

Impact of Deposit Mobilisation on Deposit Money Banks' Lending in Nigeria

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Abstract

Deposit mobilisation plays an important role in strengthening the lending capacity of deposit money banks and promoting private sector investment. The study employed annual secondary data from Nigeria covering the period 1990–2024 to investigate the effect of deposit mobilisation on deposit money banks' lending. The short-run and long-run relationships between the variables were estimated using the technique of Autoregressive Distributed Lag (ARDL). The ARDL Bounds test confirmed that there is a long-run relationship between the variables. The long-run estimates showed that money supply had a positive and statistically significant effect on credit to the private sector, while the effects of the savings deposit rate, bank branches, and inflation were statistically insignificant. In the short run, bank branches and money supply exerted positive and statistically significant effects on credit to the private sector, whereas inflation had a negative but statistically insignificant effect. The error correction term was negative and statistically significant, suggesting

a quick response to short-run shocks to reach the long-run equilibrium. The study concluded that enhancing banking liquidity and expanding banking outreach can improve lending by deposit money banks in Nigeria. The study recommended that the Central Bank of Nigeria should maintain adequate liquidity in the monetary system and ensure price stability. At the same time, the deposit money banks should intensify deposit mobilisation by expanding their branch networks strategically, improving their savings products and improving their services to customers to support sustainable loan extension.

Keywords: Credit to private sector, savings deposit rate, money supply, bank branches, inflation, ARDL, loanable funds theory, Nigeria.

Introduction

Deposit money banks have a basic financial intermediation role, that is, to collect savings from economic units that have a surplus and then to invest them in the productive sector by creating credit. Bank lending boosts investment, expands the private sector, creates jobs and promotes sustainable economic growth. Thus, one of the largest indicators of the efficiency of the banking sector and the development of the financial system is the capacity of banks to mobilise deposits and convert them into loans. Banks, however, are not only constrained by the number of deposits that have to be mobilised, but also by the operating environment and the macroeconomic situation and monetary policy in which they operate.

According to the Loanable Funds Theory, the sources of supply of loanable funds are savings, bank deposits, and money creation, while the demand for loanable funds is from investment and consumption borrowing (Bertocco & Kalajzić, 2023). According to the theory, better conditions for deposit mobilisation and liquidity should be reflected in more credit given by the banks. However, this transmission mechanism could be related to factors like interest rates on saving deposits, money supply, the increase in branch infrastructure and inflation (Jacob et al., 2019). This can impact both the supply of loanable funds as well as the willingness of the banks to supply credit, which can make the relationship between deposit mobilisation and bank lending more complicated than the increase in deposits.

To boost financial intermediation and credit supply to the economy, the Nigerian financial sector has undergone several reforms, such as banking sector consolidation, financial inclusion policies, the cashless policy, digital banking innovations, and intermittent monetary policy measures (Adeleye et al., 2018). However, the reform measures have failed to quell the volatility of the bank lending figures, which has been driven by liquidity conditions, monetary policy stance, inflation conditions and banking sector dynamics (Bianchi & Bigio, 2022). The growth and evolution of these have continued to attract the attention of researchers and policymakers about the determinants of the lending behaviour of deposit money banks, but the empirical evidence remains inconclusive, as it is about the determinants of bank lending. Deposit mobilisation and money supply were found by Oguntuase et al. (2026) and Demehin (2021) to be significant factors influencing bank lending and the success of liquidity expansion. Likewise, Sulaiman (2020) concluded that money supply greatly contributes to private sector credit, but the study focused on private sector financing instead of aggregate bank credit. These studies all indicate that the expansion of liquidity is still a key determinant of credit growth, but that the impact of such expansion is dependent on other macroeconomic and policy factors.

The linkage of the rates of saving deposits and bank lending is also not clear. Yunusa et al. (2021) reported that when deposit rates are increased, savings mobilisation is promoted and financial intermediation is strengthened by enhancing the amount of money mobilised for lending

by banks. On the other hand, Adebayo & Adofu (2021) found that an increase in the deposit rate would raise the cost of banking funds, which would lower the banks' lending activity. The opposite results suggest that the impact of deposit mobilisation on bank lending may vary depending on the interplay of deposit mobilisation and funding costs and macroeconomic conditions.

Likewise, evidence on the institutional and macroeconomic determinants of bank lending is inconclusive. Although Mairafi et al. (2026) concluded that the increased expansion of branches enhances the financial inclusion rate and improves banks' resource mobilisation capacity, Offor (2023) observed that such expansion does not necessarily elevate the performance of banks without the inclusion of operational efficiency. Additionally, Oguntuase et al. (2026) highlighted that inflation was a significant factor influencing the lending activities of banks, but for Eguavoen & Airhiavbere (2025), high inflation undermines the ability of borrowers to repay loans and raises credit risk, which leads to reduced bank lending. The findings are divergent and suggest that the impact of branch expansion and inflation on bank lending is still not fully understood.

Some of the inconsistencies in the earlier studies might be explained by the variations in variables used, time periods, model specification, and estimation methods. Furthermore, there was considerable interest in studies that examined lending rate, profitability, private sector credit, or repayment on loans instead of the lending of aggregate deposit money banks. Empirical evidence that combines the saving deposit rate, money supply, bank branches and inflation in one single framework is therefore limited, as it is done with the use of Nigerian data, using recent data and an econometric approach that can differentiate between the short-run dynamics and the long-run equilibrium relationship. The study tackles these gaps by analysing the impact of deposit mobilisation on the lending of the Deposit Money Banks (DMBs) in Nigeria between the years 1990 and 2024, and the Autoregressive Distributed Lag (ARDL) approach was used, which is a method used for estimating the short-run and long-run relationships among the variables.

Statement of the Problem

Bank loans are a necessary ingredient for investment, business growth, job creation and sustainable business expansion. Deposit money banks are financial intermediaries that are supposed to act as savers and convert their savings to productive credit. The Loanable Funds Theory suggests that higher deposit mobilisation and greater liquidity should lead banks to have the ability to make more loans. Despite all these efforts and reforms in the banking sector, financial inclusion strategies, digital banking pursuit, and constant monetary policy actions by the Central Bank of Nigeria, credit to the private sector has been irregular over time. This could indicate that deposit mobilisation does not directly correspond to credit growth and thereby raises questions on the factors that drive credit creation in Nigeria.

There is no consistent empirical evidence which can explain this relationship. It is found that money supply and deposit mobilisation stimulate bank lending (Sulaiman, 2020; Oguntuase et al., 2026), but the increased saving deposit rates could reduce lending by banks due to the increase in the cost of funds for banks (Adebayo & Adofu, 2021). Likewise, Mairafi et al. (2026) stated that branch expansion enhances financial inclusion and resource mobilisation, while Offor (2023) found that increasing branch network does not necessarily affect the performance of banks. Moreover, the empirical evidence on the effects of inflation on bank lending has been mixed: some have found that inflation has a positive effect on bank lending, and some have found that inflation has a negative effect on bank lending. The conflicting findings make it hard to fix the exact effect of the indicators of deposit mobilisation on the lending of deposit money banks in Nigeria.

