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IMPACT OF BANKING SYSTEM CREDIT TO SMALL AND MEDIUM SCALE ENTERPRISES ON ECONOMIC DEVELOPMENT IN NIGERIA

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Abstract

This study examined the impact of banking system credit to small and medium-scale enterprises (SMEs) on economic growth in Nigeria. Specifically, the study investigated the impact of Banking System Credit to small and medium-scale enterprises, banking system credit to SMEs as percentage of total credit to private sector, and lending rate on economic growth and per capita income in Nigeria. This study used secondary data obtained from the Central Bank of Nigeria Statistical Bulletin 2021.The study period was 8 years (i.e. 2013-2021). The study adopted ex-ex-post facto research design via making use of data already in existence Descriptive and inferential statistics - multiple regression analyses were used to analyse with E-View 9 software. The result indicated that Banking System Credit to SMEs has significant impact on the economic growth in Nigeria. Specifically, banking system credit to small and medium-scale enterprises (SMEs) has positive and insignificant impact on economic development in Nigeria. Secondly, banking system credit to SMEs as percentage of total credit to private sector has negative and significant influence on economic growth in Nigeria. Similarly, lending rate has negative and significant effect on economic growth in Nigeria. Also, banking system credit to SMEs, Percentage of Banks credit to SMEs to Private Sector Credit have positive and insignificant impact per capita income of Nigeria which lending rate has negative and insignificant impact of per capita income of Nigeria The study recommended among other things that the banks should extend more credits to the SMEs. This is because the banks credit to SMEs has positive but insignificant impact on economic growth in Nigeria. Also, the lending rate should be reduced since an increase in the lending rate will further constrained credit to SMEs.

Keywords: *Nigeria banking credit system, SMEs, economic development and Nigerian economy*

INTRODUCTION

Worldwide, the job of small and medium scale businesses in improving economic performance in the vein of rising gross domestic product, creating new jobs, and reducing poverty is has been recognized (Kanu and Nwadiubu, 2021; Karadag, 2016; Muller, *et al.*, 2014; OECD, 2014; Chowdhury, 2011). This seems to be more significantly pronounced in developing economies, where there are comparably a smaller number of large firms, which leads to a larger impact of these scale business units on the economic and socio-economic development through reduced poverty, balanced income distribution and sustainably financial inclusion (Narteh, 2013; Floyd & McManus, 2005). However, it would be less accurate to assume that small enterprises only matter for less developed economies, as these units' account for 50% of GDP in high income countries (Ayyagari, *et. al.,* 2007). Across Europe, the small-scale enterprises represent about 99.8% of all non-financial businesses, 58% of total value added and 66.8% of total employment are supplied by SMEs, making them the "backbone of the European economy" (Muller, *et.al,* 2014; Gagliardi *et al.,* 2013; Briozzo & Riportella, 2012; Wyamenga, *et.al,* 2012). In Japan, SMEs account for 99.7% of all companies, 70% of all employees, and more than 50% of all added value of manufacturing industry (ChushoMeti, 2013). Nigeria SMEs is estimated to contribute 10% of the employment level in Nigeria well below that of the UK 54%; USA 50.3%; Bangladesh 80%; India 80%; Belgium 66.6%; South Africa 60%; Malaysia 57.7%, Ireland 66.5% and China 58.8% (Iloh & Chioke, 2015).

The development of small and medium enterprises (SMEs) and changes in their structure over time contribute toward employment generation, market expansion, and economic growth (Olowookere, Hassan, Adewole & Aderemi, 2021; Pandey, 2016). These enterprises, often called the foundation enterprises, are the core of industrial base. They are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations. Small-scale business enterprises utilize local raw materials and technology thereby aiding the realization of the goal of self-reliance. There is large numbers of SMEs all over the world undergoing financing constraints, which have been inducing a huge loss of social welfare for a longer time (Olowookere *et al.,* 2021). But mostly in developing countries in Sub-Sahara Africa including Nigeria, small and medium scale enterprises are plagued with poor financing, thus affecting their ability to grow (World Bank 2013). Given the fact that SMEs have been generally acknowledged as the bedrock of industrial development of nations across the globe and financial institutions especially banks are theoretically expected to provide financial succor for their growth (Olowookere *et al.,* 2021). Thus, one of the major sources of funds for the survival of the SMEs to perform their expected role of rapid industrialization and economic growth is banking sector credit.

