et al. (2023), bank lending to manufacturing sector refers to any financial institutions that provide credit facilities to firms engaged in industrial production, including capital-intensive and small-scale manufacturing activities. Alrabadi and Kharabsheh (2016) define it as loans and advances extended by commercial banks to manufacturing firms to finance production processes, procurement of raw materials, and expansion of industrial capacity. Similarly, Amaefula (2019) describes it as credit granted by banks to manufacturing enterprises to support technological innovation, boost industrial

efficiency, and enhance economic productivity. These definitions emphasize the role of credit in facilitating industrial growth and development, underscoring the importance of bank lending in stimulating economic activities within the manufacturing sector.

For this study, bank lending to manufacturing sector is defined as the provision of financial resources by banks to manufacturing firms for capital investment, working capital needs, and production expansion. This definition is adopted because it encapsulates the essential functions of bank credit in supporting industrial growth, improving productivity, and fostering economic development (Awe, 2013). Unlike other definitions that focus solely on either capital investments or working capital, this comprehensive definition integrates both aspects, ensuring a holistic perspective on how bank credit contributes to manufacturing efficiency. Moreover, given Nigeria's industrial challenges, such as inadequate infrastructure and high production costs, a broad definition helps in assessing how different forms of credit affect manufacturing sector performance and economic productivity (Al-Shawesh and Kumar, 2022).

The characteristics of bank lending to the manufacturing sector include long-term financing, high capital intensity, and susceptibility to economic fluctuations. Manufacturing firms often require long-term credit facilities to finance machinery acquisition, technological upgrades, and plant expansion, which distinguish industrial loans from short-term commercial lending (Ditimi and Oluwatobiloba, 2020). Additionally, bank lending to this sector is capital-intensive, necessitating large-scale investments that banks assess for viability before disbursing loans (Echekoba, 2019). Furthermore, manufacturing sector lending is highly sensitive to macroeconomic conditions such as inflation, interest rate fluctuations, and exchange rate volatility, which affect repayment capacity and credit accessibility (Epor et al., 2023). These characteristics highlight the complexities and risks involved in bank lending to manufacturing sector and underscore the need for effective credit policies that support industrial growth.

Bank Lending to Agricultural Sector

Bank lending to agricultural sector was defined by various scholars based on its role in promoting agricultural productivity and rural development. According to Erumebor (2023), bank lending to agricultural sector refers to financial institutions providing credit facilities to farmers and agribusinesses to finance crop production, livestock rearing, and other agricultural activities. Fowowe (2020) defines it as the extension of loans and advances by commercial banks to agricultural enterprises for purposes such as purchasing farming inputs, acquiring machinery, and expanding farmland. Similarly, Godfrey (2022) describes it as the allocation of financial resources by banks to support agribusinesses, increase food production, and enhance agricultural value chains. These definitions emphasize the critical role of credit in improving agricultural productivity, stabilizing food supply, and fostering economic development through rural finance.

For this study, bank lending to agricultural sector can be defined as the provision of financial resources by banks to farmers, cooperatives, and agribusinesses to finance production, processing, and distribution activities. This definition is adopted because it encompasses both primary agricultural production and value-added activities within the sector (Ighoroje and Ujuju, 2021). Unlike definitions that focus solely on farm-based production, this broader perspective considers the entire agricultural value chain, including storage, processing, and distribution, which are crucial for maximizing economic gains from agricultural activities (Igwebuike et al., 2019). Additionally, given that seasonal nature of farming, this comprehensive definition accounts for both short-term and long-term financing needs, making it more suitable for analyzing some of the impact of bank credit on the agricultural sector performance and economic productivity (Kayode et al., 2020).

The characteristics of bank lending to the agricultural sector include seasonality, risk exposure, and policy dependence. Agricultural lending is highly seasonal, as farming activities depend on climatic conditions and planting cycles, requiring flexible loan repayment structures (Marafa, 2021). Additionally, lending to the agricultural sector is considered high-risk due to factors such as; unpredictable weather patterns, pest infestations and market price fluctuations; which can affect farmers' ability to repay loans (Nwanna and Chinwudu, 2016). Furthermore, agricultural financing in Nigeria is heavily influenced by government policies, such as interest rate subsidies, credit guarantees, and intervention programs like the Agricultural Credit Guarantee Scheme Fund (ACGSF), which aim to mitigate risks and encourage banks to extend credit to the sector (Okafor et al., 2021). These characteristics highlight the complexities of agricultural financing and the need for tailored lending policies to support sustainable growth in the sector.