The variations between the different studies conducted in the past can be explained by the differences in variable measurement, measurement method, sample period, and the specific aspects

of banking performance studied. The majority of previous research was conducted on lending rates, bank profitability, private sector financing, or loan repayment performance, not on aggregate deposit money banks' lending. Moreover, there is limited research that simultaneously investigates the impact of savings deposit rate, money supply, bank branch expansion and inflation in a single empirical context that separates short-term adjustments from long-term equilibrium relationships.

As a result, in Nigeria, there is limited qualitative and quantitative empirical evidence on the overall impact of these key deposit mobilisation indicators on the lending of deposit money banks. To this end, this study investigates the short-run and long-run impacts of the savings deposit rate, money supply, number of bank branches, and inflation rates on credit to the private sector from 1990-2024 using the Autoregressive Distributed Lag (ARDL) model. The study has thus given fresh empirical findings to aid the decision of the monetary policy and the understanding of the determinants of bank lending in Nigeria.

The broad objective of this research is to examine the impact of deposit mobilisation on deposit money banks' Lending in Nigeria. The specific objectives are to:

- i. investigate the effect of savings deposit rate on deposit money banks' loans and advances in Nigeria.
- ii. determine the impact of money supply (M2) on deposit money banks' lending in Nigeria.
- iii. assess the effect of the number of deposit money bank branches on deposit money banks' lending in Nigeria.
- iv. evaluate the impact of inflation rate on deposit money banks' lending in Nigeria.

This study will benefit the Central Bank of Nigeria because it gives empirical evidence of the relationship between deposit mobilisation and lending of deposit money banks, which will guide them in the formulation of effective monetary and financial sector policies. Findings will help deposit money banks to determine key indicators of deposit mobilisation that will improve their lending performance.

Investors and financial analysts will get a deeper insight into the macroeconomic drivers of bank credit growth. The study will also make a meaningful addition to the literature on banking and financial intermediation as it will offer fresh empirical evidence for Nigeria. Last but not least, it will be a valuable reference for researchers and postgraduate students working on more in-depth research on deposit mobilisation, monetary policy and bank lending.

Literature Review

Conceptual Review

Deposit mobilisation refers to the act of remobilising money of all the economic units and business sector, and using them for financial intermediation that is carried out by the deposit money banks (Saha & Debnath, 2026). The major determinant of loanable funds is deposits, which are important factors that enable banks to advance money to the economy (Banke & Yitayaw, 2022). The ability to mobilise deposits has long been acknowledged as the backbone of financial intermediation and banking. Gurley & Shaw (1960) suggest that financial institutions serve the purposes of economic development in two ways: by bringing into the stream of economic activity the idle saving of surplus economic units and by directing them toward profitable investment. Likewise, Goldsmith (1969) suggested that better organisation of financial resources contributes to financial development and better credit allocation in the economy. These basic studies had determined that the capacity of banks in the north to make loans depended on their capacity to raise stable deposits and to convert these deposits into loans efficiently.

Adewole et al. (2022) reported that one of the roles of the banks involves transferring funds from the surplus units to the deficit units and thus, the efficiency is dependent on the stability and sufficiency of the deposits mobilised by the banks. McKinnon (1973) and Shaw (1973) also stressed the role of intermediation in the mobilisation of savings, the rationalisation of financial allocation and the creation of investment opportunities by the creation of credit. They propose their financial liberalisation hypothesis, which argues that productive financial systems give rise to better mobilisation and allocation of loanable funds and, as a consequence, tighter economic growth while Challoumis (2024) pointed out that among the roles of bank is to facilitate the transfer of funds from the excess units to the deficit units and efficiency depends on the stability and sufficiency of the funds mobilised by the bank. However, there are multiple banking and macroeconomic factors which could impact the mobilisation of deposits. The conceptual relationships between the rate of savings deposits, supply of money, level of inflation and the number of bank branches, and the deposit money banks' lending are thus examined in this review.

Savings Deposit Rate

Savings deposit rate is the interest which is offered by the deposit money banks on the savings deposits of customers (Bikker & Gerritsen, 2018). The instrument is important in attracting deposits to the banks, as the more attractive returns in the instrument will lead to households and businesses saving more money in the banks (Vuong et al., 2020). The higher the saving deposits are, the more loanable funds will be available, which is in line with the Loanable Funds Theory. However, if the saving rate in the saving deposits is too high, it can lead to a rise in the cost of funds for banks, complicating lending (Bolton et al., 2025). Therefore, both the nature of deposit mobilisation and the funding costs will determine the impact of the savings deposit rate on lending. Yunusa et al. (2021) also reported that the savings policy has an impact on financial intermediation because of its effect on accumulation of deposits and credit expansion.

Money Supply (M2)

Money Supply (M2) is the total stock of money in circulation in the economy, including currency and bank deposits in circulation, which represents the amount of liquidity resources to enable economic and financial transactions (Adewale, 2025). An increase in money supply provides more liquidity to deposit money banks that can make loans, and a decrease in the money supply makes deposit money banks less able to make loans (Bianchi & Bigio, 2022). However, monetary expansion is likely to work only in the context of the monetary policy in place and the overall economic climate. Sulaiman (2020) agreed that sufficient money supply boosts financing in the private sector, while Demehin (2021) claimed that it passes on its impact on lending largely through liquidity management and monetary policy conditions.

Bank Branches

Deposit money banks provide financial services to their customers at their branch offices (Dewi et al., 2023). Access to banking services increases with branch expansion; deposits are mobilised, and loan demand is met by a supply of loanable funds that, particularly in developing countries, is increased (Imbadu & Maniagi, 2020; Adewale, 2024). More branches will also provide a greater strength of lending, due to the additional deposits and customer service it will provide. But adding to the branch does not automatically lead to growth in lending without the new branches also being less efficient, or not having the ability to collect sufficient deposits. Mairafi et al. (2026) had argued that penetration into branches was crucial for resource mobilisation, and Offor (2023) cited

operational efficiency as a key factor on which the penetration into the branches should manifest in banking performance.

Inflation Rate

The steady increase in the prices of commodities over a period of time is the inflation rate (Matthews, 2026). It has an impact on deposit mobilisation and bank lending, which in turn affect the real value of savings, borrowers' repayment capacity and macroeconomic stability (Boateng & Dean, 2020). High inflation is a disincentive to saving, a catalyst for credit risk and can deter bank lending (Adewale et al., 2026). On the other hand, moderate inflation could encourage borrowing as it would raise the demand for credit. According to Eguavoen & Airhiavbere (2025), high inflation leads to a lesser ability of borrowers to repay their loans, while Oguntuase et al. (2026) pointed out that inflation is one of the biggest macroeconomic determinants of bank lending in Nigeria.

Conceptual Relationship between Deposit Mobilisation and Deposit Money Banks' Lending

Deposit mobilisation is essential for the intermediation function of deposit money banks as it provides the money or financing that can be utilised by commercial banks in transforming deposits into loans and advances. According to the loanable funds theory, the more deposits that are made at a bank, the greater the amount of loanable funds that can be loaned from the bank. The success of deposit mobilisation, however, is dependent on other macroeconomic factors like money supply, savings deposit rate, branch expansion and inflation. Apart from money supply, which affects the liquidity of the banking sector, the savings deposit rates directly affect the willingness of customers to save, and bank branch networks contribute to financial inclusion and to the ease with which customers collect their savings, thereby influencing the real value of savings and bank risk as well. In conclusion, the connection between deposit mobilisation and bank lending is not just due to deposits but is influenced by financial and macroeconomic factors.