In developed and some developing economies, it has been strongly established that SMEs are the "backbones" of economic growth (Karadag, 2016). As the GDP grows, it is expected that it will improve other sectors of the economy by ways of greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local reserves, linkages amid larger industries, provision of local balance by dispersal savings additional fund consistently, stipulation of possibility in favor of self-employment and provision of chance for training managers and quasi-skilled workers.

Unfortunately, the reverse is the case in many developing countries including Nigeria (Kanu and Nwadiubu, 2021; Yunusa, & Paul, 2018). In Nigeria, it has been a situation of dwindling economic, characterized with inability to access capital for business expansion and low level of standard of living, high exchange and interest rate, high unemployment and underemployment rate, and low level of absorption capacity of the informal sector enterprise. Although SMEs have been regarded as the backbone of most economy for employment generation and technological development, its impact on Nigeria economic growth has not been significantly felt.

Statistically, a review of Central Bank of Nigeria statistical bulletin indicates that bank loans to small and medium-scale enterprises as percentage of total credit to private sector has decreased significantly over the years. In the year 1992, the bank loans to small and medium-scale enterprises as percentage of total credit to private sector stood at 27%. This implies that in 1992 loans to the small and medium-scale enterprises accounted for 27% of the total credit to private sector. However, in the fourth quarter of 2017, the bank loans to small-scale enterprises as percentage of total credit to private sector stood at 0.1%. Meaning that the bank loans to small and medium-scale enterprises as percentage of total credit to private sector has moved from 27 percent recorded in 1992 to 0.1 percent in the fourth quarter of 2017. Empirically, the relationship between banks loan to small and medium-scale enterprises and economic growth have been investigated but there exist some levels of inconsistence. Kanu & Nwadiubu (2021) and Taiwo, Ayodeji & Yusuf, (2012) noted that due to poor financing and other constraints hindering the growth of small-scale enterprise, its impact on economic growth has not been significant. Similarly, Yunusa, & Paul (2018) revealed that the financial challenges faced by small-scale businesses affect their contribution to the development of Nigerian economy. The objective of this study is impact of banking system credit to small and medium-scale enterprises (SMEs) on economic growth in Nigeria.

Objectives of the Study

The broad objective of the study is to examine the impact of banking system credit to small and medium-scale enterprises (SMEs) on economic growth in Nigeria. The specific objectives are;

1. To examines the impact of Banking System Credit to small and medium-scale enterprises, banking system credit to SMEs as percentage of total credit to private sector and lending rate on economic growth in Nigeria
2. To ascertain the impact of Banking System Credit to small and medium-scale enterprises, banking system credit to SMEs as percentage of total credit to private sector and lending rate on per capita income in Nigeria

REVIEW OF RELATED LITERATURE

Conceptual Framework

Bank Credit

The bank is the major financial institution that provides formal source of finance to small-scale enterprise (Taiwo, Falohun, & Agwu, 2016). They further noted that the commercial banks in Nigeria are not in short supply of liquidity, but are very reluctant to grant loans to SMEs, which they regard as a high-risk sector. The majority of the banks would slightly pay the fine compulsory for not summiting the bare minimum disclosure to prefer sectors of the financial system than run the menace of being uncovered to them. Sacerdoti (2005) posits that the sources of investment finance for SMEs include owner's savings and assistance from banks, government institutions, local authorities, co-operative societies, relatives and friends, and moneylenders. The study observed that nearly every finance came from individual savings of about (76.4%) with about 8% from the casual sector and 0.15.6% from the formal financial institutions. Generally, banks offer a nation with a task of pooling sprinkled income from excess to shortfall units so as to encourage investment modernization, output and as a result expansion and growth. The banking sector in Nigeria dominates the financial scheme (Agusto, 2000). Berger *et al.,* (2001) agreed that a well-functioning monetary system adds to savings and financial growth. Each venture at its inception, prior to standing firm on its feet, needs additional funds through borrowing. From the elementary corporate finance theory, an investment plan should be undertaken each time its net present value is positive. Now it presumes that the capital expenditure is not comprehensive. Enterprise engages in any degree of speculation, and consequently wherever the firms do not have sufficient capital to board on any level of investment, there is need for capital borrowing (Mainoma, 2005). Hence, the commercial banks provide credit to small-scale enterprises, but a review of statistics indicate that the trend of commercial banks credit to small-scale enterprise has been declining compared to the total credit to the private sector (Olaoye, *et al.,* 2018). Bank credit refers to loans, advances and discounts of specific sums, which are normally with terms and other conditions available to individuals, small and medium sized business to start, grow or sustain any economic activity (John & Onwubiko, 2013).