2.2 Theoretical Review

Theory on financial deepening

The theory of financial deepening originated from some of the works of McKinnon and Shaw, who argued that financial liberalization leads to the economic growth by increasing the depth and efficiency of financial markets. This theory assumes that a well-developed financial system enhances savings mobilization, improves capital allocation, and facilitates investment in productive sectors (Agu et al.,

2023). It also posits that financial repression—such as interest rate controls and credit rationing—distorts the efficient functioning of financial markets, limiting economic growth (Epor et al., 2023). Thus, financial deepening is characterized by an increase in financial instruments, institutions, and services that improve credit access, particularly for sectors like agriculture, manufacturing, and SMEs, which drive economic productivity (Okafor et al., 2021).

The financial deepening theory applies to this study on bank lending effects on economic productivity in Nigeria by explaining the role of an efficient banking system in enhancing economic growth through increased access to credit. In a financially deep economy, banks provide adequate funding to key productive sectors, leading to increased industrial output, agricultural expansion, and SME development (Amaefula, 2019). When banks efficiently allocate credit to these sectors, per capita income rises due to job creation, increased production, and overall economic expansion (Alrabadi & Kharabsheh, 2016). However, in Nigeria, financial sector constraints such as high interest rates, collateral requirements, and credit rationing limit financial deepening, restricting the positive effects of bank lending on economic productivity (Erumebor, 2023). This makes financial deepening a crucial framework for analyzing the relationship between the effect of bank lending and economic growth in Nigeria.

Despite its strengths, the financial deepening theory has limitations and weaknesses. One major criticism is that financial liberalization does not always lead to economic growth, especially in economies with weak financial institutions, poor regulatory frameworks, and macroeconomic instability (Sani et al., 2019). In Nigeria, for example, financial deepening has not translated into increased bank lending to productive sectors due to the preference for risk-free government securities over private-sector lending (Osunkwo, 2020). Additionally, the theory assumes that all economic agents respond rationally to financial incentives, ignoring structural issues such as financial exclusion, corruption, and political interference in credit allocation (Godfrey, 2022). These limitations suggest that while financial deepening is an important concept, its effectiveness in driving economic productivity depends on broader institutional and policy frameworks.

2.3 Review of Empirical Literature

Agu et al. (2023) examined the impact of financial deepen on the manufacturing sector productivity in Nigeria from 1970 – 2021. The dependent variable is gross manufacturing output, proxy for manufacturing sector productivity while broad money supply, as a percentage of GDP is a major explanatory variable. The control variables are banking sector credit, interest rate spread and exchange rate. The sources of data for these variables are Central Bank of Nigeria Statistical Bulletin, the National Bureau of Statistics and the World Bank Development Indicators. This study was anchored on the endogenous growth theory. The model was estimated using unrestricted ARDL model and the structural vector autoregressive (SVAR) analytical technique. The result showed that the financial deepening had major impact on the manufacturing sector productivity. The VAR-impulse response function showed that gross manufacturing output responded asymmetrically to changes in the included variables.

Fowowe (2020) empirically explores how financial inclusion influences agricultural productivity in Nigeria, adopting the Living Standards Measurement Study Integrated Surveys on Agriculture (LSMS-ISA) data set. The analysis uses panel estimation and demonstrates that, regardless of the measure used, financial inclusion exerts a positively and significantly impact on agricultural productivity in Nigeria.

Kayode et al. (2020) assessed the consequences of financial deepening on the productivity of manufacturing firms in Nigeria, using data covering from 1986 to 2017 sourced from the Central Bank of Nigeria and the National Bureau of Statistics. Their ARDL-based findings indicate significant negative long-run effects of financial deepening on manufacturing output, suggesting that greater financial deepening may reduce sector productivity.

Marafa (2021) investigates the relationship between agricultural finance and productivity in Nigeria using the ARDL bounds-testing approach. The paper adopts annual series for agricultural GDP, the agricultural credit guarantee scheme, government agricultural spending, bank credit to agriculture, inflation and interest rates for 1981–2019, drawn from the Central Bank of Nigeria Statistical Bulletin; the period reflects data availability. The results show a long-run relationship between agricultural finance and productivity, with commercial bank credit to agriculture and the Agricultural Credit Guarantee Scheme exerting significant positive effects on agricultural output.

Okere et al. (2023) examine how money-market operations impact industrial production in Nigeria using time-series data from the Central Bank of Nigeria. Their results show that money-market interest rates are strongly and negatively related to industrial output, while money supply is positively correlated with industrial production. The authors recommend policy attention to interest-rate settings to support industrial activity.