Theoretical Framework

Loanable Funds Theory

The study is based on the loanable funds theory developed by Robertson (1934) and Ohlin (1937), which is an extension of the classical theory of interest rate determination. The theory holds that loans available depend on the supply of loanable funds (savings, bank deposits, money creation), while demand for loanable funds is dependent on investment and consumption. The level of credit and lending in the economy depends on the equilibrium between the supply and demand of money.

In the context of banking, the theory is based on the idea that deposit money banks act as middlemen; they collect money from the economic units that have a surplus, and lend it to other economic units with a shortage. Thus, higher deposits increase the ability of banks to lend, as they have more loanable funds to lend. This sets the theoretical groundwork for analysing the impact of saving deposit rate and money supply on bank lending; increased savings mobilisation and liquidity is expected to be conducive to improved credit creation.

The theory also acknowledges that the general economic environment affects the supply and demand for loanable funds. Expansion of bank branches can create wider access to banking services and enhance financial access, which can help drive lending. Wider access to banking services and enhanced economic inclusion from the expansion of bank branches can support lending. Likewise, inflation impacts the real value of savings and borrowing through its impact on money deposits, credit risk, and banks' loan extension.

Keynesian economists, however, have criticised the loanable funds theory for its narrow focus on the endogenous money creation by commercial banks as a determinant of credit. This is, however, not a restriction on the applicability of the theory as it serves as a guide to the understanding of the effect of deposit mobilisation, liquidity condition and macroeconomic factors on the lending behaviour of deposit money banks. Hence, the theory is deemed suitable for this study since it serves as a basis for analysing the relationship between the variables of the study such as savings deposit rate, money supply, bank branches, inflation, loans and advances of deposit money banks in Nigeria.

Empirical Review

Deposit Mobilisation and Bank Lending

Empirical studies have investigated the effect of deposit mobilisation on the ability of deposit money banks to lend. King & Levine (1993) studied the a relationship between financial development and economic growth using the cross-country data of roughly 80 countries, was investigated The study, using cross-country regression analysis, showed that well-developed financial systems contribute to a greater mobilisation of savings, a more efficient credit allocation process and economic growth and investment. The authors found that financial intermediation is an efficient process, which enhances banks' lending power through boosting financial resources mobilisation.

Levine (1997) conducted a survey of the theory and empirical literature on financial intermediation and economic growth. The study found that financial institutions play a positive role in the mobilisation of savings, efficient allocation, investment monitoring, and risk management in the process of promoting economic growth. The review also highlighted deposit mobilisation as one of the core banking functions, as it is the source of financial resources that banks need to support sustainable loans and investments.

Nwankwo (1991) considered the role of commercial banks in the financial system of Nigeria and concluded that the biggest source of funds for bank lending is deposit mobilisation. The study argued that deposit mobilisation has the capacity to boost banks' ability to provide credit facilities to productive sectors of the economy, and vice versa that poor mobilisation reduces financial intermediation and consequently economic development.

Oguntuase et al. (2026) examined the determinants of bank lending in Nigeria by applying the ARDL technique, and using the loanable funds theory as the theoretical framework. The results showed that the deposits have a significant effect on bank lending which also proved that an increase in the availability of loanable funds increases the credit creation ability of banks. The research also revealed that money supply, exchange rate and inflation are significant factors in the growth of short-run loans, and that the bounds test shows that the variables are related in the long run.

Likewise, Yunusa et al. (2021) investigated the linkage between deposit and lending rates in Nigeria, and they observed that the deposit rate has an impact on mobilisation of savings which in turn impacts financial intermediation. Adebayo & Adofu (2021) however found that higher deposit costs could lead to a decline in bank lending as this would increase banks' funding costs. The results are not consistent with each other and indicate that deposit mobilisation does not necessarily lead to increased lending, depending on the financial situation and the cost of funds. Hence, more research is needed to see how the deposit mobilisation variables interact to affect bank lending in Nigeria.

The evidence from the international literature also gives additional clues to the factors that influence the mobilisation of deposits and what this means for bank lending. Banke & Yitayaw (2022) used balanced panel data analysis between 2011 and 2020 to investigate the determinants of the deposit mobilisation of 14 commercial banks in Ethiopia. The study revealed that econometric factors such as loan-to-deposit ratio, capital adequacy, economic growth, inflation, population growth and political stability had a significant effect on the mobilisation of deposits, whereas profitability had a positive influence on the mobilisation of deposits. The results indicate that the decisions of banks to mobilise deposits are not solely a banking phenomenon, but also a phenomenon driven by the wider economic environment. This lends support to the theory that banks can create loanable funds only with the help of internal banking capacity and macroeconomic stability.

Money Supply and Bank Lending

The link between money supply and bank lending is a topic that has been greatly explored because money's liquidity affects the capacity of the banks to generate credit. Sulaiman (2020) studied the effect of money supply on private sector financing in Nigeria for the period 1985 to 2018 with the OLS, Johansen cointegration, VECM and Johansen Granger causality techniques. The study revealed that money supply had a significant effect on private sector credit, which implies that more money supply resulted in a higher supply of money available for productive financing activities.

Likewise, Oguntuase et al. (2026) found that money supply had a significant impact on bank lending, which implies that monetary expansion facilitates loanable funds supply in the banking system. Nevertheless, the impact of money supply on lending rates is not consistent over time, as pointed out by Demehin (2021), which suggests that an increase in money supply does not automatically lead to an increase in credit supply if there is no effective management of liquidity and conducive monetary policy. The mixed results suggest that the money supply/bank lending relationship is affected by the general macroeconomic and policy context, and this study further explores the topic in relation to the Nigerian banking sector.

Bank Branches and Bank Lending

The presence of bank branches is recognised as a factor capable of enhancing financial inclusion, collection of deposits and the capacity for lending of deposit money banks. The research by Mairafi et al. (2026) evaluated the influence of bank branches and savings deposits on the profitability of deposit money banks in Nigeria from 1993 to 2024 quarterly data and applied the ARDL approach. The study revealed that access to branches and savings mobilisation were important drivers of the bank's performance, indicating that increased access to banking services has a positive effect on the mobilisation of resources and financial intermediation within banks. But, Offor (2023) found no significant relationship between the number of bank branches and bank revenue reservoir of the deposit money banks in Nigeria. The study found that there is a need for operational efficiency and proper use of resources to enhance the outcomes of banking through branch expansion. The conflicting results suggest that the impact of branch networks on lending is linked to the banks' capacity to translate greater accessibility of customers into a sustainable mobilisation of deposits and growth of credit. This study therefore looks to further explore the impact of bank branch expansion on deposit money bank lending in Nigeria.

Evidence from other developing economies also highlights the importance of branch networks in financial intermediation. Using a panel two-step dynamic Generalised Method of Moments (GMM) model, Kusi et al. (2022) explored the association between bank branches,

mobilisation of deposits, loan advancement, and financial stability of the 35 banks in Ghana for the period 2009-2017. The study found a nonlinear relationship between the number of bank branches and the financial stability of banks, having an inverted U-shape, meaning that the stability of the financial institution is enhanced as bank branches expand, with the maximum level of financial stability occurring at an intermediate number of branches, but that the number of branches above a certain threshold may lead to inefficient operations. The results suggest that the growth of branches has a positive effect on lending capacity only if it is accompanied by good resource management.