Credit to Private Sector

Banks credit to private sector is the total of all loans and advancement give to all non-government own units in the economy. This credit has its repayment period extended for a number of years. The credit facilities intended for a long term condition from five, ten to twenty years and beyond are known as long term loans. This credit is generally being elected as 'genuine estate bond'. The reimbursement of this loan category is not made in a few years although has to be widen over scores of years (Olokoyo, 2011). The business objective of commercial banks' long-term lending is to maximize compounded profit, although other social and economic functions tend to deflect banks from profit maximization as their primary objective. Ever since banks are recognized agents of social, economic and political improvement, they have a societal duty. The amount of this extended conscientiousness differs from nation to nation and the communal circumstance is a foremost influential factor, that's why the responsibility of commercial banks as agents of development emerges better in developing countries of which Nigeria is exempted. Even so, the primary lending purposes of a bank are to provide escalation, prosperity and liquidity.

Credit to Small and Medium Scale Enterprises

Provision of finance or else lending by the description is a legal task of a bank. In essence it is one of the principal roles of survival of a bank. Whereas connecting bank historical existence with its borrowing functions. A slight detail here indicates that banks be paying interest on deposits kept with them. In addition for bank pay interest on deposited funds, ought to lend out the money to customers and other financial users who have invested the fund in a profitable venture. Loan grant by commercial banks to its numerous customers is perchance one of the mainly significant function carried by commercial banks in Nigeria. These banks regularly engage in wealth activity role by sourcing for funds through deposits from customers and lending such funds out as loan which may be on short-term, medium-term or long-term basis to corporate bodies, government at various levels, institutions and individuals. The practice of lending by deposit money banks essentially constitutes the rotate of their operations and business. Thus the other motive which informs their employment of substantial skill and dexterity on the part of the bank administration teams on providing management and administration.

The Concept of Small and Medium-Scale Business

According to Pandey (2016), the definition of a small-scale enterprise may vary in different economies of the world, but the underlying concept is the same. Small-scale business enterprise can be defined in terms of annual sales, asset valuation, net profit, balance sheet totals and the size of the business including the numbers of employees available in the business. Different authors, scholars, and schools have different ideas as to the variation in initial capital, number of workforces, annual turnover, fixed assets invested, physical plants and machineries, market value and the level of development. These features equally vary from one country to the other (Kehinde *et al*., 2016).

In developing economy like Nigeria, small-scale enterprise is defined as a business establishment which employs not more than ten people, or whose investment in assets does not exceed six hundred thousand naira. The definition was offered by the Third National Development plan. According to Umar as cited in Kehinde *et al.,* (2016), the concept of the small size firm is a relative one and it depends mainly on both the geographical location and the nature of economy that the activity is being performed. A small-scale enterprise is a privately owned and operated business characterized by a small number of employees and low turnover.

A small enterprise usually only shares a tiny segment of the market it operates in. Small-scale enterprises (also, small-scale businesses) are essential to the economy for industrial growth and diversification. In Nigeria, small-scale industry is not prominently defined, and it is not structurally established in the economy; the reason is attributed to the ambiguous concept of small-scale industries. The definition of small-scale industry in Nigeria is not static but varied functionally within institutions with emphasis on the size of the investment rather than the number of employees. For example, the Nigerian Industrial Development Bank (NIDB) (2004) defines small-scale industry as an enterprise having an investment and working capital not exceeding N750,000. However, the Central Bank of Nigeria (CBN, 2005) defined small-scale industry as an industry whose (working capital including land cost) total investment does not exceed N2.5 million naira and whose annual turnover N12.5 million annually. This definition seems to have recognized the impact of inflation and exigencies. The Federal Ministry of Industry's guidelines to NBCI defined a small-scale enterprise as one with a total cost not exceeding N500, 000 (exceeding cost of land but including working capital).