Sani et al. (2019) examine the impact of financial deepening on national productivity in Nigeria for the period 1986–2016, adopting Johansen co-integration and an error-correction model. The study revealed that roughly 65% of

short-run deviations are corrected within one year and those indicators of financial deepening—broad money, private-sector credit and national saving ratios, have positive and significant impacts on productivity over the sample period.

Awe (2013) investigates the mobilization of domestic financial resources for agricultural productivity in Nigeria using a VAR model on 1980–2009 data. The VAR/variance-decomposition results show and point to generally positive relationships among the financing sources and agricultural output, with decomposition analyses revealing the relative contribution of each financing channel to forecast variance.

Al-Shawesh and Kumar (2022) assess the effect of financial deepening on economic growth in Yemen using ARDL for the period 1994–2018. They proxy financial deepening with measures such as remittances, private-sector credit, money supply and bank assets and find a significant long-run influence of financial deepening on GDP, with evidence of co-integration among the variables.

Okafor et al. (2021) explore the nexus between financial deepening and economic growth in Nigeria using Johansen co-integration and an error-correction framework. Using real GDP and financial indicators (market capitalization, credit to the private sector, lending rates, labour participation, and gross capital formation), they find a long-run relationship among the variables and report bidirectional causality between financial deepening and economic growth in pair wise Granger tests.

Ighoroje and Ujuju (2021) examine financial deepening and industrial output in Nigeria for the period (1987–2019) adopts an ARDL approach. Their results indicate no statistically significant long-run relationship; in the short run, money supply shows no impact on industrial output but credit to the private sector has a short-run impact, while market capitalization is not significant for short-run industrial performance.

Ditimi and Oluwatobiloba (2020) examined the direct effects of capital inflows and financial deepening on Nigerian economic growth (1981–2018) using an ARDL co-integration approach. They document a long-run link between foreign capital inflows and growth, and find that FDI, foreign aid and measures of financial deepening positively and significantly impact economic growth despite countervailing pressures from exchange-rate movements and inflation.

Osunkwo (2020) investigates and analyzes financial deepening and Nigeria's economic growth for the period 1981–2018. Unit-root tests result show stationarity after first differencing; Johansen co-integration indicates a long-run relationship and VECM analysis reveals that credit to the private sector (as a ratio to GDP) relates positively to growth while the money-supply ratio exhibits a negative association; the error-correction term is correctly signed and statistically significant, though the speed of adjustment is modest.

Amaefula (2019) assessed whether financial deepening fosters economic growth in Nigeria (1981–2016) using ARDL and pooled additive predictors. The ARDL results show no robust short-run relationship between the financial-deepening indicators and growth, although a pooled (combined) effect of the indicators is positive and significant at the 1% level, leading the author to recommend policies that strengthen the financial sector to support both long and short-term growth.

Igwebuike et al. (2019) examined the study to analyze the roles of the banking and insurance sub-sectors in Nigeria's growth (1981–2016) using OLS and sectoral proxies (bank credit to the private sector/GDP; insurance premiums/GDP). Their findings show that commercial-bank credit to the private sector has a positive, significant effect on growth, whereas insurance-premium ratios are positive but not significant.

Nwanna and Chinwudu (2016) they used OLS on 1985–2014 data to examine the effect of financial-deepening proxies (market capitalization, money supply, private-sector credit, and savings) on GDP and report significant positive relationships between these financial-deepening indicators and economic growth.

Alrabadi and Kharabsheh (2016) they study Jordan (1992–2014) with VAR, Granger causality and Johansen co-integration; they find a significant long-run relationship between financial deepening (proxied by private-sector credit) and growth, and present evidence of bidirectional causality when credit is the deepening metric, though when money supply proxies deepening the causality runs from growth to financial deepening. The comparison underlines how results can depend on the deepening proxy used and country context.

3.1 Research Design

This study adopts ex post facto research design, which is appropriate for examining the impact of bank lending on economic productivity in Nigeria. The ex post facto design is used when researchers analyze historical data to establish relationships among variables without manipulating them (Adebiyi, 2021). Given that the study covers the period from 2000Q1 to 2023Q4, it relies on secondary data from financial institutions and economic reports. This approach enables an empirical assessment of how bank lending to the agricultural, manufacturing, sectors influences per capita income in Nigeria over time.