Inflation and Bank Lending

Inflation is one of the macroeconomic variables which can affect bank lending due to its impact on saving trends, credit risk, and the ability of borrowers to repay their loans. Eguavoen & Airhiavbere (2025) analysed the impact of interest rates and macroeconomic factors on the performance of loan repayments in the Nigerian deposit money banks (DMBs) from 2004 to 2023 using the Fully Modified Ordinary Least Squares (FMOLS) method. The study identified that inflation has a negative impact on loan performance and worsened the ability of borrowers to pay their loans, thereby raising the risks for banks.

On the other hand, Oguntuase et al. (2026) found that inflation was a key factor influencing bank lending dynamics in Nigeria, implying that inflation can affect credit conditions by affecting liquidity and economic activities. The differences suggest that inflation can impact the lending sector via both the demand and supply sides, contingent on the state of the economy. Thus, a combination of both indicators of deposit mobilisation and inflation is essential for understanding the factors which affect the lending behaviour of the deposit money banks in Nigeria.

The empirical literature reveals the important role of deposit mobilisation, money supply, the number of bank branches and inflation in explaining bank lending and financial intermediation. But results have been mixed in various economic settings. However, Sulaiman (2020) and Oguntuase et al. (2026) showed that liquidity expansion and deposit availability would boost credit creation, while the funding costs and inefficient liquidity expansion would reduce the impact of deposit mobilisation on credit creation (Adebayo – Adofu, 2021; Offor, 2023). Likewise, in Ethiopia and Ghana, deposit mobilisation and branch expansion are influenced by the condition of the banks and effective resource management (Banke & Yitayaw, 2022; Kusi et al., 2022).

Despite all these contributions, the studies conducted so far have focused on individual determinants or on related outcomes like profitability, loan rates, financial stability, etc., instead of aggregate loans and advances of the deposit money banks. There is little evidence available on the simultaneous and combined effect of the savings deposit rate, money supply, bank branches and inflation using recent Nigerian data. Hence, this study is a contribution to the literature because it combines the deposit mobilisation indicators and macroeconomic factors into a single model to support evidence on the combined effect of these factors on the lending activities of the deposit money banks in Nigeria. The study builds on the loanable funds theory and is valuable to the existing literature on the links between financial intermediation and the generation of bank credit.

Research Methods

The study employed an ex post facto research design as the analysis was based on historical macroeconomic data which were extracted from official sources. The design is suitable for the study of the relationship between deposit money banks' lending and selected macroeconomic variables in the absence of manipulation of variables under study. The study used the secondary data collected from 1990 to 2024 annually, making 35 observations. The primary sources of data

used include the Central Bank of Nigeria (CBN) Statistical Bulletin (2025 Edition), while some macroeconomic indicators were cross-checked with the publication of the World Development Indicators (WDI).

Model Specification

The study is based on the loanable funds theory, which states that the level of bank lending depends on the level of inflows of funds and the liquidity position in the economy. The functional model is given as:

$$CPS = f(SDR, BR, M2, INF) \quad (1)$$

The econometric model is expressed as:

$$CPS_t = \beta_0 + \beta_1 SDR_t + \beta_2 BR_t + \beta_3 M2_t + \beta_4 INF_t + \mu_t \quad (2)$$

Where:

- **CPS** = Credit to Private Sector (proxy for Deposit Money Banks' lending)
- **SDR** = Savings Deposit Rate
- **BR** = Number of Deposit Money Bank Branches
- **M2** = Broad Money Supply Growth
- **INF** = Inflation Rate
- **β_0** = Constant term
- **β_1 – β_4** = Parameters to be estimated
- **μ** = Error term

Since the study employed the ARDL approach, the estimating equation is specified as:

$$\Delta CPS_t = \alpha_0 + \sum_{i=1}^p \alpha_i \Delta CPS_{t-i} + \sum_{i=0}^q \alpha_2 \Delta SDR_{t-i} + \sum_{i=0}^q \alpha_3 \Delta BR_{t-i} + \sum_{i=0}^q \alpha_4 \Delta M2_{t-i} + \sum_{i=0}^q \alpha_5 \Delta INF_{t-i} + \lambda_1 CPS_{t-1} + \lambda_2 SDR_{t-1} + \lambda_3 BR_{t-1} + \lambda_4 M2_{t-1} + \lambda_5 INF_{t-1} + \varepsilon_t \quad (3)$$

where Δ denotes the first difference operator, α represents the short-run coefficients, λ represents the long-run coefficients, and ε is the white noise error term.

Measurement of Variables

Credit to Private Sector (CPS) was a proxy for the lending of deposit money banks since it reflects the amount of credit provided by the banking sector to the business and household sectors. The Savings Deposit Rate (SDR) is the average interest rate paid by deposit money banks on their savings deposits and it is used as an indicator of mobilisation of deposits. Bank Branches (BR) were measured as the total number of deposit money bank branches that operate in Nigeria, which measures banking outreach and financial inclusion. Broad Money Supply (M2) was quantified with the annual rate of change of the broad money supply, which is the amount of liquidity in the economy. The annual percentage change in the general price level was measured by the inflation rate (INF) and was added to account for the impact of macroeconomic stability on loan decisions of the banks.

Estimation Technique

The ARDL method of Pesaran et al. (2001) was employed in the study. The technique was used due to its ability to include variables integrated at mixed orders, $I(0)$ and $I(1)$; its ability to estimate, at the same time, both short-run and long-run relationships; and it can be used for relatively small samples. ARDL Bounds Test was used to test for cointegration, while the Error Correction Model (ECM) was used to measure the speed of adjustment to long-run equilibrium.

Diagnostic Tests

The study performed Breusch–Godfrey Serial Correlation LM Test, Breusch–Pagan–Godfrey Heteroskedasticity Test, Jarque–Bera Normality Test and CUSUM and CUSUM of Squares (CUSUMSQ) stability tests to check the reliability and stability of the estimated ARDL model. The following tests were used to analyse serial correlation, heteroskedasticity, normality of the residuals and parameter stability, respectively. The model is deemed to be stable when the CUSUM and the CUSUMSQ plots stay inside the 5% critical boundaries.

Results and Discussion

Table 1: Descriptive Statistics

	CPS	SDR	BR	M2	INF
Mean	26.7392	5.933332	3998	25.25898	18.98633
Median	22.17843	4.11	4200	21.55	12.2
Maximum	90.76052	18.8	5809	57.78157	76.75887
Minimum	-3.80643	1.410541	1939	-2.01	0.223606
Std. Dev.	21.90275	4.766585	1482.131	16.28236	16.57754
Skewness	1.412753	1.46451	-0.14513	0.390008	2.04064
Kurtosis	4.975162	3.796787	1.250372	2.125449	6.654835
Jarque-Bera	17.33192	13.43713	4.587117	2.002678	43.77138
Probability	0.000172	0.001208	0.100907	0.367387	0.0000
Sum	935.8719	207.6666	139930	884.0644	664.5216
Sum Sq. Dev.	16310.84	772.4913	74688260	9013.917	9343.707
Obs	35	35	35	35	35

Source: Author's Computation (2026)

The descriptive statistics for Credit to the Private Sector (CPS), savings deposit rate (SDR), number of bank branches (BR), money supply (M2) and inflation rate (INF) for Nigeria are shown in Table 1, from 1990 to 2024. All the variables recorded average values throughout the study period, with positive values. From the results obtained, it can be seen that the value of the variables recorded has a an overall upward trend with year-to-year fluctuations.