Theoretical Review

To build a solid theoretical foundation for this study, Robert Solow Model of Growth was reviewed which is relevant to the study. This theory was suggested by Robert Solow in 1956. Thus model of economic long term associates with growth inside the neoclassical economics structure. The replica tries to clarify long-run economic growth as way of capital accumulation, labor growth, and the increases in efficiency otherwise called hi-tech development. The Solow model has the subsequent theories. One it assumes that capital is matter to retreating returns in a clogged economy. Two, holding the stock of labour steady, the impact of the last unit of capital accumulated on output will constantly be fewer than the one before. Thirdly, given no technical improvement of the labor force, at some point the amount of new capital created is merely just adequate to make up for obtainable capital lost due to decline. At this point there is no more economic growth (Romer, 2011).

The Solow model added the component of changing technological context in order to reduce the effect of thinning returns in the Cobb-Douglas model. The Solow model hence recommended that production is a function of state of expertise, supply of labour, and capital. The production function made industrial growth comparable to an augment in the useful (supply of labor supply of labour given the state of technology) which grows not at the rate of population growth only, but at the rate equal to the sum of growth rate of population and productivity (Solow, 1956). This theory is pertinent to this study in the following sense. Firstly, the model approaches the height of economic increase from the production perception just like in this study. Further, bank credits are implicit to offer capital which is used to advance the production in a country. The theory basically provides the link among the capital, the other factors of production and level of public productivity given the level of technology (Romer, 2011).

Empirical Review

Studies have been conducted to examine the relationship between bank credits to small-scale and economic growth in developed and developing economics. Among the studies include

Afolabi, (2022) examined Growth effect of Small and Medium Enterprises (SMEs) Financing in Nigeria. The study identified the issue and existence of quantitative empirical studies in this regard, the study investigated the effect of SMEs financing on economic growth in Nigeria between 1980 and 2010. The study employed Ordinary Least Square (OLS) method to estimate the multiple regression models. The estimated model results revealed that SMEs output proxy by wholesale and retail trade output as a component of gross domestic product, commercial banks' credit to SMEs and exchange rate of naira vis-à-vis U.S dollar exert positive influence on economic development proxy real gross domestic product while lending rate is found to exert negative effects on economic growth. In terms of partial significance and using t-statistic as a test of evaluation, SMEs output and commercial banks' credit to SMEs were found to be significant factors enhancing economic growth in Nigeria at 5% critical level.

Uremadu, Ani and Okwuchukwu (2021) carried out a study on banking system credit to SMEs and their impact on the growth and development of Nigerian economy. It investigated the impact of banking system credit to small and medium scale enterprises on economic growth of Nigeria using the ordinary least square (OLS) estimation techniques. Annual data spanning from 1981 to 2013 were tested for stationary, and co-integration analyses were carried out. The findings discovered that the banking system credit to SMEs although slowly improved from year to year as a result of raise in population and thus economic activities, the credit to SMEs as a percentage of total credit to the private sector declined yearly. Banking system credit to SMEs was not significant and thus did not contribute meaningfully to economic growth in Nigeria though bank credit to SMEs as a percentage of total credit to the private sector had a positive and significant effect on growth. .

Bello and Mohammed (2015) explored the effect of banking sector credit on the growth of small and medium enterprises in Nigeria. The main objective of the study was to investigate whether banking sector credit has a significant impact on the growth of small and medium enterprises in Nigeria. Annual data between 1985 and 2010 was collected and used in the study whereas descriptive statistics, correlation matrix, and error correction model was used to test the formulated hypotheses which exhibit that banking sector credit has significant impact on the growth of small and medium enterprises in Nigeria as it has positive impact on some major macroeconomic variables of growth such as inflation, exchange rate, trade debts.

