AN APPRAISAL OF THE IMPACT OF CREDIT POLICY ON INDUSTRIAL OUTPUT IN NIGERIA

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ABSTRACT
This paper accuses the impact of credit policy on industrial output in Nigeria for the period between 1980-2012 Ordinary least squared method was used to estimate the parameters. The study revealed that deposit money bank, credit has a positive and significant relationship with industrial performance in Nigeria. It was also found that interest rate has a positive and insignificant relationship with Industrial output performance. The paper recommended that there is need for proper financial market development, and financial market deregulation. That would enable the sector to function properly and rising up to the challenge of building a strong, virile and competitive sector that would be able to meet the demand and supply of credit facility.

Keywords; credit policy, Industrial output, Interest rate and financial market

INTRODUCTION
The traditional role of bank involves the whole framework of financial intermediation between deficit and surplus fund holders. It aims at the mobilization of deposits, savings and effective channeling into various sectors of the economy in the form of temporary overdraft and term loans. All these can be achieved through creation of adequate credit policies. Credit policy can be viewed as written guidelines that set the terms and conditions for granting loans and advances to various economic agencies.

Nwanyanwu (2012) noted that the banking sector helps to make credit available by mobilizing surplus fund from depositors who have no immediate need of such money, and channels it in form of credit to investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital to execute the ideas. The paper reveals that the role of credit in an economy has been recognized as credit are obtained by economic agents to enable them meet operating expenses. For example business firm obtain credit to buy machineries and equipments; famers obtain credit to purchase farm inputs such as: fertilizers, seedlings, farm buildings, and the government obtain credit to meet various kinds of government expenditure, whether recurrent or capital expenditure.

In the words of Adewusi (2001) “Banks are extremely important intermediaries, by offering time and savings deposits and lending of cash and providing outlet for saving (liquidation) especially where these facilities are available through a nation-wide of branches”.

Anyanwu(1997) rightly expressed that Banks act as vital catalyst of Nigeria's economic development in the following ways; that banks help in the development of the needed capital market through the encouragement of saving and investment. Banks provide capital needed for investment, through the provision of the much needed capital market and provision of managerial advice to small scale industrialists. He also stated that banks as vital catalyst to advance the development of international trade.

The importance of industries in the Nigerian economy cannot be overemphasized. The industry is also a key factor to the other productive sector of the economy like the provision of essential tools and implements for the agricultural sector not to talk of the employment opportunities a well developed industrial sector portends.

The banking sector, which is the main source of credit to the private sector, is an important channel of financial intermediation through which financial resources can be mobilized for productive investment needed for the realization of the high economic growth path envisaged under vision2020. However, Hashim (2012) writes that despite series of important reforms aimed at strengthening the bank ability to efficient service delivery and funding the real sector so that the Nigerian economy can become
more vibrant, which in turn will increase industrial output, yet the industrial sector has not been significant vibrant.

**Statement of problem**

Deposit money Bank is one of the most powerful instrument for enhancing Industrial development, it is a process that mediate between savers and investors.

The Fourth National Development Plan recognizes and states that the basic objective of Deposit money Bank is to insure that all available savings are mobilized through the provision of efficient credit facilities so as to increase industrial output and the growth of the economy.

Despite several policies and programs in the banking sector towards the real sector in which the Industry belongs, yet there has not been rapid growth on the industrial sector.

**Review of other writings.**

Commercial banks perform many functions. They satisfy the financial needs of the sectors such as agriculture, Industry, trade, Communication, etc, they play very significant roles in the process of economic and social needs of the society. The functions performed by banks, since recently, are becoming customer-centered and are widening their functions. Generally, the functions of commercial banks are divided into two categories: primary and the secondary functions.

Commercial banks perform various primary functions; some of them are given below;

- Commercial banks accept various types of deposits from the public especially from its clients, including savings account deposits, recurrent account deposits, and fixed deposits. These deposits are payable after a certain time period.
- Commercial banks provide loans and advances of various forms, including an overdraft facility, cash credit, bill discounting, etc. They also give term loans to all types of clients against proper security.
- Credit creation is most significant function of commercial banks. While sanctioning a loan to a customer, they do not provide cash to the borrower. Instead, they open a deposit account from which the borrower can withdraw. In other words, while sanctioning a loan, they automatically create deposits, known as a credit creation from commercial banks. Along with primary functions, commercial banks perform several secondary functions, including many agency functions or general utility functions. The secondary functions of commercial banks can be divided into agency functions and utility functions.