CPS experienced an average growth rate of 26.74%, varying from –3.81% to 90.76%, indicating that there were substantial fluctuations in the volume of bank credit to the private sector in the sample period. The average rate of the savings deposit was 5.93 per cent, ranging from 1.41 per cent to 18.80 per cent as a result of changes in the deposit pricing of deposit money banks. The number of banking outlets, like the number of branches, also showed considerable growth over time, with an average of 3,998 outlets, ranging from 1,939 to 5,809 outlets. The growth in money supply (M2) was also on an upward trend, with an average increase of 25.26% over the period, and the average inflation rate was 18.99%, reflecting the relatively high inflationary pressures in the Nigerian economy during the period under review.

The standard deviation values show that the rates of number of bank branches (BR) varied the most over the time period of the study, followed by the savings deposit rate (SDR) which varied the least, meaning savings deposit rates were relatively more volatile than the others. The skewness statistics show that the distributions of CPS, SDR, M2, and INF are positively skewed, meaning that larger values were more common during the sample period, while the distribution of BR is

somewhat negatively skewed, suggesting a relatively balanced distribution around its mean. The Kurtosis values also show that the distributions of CPS, SDR and INF are relatively heavier, or leptokurtic, while BR and M2 have relatively lighter distributions, or platykurtic.

The Jarque–Bera statistics reveal that both BR and M2 appear normally distributed because the p-values are higher than 5% significance level. However, CPS, SDR, and INF are deviant from normality, which indicate the existence of extreme observations in the study period. However, descriptive statistics give useful information about the behaviour of the variables and do not prevent any further time-series estimations. After descriptive analysis, the study proceeds to the correlation analysis of the relationship between variables in pairs, which is presented in Table 2.

Table 2: Correlation Matrix

	CPS	SDR	BR	M2	INF
CPS	1	0.272553	-0.32053	0.619501	0.370644
SDR	0.272553	1	-0.68457	0.436304	0.600452
BR	-0.32053	-0.68457	1	-0.43398	-0.29469
M2	0.619501	0.436304	-0.43398	1	0.356067
INF	0.370644	0.600452	-0.29469	0.356067	1

Source: Author's Computation (2026)

The correlation between Credit to the Private Sector (CPS), savings deposit rate (SDR), number of bank branches (BR), money supply (M2), and inflation rate (INF) is shown in Table 2. The correlation matrix gives a very preliminary indication of the direction and magnitude of the linear relationships between the variables and is used as a first step towards checking for possible multicollinearity.

The regression results indicate that a rise in the savings deposit rate, money supply, and inflation is generally correlated with a rise in credit to the private sector, with the correlation of CPS with SDR, M2, and INF being positive (0.273, 0.620, and 0.371, respectively). However, of these relationships, the one between CPS and M2 is the strongest, suggesting that monetary expansion may be more related to private sector credit than the other explanatory variables. For its part, BR is negatively correlated with CPS (-0.321), suggesting that the expansion of the branch network is negatively correlated with the credit offered by the private sector over the analysis period.

The explanatory variables are negatively correlated with SDR for BR (-0.685), and positively for M2 (0.436) and INF (0.600). Likewise, there is a negative correlation between BR and M2 (-0.434) and INF (-0.295) and a positive correlation between M2 and INF (0.356). The overall results show that no pairwise correlation is higher than the conventional limit of 0.80; thus, multicollinearity is not likely to be a problem in the explanatory variables. The relationships observed are therefore good for econometric estimation.

The degree of association between the variables is established in this study; the next step is to examine the properties of the variables as stationary using the Augmented Dickey–Fuller (ADF) unit root test, which is presented in Table 3.

Table 3: Augmented Dickey–Fuller (ADF) Unit Root Test Results

Variables	ADF Statistic	5% Value	Critical	P- value	Decision	Order Integration	of
CPS	-4.5836	-2.9511		0.0008	Stationary Level	at I(0)	
SDR	-2.1416	-2.9540		0.2305	Non-Stationary		
D(SDR)	-6.0341	-2.9540		0.0000	Stationary	I(1)	
BR	-1.1802	-2.9511		0.6715	Non-Stationary		
D(BR)	-5.3583	-2.9540		0.0001	Stationary	I(1)	
M2	-3.0454	-2.9511		0.0407	Stationary Level	at I(0)	
INF	-2.1364	-2.9511		0.2324	Non-Stationary		
D(INF)	-4.2863	-2.9540		0.0019	Stationary	I(1)	

Source: Author's Computation (2026).

The outcome of the Augmented Dickey–Fuller (ADF) unit root test for the study variables is given in Table 3. Results suggest that both variables, namely, Credit to the Private Sector (CPS) and Money Supply (M2), are stationary at level, which means that they are integrated of order zero, I(0). Savings Deposit Rate (SDR), Bank Branches (BR), and Inflation Rate (INF) are non-stationary at level, but become stationary at first difference level, that is, are integrated of order one, I(1). The outcome of the unit root tests is hence mixed order of integration with the variables integrated at I(0) and I(1); there are no variables integrated at I(2).

The integration orders of this combination meet the important requirement for the application of the Autoregressive Distributed Lag (ARDL) estimation technique of Pesaran et al. (2001). Hence, the ARDL Bounds testing method is suitable to analyse the presence of a long-run equilibrium relationship between variables. Since the variables are stationary, the study then tests for the existence of a long-run relationship among the variables using the ARDL Bounds Cointegration Test and its result is presented in Table 4.

Table 4: ARDL Bounds Cointegration Test

Test Statistic	Value	Significance	I(0)	I(1)
F-statistic	11.6854	10%	2.460	3.460
K = 4		5%	2.947	4.088
		1%	4.093	5.532

Source: Author's Computation (2026).

ARDL Bounds Cointegration Test conducted to obtain the long-run relationship between Credit to the Private Sector (CPS), savings deposit rate, bank branches, money supply and inflation rate is presented in Table 4. The estimated F-statistic is 11.6854, which is greater than the upper bound critical values of 3.460, 4.088 and 5.532 at a 10%, 5% and 1% level of significance, respectively.

The F-statistic value calculated is higher than the upper-bound critical value at all conventional levels of significance, so the null hypothesis that there is no long-run relationship is rejected. It verifies the existence of a long-run stable relation between the variables. It suggests that the savings deposit rate, bank branches, money supply, and inflation work together in the long-run to affect credit to the private sector.

The study has confirmed the presence of cointegration among the variables, and then the short-run dynamics and speed of adjustment to long-run equilibrium were estimated using the ARDL Error Correction Model (ECM), and the results are shown in Table 5.

Table 5: Long-run ARDL Estimates

Variable *	Coefficient	Std. Error	t-Statistic	Prob.
SDR	-0.03575	0.864315	-0.04136	0.967292
BR(-1)	-0.000013	0.001863	-0.00682	0.9950
M2(-1)	0.883689	0.166099	5.320265	0.0000
INF(-1)	0.210199	0.195179	1.076954	0.290378
C	0.050755	11.40183	0.004451	0.996479

Source: Author's Computation (2026).