Kanu and Nwadiubu (2021) investigated commercial bank loans and the performance of small and medium scale enterprises (SMES) in Nigeria. The main objective of the study was to ascertain the impact of commercial bank loans on the performance of small and medium scale enterprises in Nigeria. The study adopted the ex-post facto research design and conducted a least square regression analysis on a time-series data to evaluate the hypothesis. The result indicated that there exists an insignificant inverse relationship between the amount of commercial bank loans (CBLSME) made available to SMEs and the output of SMEs (OPSME) in Nigeria.

Johnny and Ayawei (2018) examined deposit money bank loans to small and medium enterprises and its effect on economic growth in Nigeria from 1992 to 2016. The study employed two predictor variables (deposit money bank loans to small and medium enterprises and bank lending rate), one predicted variable (gross fixed capital formation representing economic growth) and one controlled variable (inflation rate). Test conducted include unit root test, co-integration test and ordinary least square. The findings revealed that: There is positive significant relationship between deposit money bank loans to small and medium enterprises and gross fixed capital formation in Nigeria, there is negative and significant relationship between bank lending rate and gross fixed capital formation in Nigeria, and there is negative insignificant relationship between inflation rate and gross fixed capital formation in Nigeria

Ezeaku, Anidiobu and Okolie (2017) assessed small and medium enterprises financing and its effect on manufacturing sector growth in Nigeria from 1981 to 2014. Manufacturing output, credit to small and medium enterprises, inflation rate and exchange rate were employed in the analysis. The regression result shows that small and medium enterprises financing exerted positive influence on manufacturing output. Interest rate and inflation rate had a negative effect on manufacturing output.

Ilegbinosa and Jumbo (2015) studied Small and Medium Scale Enterprises and Nigeria's economic growth from 1970 – 2012. The study polled 84 SMEs for primary data collection as well as statistical records for years 1975-2012 as secondary data. The ordinary least square, co-integration, and error correction model were used to estimate the data collected during the period of this study. The variables used include Gross Domestic Product as the dependent variable and Finance Available to Small and Medium Enterprises, Interest rate and Inflation rate as the independent variables. The result showed that Finance Available to SMEs showed a positive relationship with economic growth while Interest rate and Inflation rate showed a negative and positive influence on economic growth respectively.

Bassey, Asinya, and Amba (2014) employed time series data obtained from the Central Bank of Nigeria for the period1992-2011 to examine the impact of bank lending and macroeconomic policy on the growth of Small-scale Enterprises in Nigeria. Data were analyzed using the Ordinary Least Square (OLS) regression technique. Empirical findings further revealed that Commercial bank credit finance and industrial capacity utilization exerted a significant positive impact on the growth of Small-scale Enterprises

METHODOLOGY

The study employed *ex-post facto* research design. The data was sourced from CBN statistical bulletin from 2013 to 2021. For model for objective 1, is specified below:

RGDP = $\beta 0$ + $\beta 1$BCrTSMEs + $\beta 2$RBCrTSMEs + $\beta 3$BLR + e…………………. i

Where:

RGDP = Real gross domestic product

BSCS = Banking System Credit to SMEs

PBCSPSC = Percentage of Banks credit to SMEs to Private Sector Credit.

LR = Lending rate

$\beta 0$ = constant

$\beta 1$ to $\beta 3$ = coefficients to be estimated

e = stochastic variable or error term.

For objective Two

The model for this study is specified below;

PCI = $\beta 0$ + $\beta 1$CBLSSE + $\beta 2$PCBLSSEPS+ $\beta 3$LR + e…………………. ………………ii

Where:

PCI = Per Capita Income

BSCS = Banking System Credit to SMEs

PBCSPSC = Percentage of Banks credit to SMEs to Private Sector Credit.

LR = Lending rate

$\beta 0$ = constant

$\beta 1$ to $\beta 3$ = coefficients to be estimated

e = stochastic variable or error term.