The population used for this study comprises all commercial banks in Nigeria, including commercial banks,

microfinance banks, development finance institutions, and the Central Bank of Nigeria (CBN). However, the study focuses on commercial banks, as they serve as the primary financial intermediaries responsible for providing credit to the agricultural, manufacturing, and SME sectors (Efanga et al., 2020).

3.2 Model Specification

The empirical model used in this study will be a modification and composition of the models of Agu et al. (2023), Fowowe (2020), Kayode et al. (2020), Marafa (2021), Okere et al. (2023), and Sani et al. (2019) for financial effects on the economy. Using their models, this study's model is specified as:

$$EPR_t = \gamma_0 + \delta_1 AGRL_t + \delta_2 MNFL_t + \epsilon_t \qquad 1$$

Where:

- EPR = economic productivity, proxied by per capita income
- AGRL = bank lending to the agricultural sector
- MNFL = bank lending to the manufacturing sector
- ϵ_t = the error term,
- γ_0 = intercept
- $\gamma_1 - \gamma_4$ = short-run coefficients to be estimated,
- $\delta_1 - \delta_4$ = long-run coefficients to be estimated

4.0 Correlation Analysis

The correlation analysis shows that economic productivity (EPR) and bank lending to the agricultural sector (AGRL) is very weak and negative (r = -0.040) and the relationship is high (p = 0.7013), indicating this relationship is not statistically significant. Similarly, EPR is negatively correlated with manufacturing sector lending (MNFL) at -0.241, which is statistically significant at the 5% level (p = 0.0181), suggesting that higher manufacturing lending is associated with a slight decline in per capita income over the sample period. The strongest relationship is observed between EPR and SME lending (SMEL), which shows a strong negative correlation of -0.877 and is highly significant (p < 0.0001), indicating that higher lending to SMEs is strongly associated with lower economic productivity in this dataset.

Table 2: Correlation analysis

Correlation Probability	EPR	AGRL	MNFL	SMEL
EPR	1.000000 -----			
AGRL	-0.039648 0.7013	1.000000 -----		
MNFL	-0.240801 0.0181	0.712856 0.0000	1.000000 -----	

Among the lending variables, AGRL and MNFL are positively and strongly correlated (0.713, p < 0.0001), suggesting that banks that lend more to agriculture also tend to lend more to manufacturing.

4.4 Test of Hypotheses

The hypothesis tests were carried out for long-run model estimates. That means there are two hypotheses to be tested against for each model.

4.3 Test of Hypothesis One

H01: Bank lending to the agricultural sector has no significant impact on economic productivity in Nigeria

Decision Criteria: If, *p-value < 0.05*, then variable is significant: **Reject H_0**

p-value > 0.05, then variable is not significant: **Accept H_0**

Table 2: Test of Hypothesis One

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Decision
AGRL	822.4441	413.1173	1.9908	0.0495	Reject H01

The results of Hypothesis One indicate that bank lending to the agricultural sector (AGRL) has a statistically significant positive effect on economic productivity (EPR) in Nigeria. The coefficient of 822.44 suggests that an increase in agricultural lending is associated with a corresponding rise in per capita income. With a p-value of 0.0495, which is slightly below the 5% significance threshold, the null hypothesis (H01) that agricultural lending has no significant effect on economic productivity is rejected. This finding confirms that support for the agricultural sector through bank credit contributes meaningfully to improving economic productivity in the country.

Test of Hypothesis Two

H02: Bank lending to the manufacturing sector has no significant effect on economic productivity in Nigeria

Decision Criteria: If, *p-value* < *0.05*, then variable is significant: **Reject H_0**

p-value > *0.05*, then variable is not significant: **Accept H_0**

Table 3: Test of Hypothesis Two

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Decision
MNFL	-522.3294	186.3387	-2.8031	0.0062	Reject H02

The results of Hypothesis Two show that bank lending to the manufacturing sector (MNFL) has a statistically significant negative effect on economic productivity (EPR) in Nigeria. The coefficient of -522.33 indicates that an increase in manufacturing sector lending is associated with a decline in per capita income, suggesting that higher credit allocation to manufacturing may not be efficiently translated into immediate economic gains. The t-statistic of -2.803 and a p-value of 0.0062, which is well below the 5% significance level, support the rejection of the null hypothesis (H02) that manufacturing lending has no significant effect on economic productivity.