The ARDL estimates for the long run show that savings deposit rate (SDR) negatively affects the credit to the private sector (CPS), but the effect is not statistically significant ($\beta = -0.0357$, $p = 0.9673$). This implies that in the long run, variations in the saving deposit rate have little impact on the credit extended to the private sector in Nigeria.

Likewise, the coefficient for bank branches (BR) is negative and not statistically significant ($\beta = -0.000013$, $p = 0.9950$), meaning that banks do not significantly expand their private sector credit in the long-run due to increases in the number of their branches. The conclusion suggests that raising the number of bank branches is not necessarily associated with the expansion of credit for productive sectors of the economy.

However, credit to the private sector ($\beta = 0.8837$, $p < 0.01$) shows a positive and significant impact. This suggests that when money supply is increased, credit supply to the private sector is improved greatly, thereby showing the importance of monetary expansion in lending activities in the Nigerian banking system.

The coefficient of inflation (INF) is positive but statistically insignificant ($\beta = 0.2102$ and $p = 0.2904$), which indicates that while inflation is moving in the same direction as the private sector credit, the overall impact of inflation in the long-term is not strong enough to be statistically significant. In the long run, overall, the effects of money supply are the only one which is statistically significant; the effects of savings deposit rate, bank branches and inflation cannot be considered significant. Having estimated the LR relationship, the study looks at the short-run dynamics and the rate of adjustment to LR equilibrium in the Error Correction Model (ECM) as displayed in Table 6.

Table 6: Short-run/Error Correction Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
COINTEQ*	-1.58709	0.173027	-9.17252	0.0000
D(BR)	0.025636	0.007747	3.309299	0.0024
D(M2)	1.096071	0.186221	5.885855	0.0000
D(INF)	-0.23457	0.233739	-1.00357	0.323614
R-squared	0.768185	Mean dependent var		0.153464
Adjusted R-squared	0.745003	S.D. dependent var		27.93565
S.E. of regression	14.10672	Akaike info criterion		8.24131
Sum squared resid	5969.986	Schwarz criterion		8.420882
Log likelihood	-136.102	Hannan-Quinn criter.		8.30255
F-statistic	33.13782	Durbin-Watson stat		2.152007
Prob(F-statistic)	0.000000			

Source: Author's Computation (2026)

The error correction term (ECT) represented by COINTEQ (-1) is negative and highly statistically significant ($\beta = -1.5871$, $p < 0.01$), hence the existence of a stable long-run relationship among the variables. The minus sign means that the deviation from long-run equilibrium will be corrected over time, and the statistical significance gives assurance that the adjustment mechanism works. The value of the coefficient (-1.5871) implies that short-run disequilibrium is corrected by about 158.71% within one year. The adjustment speed is greater than 100%, so the system has an overshooting adjustment process, with a correction that first moves past the equilibrium point before heading towards the long-run path of the system. This adaptation is rather quick, but it does not mean that the model is wrong; rather, it indicates that the banking industry shows a high sensitivity to temporary shocks and subsequent stabilisation.

The speedy adjustment is possible in the Nigerian banking sector due to the tight control of the financial system: monetary policy measures taken by the Central Bank of Nigeria (CBN), liquidity management measures and changes in banking regulations can have very rapid effects on the behaviour of the banking sector. This implies that the temporary imbalance in the lending situation could be redressed very rapidly as banks adjust their liquidity situation, their deposit mobilisation policies and their credit allocation as a result of policy changes and market developments. The overall result is that the estimated ARDL model is dynamically stable, as the negative and significant error correction coefficient indicates that short-run deviations from the equilibrium are rectified in the long run despite the overshooting adjustment process.

The number of bank branches (D(BR)) has a statistically significant and positive impact on credit to the private sector ($\beta = 0.0256$ at $p = 0.0024$). This means that branch expansion is a positive factor in the short-term for banks to expand their credit delivery because of its impact on financial access and customer outreach. Likewise, money supply (D(M2)) has a positive and highly significant impact on credit to the private sector ($\beta = 1.0961$, $p < 0.01$), which shows that monetary expansion is immediately translated into the banking sector's lending activities. But the effect of changes in inflation (D(INF)) on credit to the private sector ($\beta = -0.2346$, $p = 0.3236$) is negative but not statistically significant, implying that short-run changes in inflation do not have statistically significant impacts on bank lending during the study period.

The overall model fits the data well with an R-squared value of 0.7682, which shows that around 76.82% of the variations in credit to the private sector are explained by the explanatory variables in the model. The F-statistic is 33.1378, and it is significant at the 0.01 level, and the Durbin–Watson statistic is 2.1520, indicating that there is no significant first-order serial correlation. The reliability and adequacy of the estimated ARDL model were tested, and the outcomes are presented in the following Table 7.

Table 7: Diagnostic Test Results

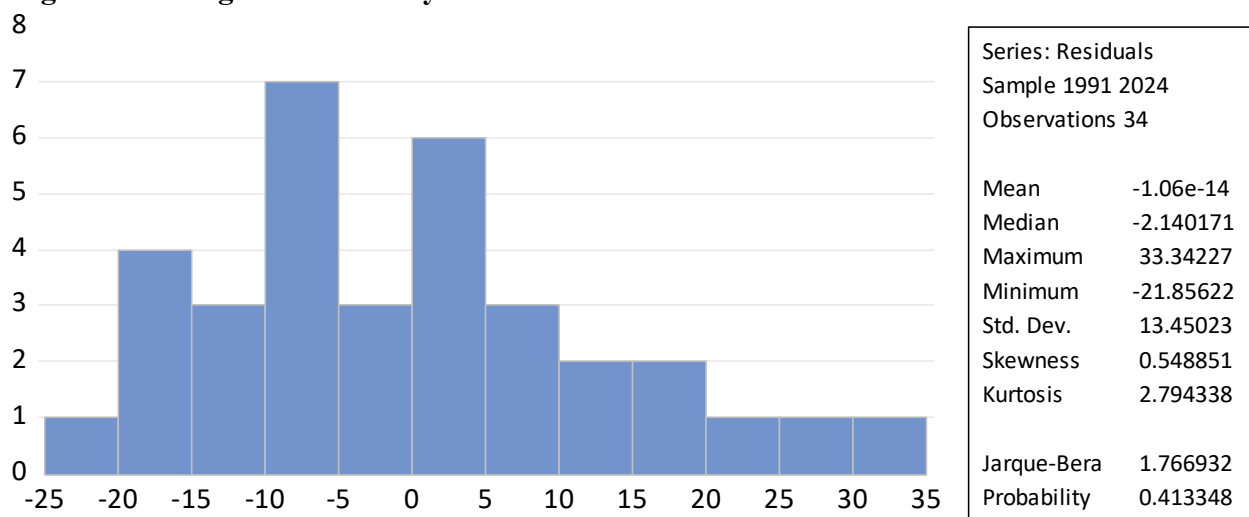
Diagnostic Test	Test Statistic	Probability	Decision
Breusch–Godfrey Serial Correlation LM Test (F-statistic)	0.6277	0.5427	No Serial Correlation
Breusch–Godfrey Serial Correlation LM Test (Obs*R ²)	1.7597	0.4149	No Serial Correlation
Breusch–Pagan–Godfrey Heteroskedasticity Test (F-statistic)	1.1532	0.3645	Homoskedastic
Breusch–Pagan–Godfrey Heteroskedasticity Test (Obs*R ²)	9.1649	0.3286	Homoskedastic
Breusch–Pagan–Godfrey Heteroskedasticity Test (Scaled Explained SS)	4.4455	0.8149	Homoskedastic

Source: Author's Computation (2026).