RESULTS

Table 4.1: Descriptive Statistic Variable	Mean	Standard Deviation	Minimum	Maximum	Sum
Real GDP	52343.43	52225.19	1244.80	173527.66	1517959.57
BSCS	39.15	28.35	10.75	123.93	1135.38
PBCSPSC	4.83	6.04	0.07	17.41	140.18
LR	17.70	2.71	11.55	24.85	513.34

The real GDP (Real GDP) annual average between 1993 and 2021 is ₦52343.43billion, with a minimum of ₦1244.80billion and maximum of ₦173527.66billion. The figure 4.1 revealed a steady growth in the Real GDP of Nigeria from 1993 to 2021. The descriptive table above indicated that Banking system credit to SMEs (BSCS) had a minimum of ₦10.75billion and a maximum of ₦123.93billion between 1993 and 2021. The analysis revealed that between 1993 and 2021 the banking system credit to SMEs stood at ₦1135.38billion in Nigeria, with a yearly average of ₦39.15billion. On the other hand, the Banking system credit to SMEs as percentage of total credit to private sector (PBCSPSC) recorded a minimum of 0.07% and a maximum of 17.41%. This implies that between 1993 to 2021, the highest percentage share of the banking credit to private attributable to the SMEs is 17.41%. In other words, the SMEs could not get more than 17.41% of bank credit to private sector between 1993 to 2021. The descriptive statistics result also indicated that the average lending rate from 1993 to 2021 was 17.70%, with a minimum of 11.55% and a maximum of 24.85%.

Analysis for Objective One

Regression Estimate

Regression Estimate Variable	Coefficient	Std. Error	t-Statistic	P-Value
Intercept	185224	44778.3	4.13647	0.0003
BSCS	396.807	220.575	1.79896	0.0841

PBCSPSC	-4756.2	1164.84	-4.0831	0.0004
LR	-7085.5	2587.2	-2.7387	0.0112
R-squared		0.64422		
Adjusted R-square		0.60153		
F-statistic		15.0897		
Prob (F-statistic)		0.0000		

Source: *Computed from E-view 10 Version*

The result on table 4.2 above indicates that the R-square of the regression estimate is 0.64422. This implies that 64.42% of the total variation observed in the dependent variable is explained by the independent variables in the model meaning that the banking system credit to SMEs explained about 64.42% of the total variations observed in the real GDP. The study cannot conclude the influence of banking system credit to SMEs variables on real GDP using only the R-square, because it has been noted that increase in the number of independent variables automatically causes the R-squared to increase. This inflated increase could lead to type I or type II error hence, the need to consider the adjusted R-Square. The adjusted R-square represents the unbiased explained proportion of variation observed in the dependent variable by the independent variables. Thus, the unbiased proportion of the total variation observed in the dependent variable explained by the independent variables is 0.60153. Meaning that the banking system credit to SMEs variables explained about 60.15% of the total variation observed in the real GDP in Nigeria. In other words, Banking System Credit to SMEs, Percentage of Banks credit to SMEs to Private Sector Credit and lending rate exert about 60.15% impact on the Real Gross Domestic Product. The impact is statistically significant since the F-statistic value is 15.0897 and its p-value (Prob (F-Statistic)) is 0.0000, is less than 0.05. Hence, the study rejects the null hypothesis that Banking System Credit to SMEs has no significant impact on the economic growth in Nigeria and accepts the alternative that Banking System Credit to SMEs has significant impact on the economic growth in Nigeria.

Analysis for Objective Two

Regression Estimate

Regression Estimate Variable	Coefficient	Std. Error	t-Statistic	P-Value
Intercept	1.7249	1.7928	0.9621	0.1543
BSCS	1.4329	1.5342	0.9339	0.2150
PBCSPSC	1.1045	1.3976	0.7902	0.3004
LR	-1.0111	1.2392	0.8159	0.2310
R-squared		0.5402		
Adjusted R-square		0.5017		
F-statistic		1.2930		
Prob (F-statistic)		0.7289		

Source: *Computed from E-view 10 Version*

The result on table 4.3 above indicates that the R-square of the regression estimate is 0.5402. This implies that 54% of the total variation observed in the dependent variable is explained by the independent variables in the model. This implies that 54% of the total variations observed in the per capita income were explained by banking system credit to SMEs, Percentage of Banks credit to SMEs to Private Sector Credit and lending rate. The coefficients of banking system credit to SMEs and Percentage of Banks credit to SMEs to Private Sector Credit were 1.4329 and 1.1045. This implies that a unit increases banking system credit to SMEs and Percentage of Banks credit to SMEs to Private Sector Credit led to correspondents increase in per capita income by 1.4329% and 1.1045% and the coefficient of lending rate was -1.0111 which implies that a unit increase in lending rate led to decreases in per capita income by -1.0111 units.