Bhusal (2012) evaluate the' impact of policy reforms on financial development and economic growth in NEPAD by employing the annual data spanning from 1965 to 2009. Based on the Augmented Dickey Fuller test and exogenous break test they examine the impact of policy reforms. The results shown that all variables except domestic credit are non-stationary at the level, when time series properties of variables that help to detect the impact of policy reforms are examined with a structural break, only economic growth experienced a shock, growing positively after the liberalization. similarly, domestic credit provided by banks experienced negative growth, and it decreased in pace after policy reforms, implies that the role of government declined after the liberalization. However, there is no impact of policy reforms on some of the indicators. Some problems in the banking sector, such as inadequate expansion of commercial banks and their branches in the rural non-monetized sector, nonperforming loan that discouraged credit allocation, and so on, may be the reasons policy reforms for financial development were ineffective.

Avinash and Mitchell-Ryan (2009) assess the impact of sectoral Distribution of commercial bank credit on Economic growth and development in Trinidad and Tobago. They noted that in Trinidad and Tobago, commercial bank credit plays an important role in the way in which businesses and individuals finance economic transactions. They asserted that the credit channel of the monetary transmission mechanisms, which states that credit influences economic growth through its impact on capital investment. They employs a vector error correction model to firstly assess the relationship between credit and investment, and secondly to determine the casual direction of the relationship (if any). e model found that overall, credit and growth tends to demonstrate a demand following' relationship. However, further analysis revealed a 'supply leading' relationship between credit and growth within key sectors of the non-oil economy. Bynoe, Howard and Moore (2008) attempted to identify the determinants of credit booms in the Caribbean and to establish whether or not those credit booms led to sustained economic growth in the region. The authors utilized panel data to establish the main causes of credit booms in the region. They identified three key groups of variables that made some contribution to the development of credit booms; macroeconomic developments, macroeconomic policy and external shocks. In the case of the Caribbean, it was established
that macroeconomic developments were one of the main contributors to credit booms. The authors established that loose monetary policy and liberalization of the capital market play a significant role in the development of credit booms. More importantly, the authors concluded that credit booms can be detrimental to an economy, particularly when such booms finance high risk investments. They note that, while a "vibrant financial system can have positive impact on long run economic growth" it is important to distinguish between a vibrant system and a credit boom which can be detrimental to the growth of an economy.

Ayadi, Arbak, Ben-Naceur and De Groen (2013) explore the relationship between financial sector development and economic growth across the Mediterranean, using a sample of Northern and Southern Mediterranean countries for the years 1985-2009. The authors included several variables to measure the development of the financial sector to account both for quantity and quality effects. The results indicate that credit to the private sector and bank deposits are negatively associated with growth, which confirms deficiencies in credit allocation in the region and suggests weak financial regulation and supervision.

Were, Nzomoi and Ruto (2012) investigates the impact of access to bank credit on the economic performance of key economic sectors using sectoral panel data for Kenya. They found out that a positive and significant impact of credit on sectoral gross domestic product measured as real value added. However, the magnitude of the impact is smaller once factors such as the labour employed and past economic performance of the sectors are taken into account. They also noted that the overall, provision of private sector credit to key economic sectors of the economy holds great potential to promoting sectoral economic growth. The banking sector, which is the main source of credit to the private sector, is an important channel of financial Inter-mediation through which financial sources can be mobilized for productive investment needed for the realization of the high economic growth path envisaged under vision 2020. Consequently, policies towards deepening of the financial sector and reducing the cost of credit which is currently considered to be high are important. Such policies should, however, be accompanied with other complementary strategies that enhance productivity and consequently growth ’key sectors of economy such as manufacturing and agriculture.

Obilo (2013) evaluating the impact of commercial banks credit to the agricultural sector under the Agricultural Credit Guarantee Scheme Fund in Nigeria. He noted that until the mid-seventies, agriculture was the primary foreign exchange earner for Nigeria. Now it has lost its prime position to the mineral sector, of these factors, inadequate capital is considered as the single most important factor affecting the performance of the sector. The study empirically examined the impact of Agricultural Credit Guarantee Scheme Fund, agricultural product prices, government fund allocation and commercial banks credit to agricultural sector on agricultural productivity. The results revealed that joint action of commercial banks credit to the agricultural sector, agricultural credit guarantee loan by purpose, government financial allocation to agricultural sector and agricultural products prices are significant factors that can influence agricultural production in Nigeria. He recommended that farmers should encouraged to be applying for loans from the participating banks to enhance their agricultural activities and productivity.