The final test of the reliability of the estimated ARDL model is presented in Table 7. The Breusch–Godfrey Serial Correlation LM Test shows that the model does not have serial correlation (both the F-statistic ($p = 0.5427$) and the Obs*R² statistic ($p = 0.4149$) are statistically insignificant at the 5% level). Therefore, the null hypothesis of “no serial correlation” is not rejected, meaning that the residuals are independently distributed.

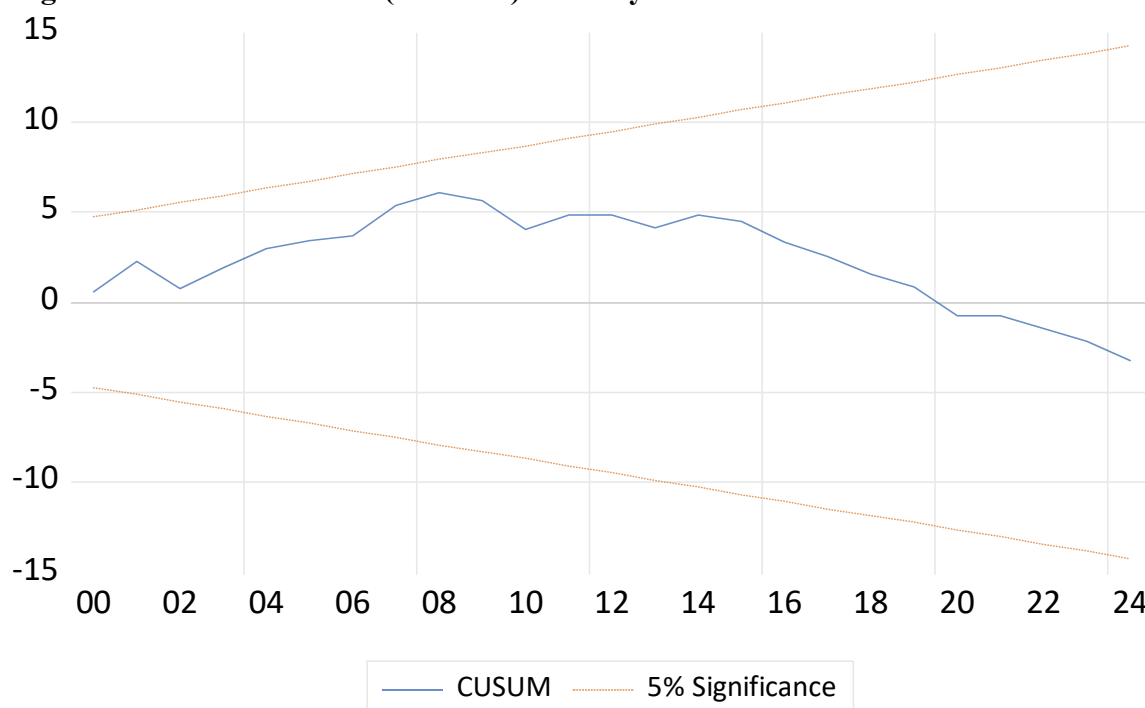
The Breusch–Pagan–Godfrey Heteroskedasticity Test also indicates that there is no heteroskedasticity present in the estimated model. The probability values associated with the F-statistic ($p = 0.3645$), Obs*R² statistic ($p = 0.3286$) and Scaled Explained Sum of Squares ($p = 0.8149$) are all above 0.05. Thus, the null hypothesis of homoskedasticity is accepted, which means that the variance of the residual is constant.

Overall, the diagnostic results support the reliability of the parameter estimates in the estimated ARDL model based on the assumptions of the model, which are constant error variance and serial independence. The normality of the residuals was also checked with the Jarque–Bera test, and the results are reported in Figure 1 to further evaluate the validity of the estimated model.

Figure 1: Histogram Normality Test of the Residuals

Source: Author's Computation (2026)

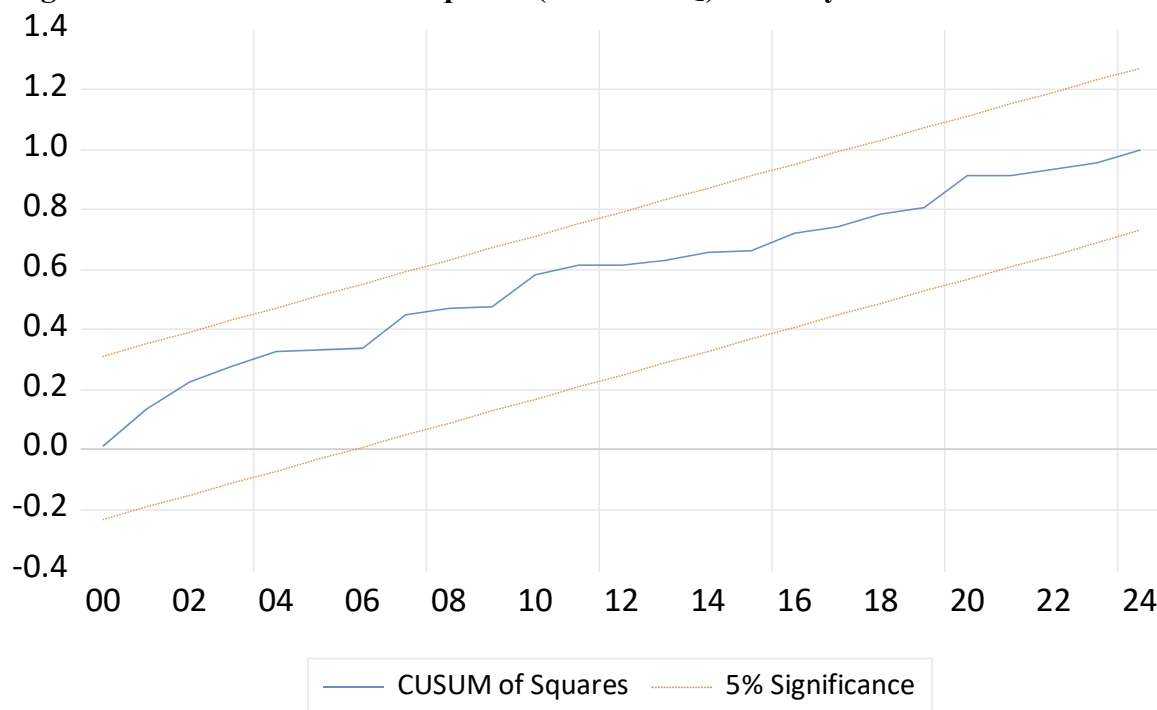
The Jarque–Bera test was performed to test for normality of the model's residuals, as shown in Figure 1. The result shows a Jarque–Bera statistic of 1.7669 with a probability value of 0.4133, which is greater than the 5% significance level. Hence, the assumption of normal distribution of residuals cannot be rejected. This means that the residuals are normally distributed, which means that the estimated model meets the normality assumption, and the statistical inferences that can be made from the model are valid. The residuals also have a mean value close to zero ($-1.06e-14$), which further confirms there are no systematic errors in the model.