The prob. value of banking system credit to SMEs, Percentage of Banks credit to SMEs to Private Sector Credit and lending rate were 0.2150, 0.3004 and 0.2310 which is greater than 0.05. This implies that the entire result was statistically insignificant since the prob. Value were greater than 0.05 significant level. Finally, the prob. of F-statistic was 0.7289 which is greater than 0.05 and it shows that the entire result was statically insignificant.

DISCUSSION OF RESULT

It's no doubt the SMEs play very important roles in the growth and development of any economy. A review of literature indicated that even the developed economies were need possible by the activities of SMEs. In Nigeria, the SMEs are among the leading employers of labour. From figure 4.1, it is obvious that the banking system credit to small and medium-scale enterprises has not experience significant growth between 1993 to 2021. One could argue that if banking system credit to SMEs had increased significantly in those years, the rate of unemployment and other negative index in Nigeria wouldn't be at the current levels. The inferential statistics further confirmed that banking system credit to small and medium-scale enterprises has positive and insignificant impact on economic growth in Nigeria. Considering the previous studies on the impact of bank credit to SMEs on economic variables, Kanu and Nwadiubu (2021) concluded that there exists an insignificant inverse relationship between the amount of commercial bank loans (CBLSME) made available to SMEs and the output of SMEs (OPSME) in Nigeria. Olowookere *et al*., (2021) noted that commercial banks loans to SMEs and GDP growth rate possess a positive and significant relationship. Olaoye *et al*., (2018) found that commercial bank loans to SMEs (CBLSMES) had a negative and insignificant impact on a gross domestic product. Johnny and Ayawei (2018) found that there is positive significant relationship between deposit money bank loans to small and medium enterprises and gross fixed capital formation in Nigeria.

Secondly, the percentage share of SMEs from the bank credit to private sector has declined over the past years. This has resulted to a negative influence on the economic growth. This study concluded that banking system credit to SMEs as percentage of total credit to private sector has negative and significant influence on economic growth in Nigeria. The same is true of the lending rate; the study concluded that Lending rate has negative and significant effect on economic growth in Nigeria. Previous studies like Olowookere *et al.*, (2021) concluded that lending rate has negative and insignificant relationship with GDP growth rate. Olaoye *et al.*, (2018) concluded that Average commercial bank lending rate to SMEs (ACBLRSMES) had a negative and insignificant impact on a gross domestic product. Johnny and Ayawei (2018) also noted that there is negative and significant relationship between bank lending rate and gross fixed capital formation in Nigeria.

CONCLUSION

The findings of the study indicate that while SMEs have significantly contributed to the growth of the Nigerian economy, their performance and subsequent contribution to economic growth are constrained by the absence of sustainable financial support from commercial banks. The SMEs have been at the vanguard of giving the youth's employment chances, but their current financial situation prevents them from achieving these desirable goals and realizing their full potential. This study examined the impact of banking system credit to small and medium-scale enterprises (SMEs) on economic growth in Nigeria. Specifically, the study investigated the impact of Banking System Credit to small and medium-scale enterprises, banking system credit to SMEs as percentage of total credit to private sector, and lending rate on economic growth in Nigeria. This study used secondary data obtained from the Central Bank of Nigeria Statistical Bulletin 2021. Descriptive and inferential statistics - multiple regression analyses were used to analyse the data collected with the aid of Microsoft Excel 365. The result indicated that Banking System Credit to SMEs has significant impact on the economic growth in Nigeria and also that banking system credit to SMEs, Percentage of Banks credit to SMEs to Private Sector Credit have positive and insignificant impact per capita income of Nigeria which lending rate has negative and insignificant impact of per capita income of Nigeria

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