4.5 Discussion of Findings

Effects of Bank lending to the agricultural sector on economic productivity in Nigeria

The first finding showed that bank lending to the agricultural sector contributes positively to economic productivity in Nigeria. The finding that bank lending to the agricultural sector contributes positively to economic productivity in Nigeria is consistent with several empirical studies emphasizing the beneficial role of financial access in sectoral development. Agu et al. (2023) found that financial deepening; including banking sector credit, significantly enhanced manufacturing sector productivity in Nigeria, indicating that greater access to financial resources enables firms to invest in productive activities, adopt new technologies, and improves output. This aligns with the current finding, suggesting that targeted bank lending to productive sectors such as agriculture similarly stimulates economic activity by facilitating investment and operational expansion. The study further highlighted asymmetric responses in manufacturing output to changes in financial variables, reflecting how sector-specific credit allocation can have differentiated but overall positive impacts on productivity.

Fowowe (2020) also corroborated this outcome by showing that financial inclusion, a concept closely linked to increased access to bank lending, positively and significantly affected agricultural productivity in Nigeria. By improving farmers' access to credit, savings, and other financial services, financial inclusion enhances their ability to invest in inputs, technologies, and farm expansion, thereby boosting output. Collectively, these studies support the finding that bank lending to the agricultural sector is a critical driver of economic productivity, demonstrating that appropriately targeted financial resources can enhance sectoral performance and contribute to broader economic growth.

Effects of Bank lending to the manufacturing sector on economic productivity in Nigeria

The test of the second hypothesis showed that bank lending to the manufacturing sector negatively influenced

economic productivity. These findings imply that while the manufacturing sector is critical for economic development, the current structure or utilisation of bank lending in this sector may be ineffective in boosting per capita income in the short run. Factors such as inefficient investment, misallocation of funds, or delayed returns on manufacturing credit could explain the observed negative impact, highlighting the need for targeted financial strategies to ensure that manufacturing lending translates into measurable improvements in economic productivity. The finding that bank lending to the manufacturing sector negatively influenced economic productivity in Nigeria is supported by empirical evidence highlighting sector-specific challenges in financial intermediation.

Kayode et al. (2020) found that financial deepening, which includes measures of bank credit to manufacturing firms, had a significant negative effect on the index of manufacturing production in Nigeria. This suggests that increased credit to the manufacturing sector does not automatically translate into higher productivity and may even hinder output, potentially due to misallocation of funds, inefficiencies in project implementation, or structural weaknesses within the sector. The finding contrasts with the positive effects of financial access in agriculture, indicating that the productivity response to credit is highly sector-dependent.

In contrast, studies on agricultural financing, such as those by Fowowe (2020) and Marafa (2021), consistently showed that bank lending and broader financial inclusion significantly enhanced productivity in the agricultural sector. These results underscore a sectoral divergence in the effectiveness of bank credit: while agricultural credit reliably boosts productivity due to high returns on investment and better absorption of financial resources, manufacturing credit in Nigeria may face structural constraints, high capital costs, or implementation inefficiencies that limit its positive impact on economic output. Collectively, these studies reinforce the current finding, demonstrating that the effect of bank lending on economic productivity is contingent on the sectoral context and the efficiency of credit utilisation.

Conclusions and Recommendations

Conclusion

In conclusion, this study examined the impact of bank lending to the agricultural, manufacturing, sectors and economic productivity in Nigeria. The findings revealed that bank lending to the agricultural sector positively contributed to productivity, reflecting the sector's high capacity to absorb credit effectively and generate returns, consistent with evidence showing that financial access enhances investment, technology adoption, and output. In contrast, bank lending to the manufacturing sectors negatively affected economic productivity, suggesting that misallocation of funds, structural inefficiencies, high borrowing costs, and limited capacity to utilise loans effectively may constrain the positive impact of credit in these sectors. These results highlight a clear sectoral divergence in the effectiveness of bank lending: while agriculture reliably benefits from targeted financing, manufacturing lending require improved credit allocation strategies and institutional support to translate into meaningful productivity gains. Overall, the study underscores that the impact of bank lending on economic productivity in Nigeria is highly dependent on sector-specific characteristics and the efficiency of credit utilisation.

5.3 Recommendations

Aligned with this study's findings and conclusion, the following are presented:

i. First, since lending to the agricultural sector positively contributes to productivity, banks should prioritize and expand targeted agricultural financing. Supporting measures such as credit guarantees, extension services, and investment in modern farming technologies could improve farmers' capacity to utilise funds efficiently, thereby maximizing productivity gains.

ii. Second, given the negative impact of manufacturing sector lending, financial institutions and policymakers should focus on improving the allocation and utilisation of credit in this sector. Strategies could include providing technical assistance, monitoring project implementation, and designing sector-specific financial products to ensure loans translate into tangible productivity improvements.

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