

DOES PUBLIC BORROWINGS CROWD OUT PRIVATE SECTOR CREDIT? EVIDENCE FROM NIGERIA

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ABSTRACT: The performance of the private sector in Nigeria has been declining, due to constrained financial resources. This study employed Autoregressive Distributed Lag Model (bounds) test to investigate the impact of government borrowing on the availability of credit to the private sector in Nigeria, using quarterly data from the period 2000 to 2021. The findings from the study revealed that government borrowings crowd out private sector credit in Nigeria. Therefore, the study recommended that, since the private sector is regarded as the engine of growth in any economy, the government should uphold a fiscal policy framework and debt policy that will continuously support the growth of the private sector in Nigeria. Government borrowings should be on need-basis and should embark on more capital projects that would create employment opportunities for the growing labour force. This, in the short and long run would lead to increased economic growth.

KEYWORDS: Government, private sector, borrowings, fiscal deficit, expenditure, revenue, credit, economy, and growth.

I. INTRODUCTION

Most developing economies including Nigeria are usually faced with the challenge of large fiscal deficit, which arise from huge government debt obligations, low savings, low capital formation and low receipts of revenue. Widening fiscal deficit usually beckons frequent and high-level government's public borrowings and this is often financed domestically through the sale of instruments such as bonds which ultimately add to the debt stock of the country. These increasing levels of borrowings have consequence for level of private investments in the economy, hence, leading to retarded economic growth and government's inability to provide basic infrastructures due to service payments.

According to Anaeto & Egwuatu (2018), the increasing expansion in government expenditure in Nigeria, coupled with dwindling revenue has often made the government resort to borrowing. For instance, the government has indicated that it financed the 2019 budget deficit of N1.859 trillion through borrowings. On the other hand, credit to the private sector in the country has consistently been declining. For instance, credit to the private sector declined by N455 billion from N15.58 trillion as at end of quarter three (Q3) 2018 to N15.1 trillion in quarter four (Q4) 2018. The private sector is a key enabler of any country's economic growth and availability of credit is essential for the development of an efficient private sector (Lardy, 2018; Proshare, 2018).

To finance deficit, the government could borrow from domestic and foreign sources. The domestic debts are usually sourced through the issuance of debt instruments (securities) and through the banking sector. Government borrowing from financial institutions (banks) has increased significantly in many developing countries, this became evident from the late 1990s. Nigeria's significant and continuous increase in its domestic debt stock has called for concern about its sustainability in the minds of various stakeholders considering the short-term maturity periods of such debt instruments and the fact that the banking sector remains the dominant holder of Federal Government domestic debt instruments, which may have negative implications for private sector development in Nigeria.

For instance, the Nigeria's domestic debt outstanding increased from N1.091 billion in 1970 to N8.215 billion in 1980. It further rose to about N84.09 billion, N898.25 billion and N4,551.82 billion in 1990, 2000 and 2010, respectively. It, however, reached a high of N14,274.00 as at end-2019 from the N8,873 billion recorded in 2015. Recent figures revealed that domestic debt outstanding had reached about N18,749.00 billion as at end 2021. These developments may, invariably constrain loanable funds to private sector development.

Anaeto and Egwuatu (2018), also posited that several factors may crowd out private sector credit, amongst which is public borrowing. Increased public borrowing will deprive or discourage private sector from borrowing due to high interest rate (cost of funds). This is because, government's consistent and high borrowing makes interest rates

high, and financial resources limited as government can afford to borrow more funds at higher rates without negotiating.

The increased frequency with which the government borrows, as well as the size of these borrowings, have necessitated an assessment of the impact on the private sector's ability to access funds. Investors, development planners, economists, students, policymakers, government agencies, and the academia will benefit from this research since increased budget deficits and decreased private investment affect consumer behavior, and the economy at large. However, there are divergent views on whether the government crowds out the private sector, and to what extent?

This paper analyzes the relationship between public borrowing and private sector credit, using Nigeria as a case study. The study's main objective is to evaluate how government borrowing has affected credit to private sector in Nigeria. The rest of the paper is structured as follows: Chapter two reviews relevant literature related to the subject matter, this is followed by chapters three which discusses the methodology and findings. Chapter four proffers recommendations based on the findings, while chapter five summarizes and concludes the paper.