Tomo!a, Adebisi and Olawale (2010) investigate the effect of bank lending and economic growth on the manufacturing output in Nigeria. Times series data covering a period of 36 years were employed and tested with the co-integration and vector error correction model (VECM) techniques. The findings of the study show that manufacturing capacity utilization and bank lending rates significantly affect manufacturing output in Nigeria. They noted that concerted effort by the government, manufacturers and the lending institutions need to reviewed accordingly;

- lending and growth policies and provide appropriate macroeconomic environment, in order to encourage , investment friendly lending and borrowing by the financial institutions.

Abubakar and Gani (2013) examined the long run relationship between financial development indicators and economic growth in Nigeria over the period of 1970-2010. Using the Johansen and Juselius (1990) approach to co-integration and Vector Error Correction Modeling (VECM). The findings of the study revealed that in the long-run, liquid liabilities of commercial banks and trade openness exert significant positive influence on economic growth, conversely, credit to the private sector, interest rate spread and government expenditure exert significant negative influence on the economy. The findings implied that, credit to the private sector is marred by the identified problems and government borrowing and high interest rate are growing in investment and growth.

The study recommended that financial reforms in Nigeria should focus more on deepening the sector in terms of financial instruments so that firms can have alternatives to banks credit which proves to be inefficient and detrimental to growth, moreover, government should inculcate fiscal discipline so as to reduce excessive borrowing from the financial sector and thereby encouraging private investment.
However, Olaitan (2012) In testing the factors that mobilize credit, states that exports in general are negatively related to credit. However, while oil exports are negatively related to credit, non-oil export has positive relationship with credit. Credit is also positively linked to capital inflows and imports. The findings suggest that banks credit is linked to the opening of the economy to international trade and capital flows in non-oil.

Nwanyanwu (2009) examined the role of bank credit in economic growth of Nigeria. Based on the findings of the study, it was observed that bank credit has not impacted significantly on the growth of the Nigerian economy. This is attributed to the fact that banks exhibit apathy in lending to the private sector for productive purposes e.g. agricultural sector, as they prefer to lend to the short-term market operators, e.g. commerce, which attracts quick and high rate of turnover. As a result of this, the volume of loan actually given to investors is significant. The study recommended that banks should be willing to give both short and long-term loans for productive purposes, as this will eventually lead to economic growth also that the regulatory body such as Central Bank of Nigeria (CBN) should adopt a direct credit control that will be beneficial to the productive sector of the economy e.g. agricultural and manufacturing sectors.

Akpan嫂 and Babaıola (2012) examine the relationship between banking sector credit and economic growth in Nigeria over the period 1970-2008. The causal links between the variables of interest were established using Granger causality test while a Two-Stage Least Squares (TSLS) estimation technique was used for the regression models. The results of Granger causality test show evidence of uni-directional causal relationship from GDP to private sector credit (PSC) and from industrial production index (IND) to GDP. Estimated regression models indicate that private sector credit impacts positively on economic growth over the period coverage of the study. However, lending (interest) rate impedes economic growth. The study recommends the need for more financial market development that favours more credit to the private sector with minimal interest rate to stimulate economic growth.

FINDINGS
Credit policy has a significant impact on industrial output in Nigeria.
The finding stated above shows that there is a significant impact of credit policy on industrial output in Nigeria during period under review.
Olaitan (2012) observed that credit Granger cause output. The implication of this finding is that bank credit has a real effect on industrial output in Nigeria and so, that credit policy has the tendency to induce growth in industrial output in Nigeria.

CONCLUSION
For the purpose of this paper, data were obtained from the Central Bank of Nigeria (CBN)’s statistical bulletin for the year 1980 to 2012 and fit into a single linear mode! in which industrial output was the dependent variable and bank credit, interest rate and inflation rate served as the dependent variables. The main objective of this paper is to determine the impact of credit policy on industrial output in Nigeria. RECOMMENDATIONS
In view of the result obtained, it is recommended that: There is need for government to consciously improve the business environment by the provision of necessary infrastructure, which will lower the cost of doing business in Nigeria. The recent privatization of electric power holding company may be a step in the right direction if there is an improvement in the services provided.
There is need for proper financial market development. The financial sector should be deregulated, this would enable the sector to function properly, thus rising up to the challenge of building a strong, virile and competitive sector that would be able to meet the demand and supply of credit facility.
The monetary authority should put in place adequate policies towards deepening of the financial sector and reducing the cost of credit. Such policies should, however, be accompanied with other complementary strategies that enhance productivity and consequently growth of key sectors of economy such as manufacturing, agriculture and services.
The Central bank of Nigeria should adopt direct credit control, where preferred sectors like agriculture, manufacturing and service's sectors should be favored in terms of granting credits.
Banks should be willing to give both short and long-term loans for productive purposes, as these will eventually lead to economic growth.
REFERENCES