Figure 2: Cumulative Sum (CUSUM) Stability Test

Source: Author's Computation (2026)

A CUSUM test was used to determine the stability of the model parameters over the study period. The CUSUM result shows that the CUSUM line stays within the 5% significance boundaries throughout the sample period (1991-2024). This means that the estimated model does not appear to show any evidence of structural instability and that the model coefficients do not change over time. Thus, the null hypothesis of parameter stability is not rejected, indicating that the estimated relationship between the variables is stable and reliable for policy interpretation and forecasting.

Figure 3: Cumulative Sum of Squares (CUSUMSQ) Stability Test



Source: Author's Computation (2026)

A test for constant variance of model residuals over time, known as the CUSUM of Squares test, was used to investigate the stability of the variance of the model residuals during the study period. The CUSUMSQ line is within the 5% significance boundaries for the entire sample period (1991–2024), as shown in Figure 3. This means there are no large changes or instability in the variation of the residuals. So, the null hypothesis of parameter stability was not rejected, which means that the estimated model is stable and the relationship between the variables does not change over time. The result further validates the validity of the model estimates in explaining the long-run dynamics between the variables.

Discussion of Findings

The ARDL short-run estimates show that bank branches (BR) have a positive and statistically significant impact on credit to the private sector in Nigeria. This discovery suggests that more financial inclusion, better access and mobilisation of deposits from households and businesses through bank branches, increase the capacity of the banks to provide credit. According to the Loanable Funds Theory, an increase in the number of branches can be expected to expand the supply of loanable funds because of the impact on deposit mobilisation, and thus enhance the ability of banks to make loans.

The findings corroborate the theory that credit creation increases with a greater degree of banking outreach. Empirically, the finding is consistent with the study of Mairafi et al. (2026), which revealed that branch expansion improves banks' financial performance, as a result of improved mobilisation of deposits. It is also in line with Oguntuase et al. (2026), who noted that financial inclusion enhances financial lending by banks. The result, however, differs from that of Ofor (2023), which found that Bank branches did not make any significant impact on the revenue reserves of Deposit money banks. This difference is due to the differences in the dependent variable, estimation method and time period of the study.

The study also shows that there is a positive and statistically significant relationship between money supply (M2) and credit to the private sector. This means that monetary expansion adds to the liquidity of the banking sector, allowing deposit money banks to provide additional credit to business and households. The result confirms the Loanable Funds Theory, which states that creation and expansion of money supplies will lead to a greater supply of loanable funds, which in turn will induce greater loan activity. An expansion of the money supply reduces constraints of liquidity in the banking system and improves its ability to support productive investment. The result agrees with that of Sulaiman (2020) and Oguntuase et al. (2026), who found that money supply had a positive effect on private sector credit in Nigeria. The finding also suggests that there is a continued role for monetary policy in stimulating financial intermediation and economic activities.

Inflation (INF) has a statistically insignificant negative effect on private sector credit. The low coefficient implies that inflation had little impact in the short run on bank lending during the period under study, even though it will surely drive up the risk of lending during a period of rising inflation, due to the impact of inflation on the purchasing power of the borrower and its effect on uncertainty factors. This could be related to the ability of deposit money banks to adjust their lending rates and credit in response to the inflationary pressures and thereby reduce the immediate effect of inflation on lending behaviour. Inflation, from the Loanable Funds Theory point of view, makes saving unattractive by lowering the real interest rate, which can lead to a contraction in the supply of loanable funds, but this channel is relatively weak in the Nigerian banking sector during the period of the study. The finding contrasts with Oguntuase et al. (2026), who observed inflation to have a significant impact on bank lending, but is generally in line with the results of Eguavoen & Airhiavbere (2025), who suggested that inflation does not have a strong impact on the volume of credit extended by banks, but rather affects the capacity of borrowers to repay.

Finally, the coefficient of the error correction term (ECT) is negative and highly significant, which further supports the presence of a stable LR relationship between credit to the private sector, savings deposit rate, number of branches, money supply and inflation. The negative number of -1.587 suggests that adjustments to long-run equilibrium are also very fast, meaning that the deviations from long-run equilibrium are corrected relatively quickly within one year. This finding reinforces the result obtained in the ARDL Bounds Test and therefore short-run disequilibrium does not exist in the long run. It also illustrates how the loanable funds theory holds that the demand and supply for loanable funds will re-establish equilibrium in the long run even in the face of temporary shocks affecting bank lending. This finding corroborates the studies of Oguntuase et al. (2026), Mairafi et al. (2026) and Demehin (2021), which all found that there was a long-run relationship in the banking sector in Nigeria.

Conclusion and Recommendations

Conclusion

The study employed the Autoregressive Distributed Lag (ARDL) technique to investigate how savings deposit rate, bank branches, money supply and inflation affect credit to the private sector in Nigeria from 1990 to 2024. The results of the empirical tests reveal that in the short run, the number of bank branches and the money supply have a positive and significant effect on private sector credit, while inflation has a negative, although statistically insignificant, effect on lending. The large error correction term reaffirms that the lending process is stable in Nigeria in that temporary shocks to bank lending are corrected over time. The study adds to the existing literature with an updated annual dataset from 1990-2024 and an ARDL framework, which is suitable to include variables of mixed orders as integrated variables. This study shows that the combined effects of monetary liquidity and banking outreach on credit to the private sector are distinct from the earlier research that emphasised the lending rate or all bank loans. The results also lend empirical support to the loanable funds theory as they demonstrate that higher levels of banking liquidity and more financial intermediation led to a higher supply of loanable funds for productive loans. The study overall shows that further improvements in the financial intermediary function, such as banking outreach and proactive liquidity management, are necessary in order to boost private sector credit to help achieve sustainable economic growth in Nigeria.

5.2 Recommendations

From the empirical results, the following is recommended:

1. Deposit Money Banks' branch expansion should focus on economically viable areas with low financial services coverage, not just looking to expand without discrimination. This should be complemented with deposit mobilisation initiatives and digitally facilitated banking to make sure that the new branches mobilise enough deposits to facilitate lending flows.
2. The Central Bank of Nigeria should implement monetary policy measures that will afford the banking sector sufficient liquidity while encouraging banks to increase their lending to the productive sectors via policy incentives. This will help to avoid inflationary pressures when lending for growth and expansion is increased, rather than being used for speculation or non-productive purposes.
3. In addition to adjusting the interest rates on the savings deposit products, Deposit Money Banks should consider doing so by providing high-value-added incentives in the form of non-interest-bearing, enhanced services, and building customer confidence. The savings deposit rate proved to be an insignificant indicator of the influence on lending; therefore, banks should concentrate on strategies that could enhance the size of the savings deposit balance and customer retention.
4. CBN should continue policies of low and stable inflation by using and practising effective monetary coordination. The fact that inflation is not statistically significant over this period does not mean that it will not be easy to maintain price stability, which in turn will help to diminish uncertainty, support the borrowers' ability to repay, and thus provide a more favourable environment for bank lending.

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