II. LITERATURE REVIEW

2.1 Theoretical Literature

This section discusses the theoretical aspect of public borrowing and how it affects private-sector credit availability. According to the Neoclassical school of thought, a budget deficit (arising from an increase in government spending) implies that aggregate demand will rise, triggering the multiplier effect. Growth in income will result to a rise in the demand for money. The extra demand for money causes interest rates to rise if the money supply remains constant in real terms.

A higher interest rate will reduce private investment and, as a result, aggregate spending. This drop in aggregate demand dampens the initial multiplier effect, resulting in a lower new equilibrium level of income than if the interest rate remained fixed. This fiscal policy dampens the rate of private investment in the economy. **Hence, the dampening of the rate of private investment by the budget deficit according to "the neoclassical school of thought" is called the crowding out effect.** It is the dampening of private investment applied on account of increases in interest rate associated with an increase in debt financed public expenditure. This happens when government through its borrowing competes with the private sector for funds.

According to the classical school of thoughts, government borrowings especially from banks reduces the resources available to the private sector (Smith, 1937). Availability of credit in adequate and affordable forms is essential for rapid economic growth as it facilitates business expansion and investments (Gbenga, James & Adeyinka., 2019, Olowofeso et al., 2015). Hence, it is essential to provide adequate credit to the private sector.

2.2 Empirical Literature

Mitra (2006) used a Structural Vector Autoregression (SVAR) Model to analyze annual data to support the claim that government borrowing can crowd out private sector lending. He investigated if government investment funded by borrowing crowds out private credit in India. His findings established that public borrowing has a significant crowding out effect on private sector credit. A similar study for Kenya; Makambi et al. (2017) also found a significant crowding out effect of public borrowing on private sector credit. The study adopted Autoregressive Distributed Lag (ARDL) Model with data covering 1966 to 2014.

A cross country analysis, Anyanwu et al. (2018) conducted a study using panel data from 1990-2012 for twenty-eight (28) oil dependent countries. The model was estimated using fixed effects and generalized method of moment (GMM) estimator. The study established that 1 percent increase in government borrowing from domestic banks significantly decreases private credit by 0.22 percent. However, this has no significant impact on the interest rate charged by banks. This study suggests that the credit channel is the path through which public borrowing affects private sector credit. Conversely, Al-Majali (2018) conducted a study for Jordan using the Vector Error Correction Model (VECM) and found that a 1 percent increase in public borrowing leads to more than 1 percent crowding out of private sector credit.

The level of development in a country is also a determinant of the capability of public borrowing to crowd out private sector credit. Sogut (2008) using panel data from 1980 to 2006 for 85 countries, comprising both industrialized and developing countries, investigated the relationship between financial development determinants and credit to the private sector. The study showed that an increase in central government debt in developing countries could lead to a decrease in credit to the private sector.

Also, Emran and Farazi (2009) using panel data from 1975 to 2006 for 60 developing countries conducted a robust estimate of the causal effect of public borrowing on private sector credit and instruments. Instruments used in the study were based on the structure of the political system. The study revealed that public borrowing has a significant crowding out effect on private sector credit. Results indicated that an increase in government borrowing by one dollar, would reduce credit to the private sector by one dollar and forty cents. Both studies discussed above showed that the crowding out effect of public borrowing on private sector credit is highly significant in developing countries.

However, Atukeren (2005) identified that public borrowing does not always crowd out private credit in developing countries but that sometimes crowding in can occur. His study used data from 25 developing countries for the period 1970 to 2000 and adopted co-integration and Granger Causality test for the analysis. A crowding-in is a situation in which increased government expenditure leads to increase in economic activities and improved, hence firms are encouraged to invest due to presence of profitable investment opportunities emerging.

Some other studies have shown that the crowding out effect of public borrowing on private sector credit is insignificant. Kulkarni and Erickson (1995) using Vector AutoRegression (VAR) analyzed India's budget deficits, interest rates, price level and exchange rates. Their results showed that none of the variables showed any significant crowding out effect on private sector credit. Majumder (2007) also examined the crowding out effect of public borrowing on private investment in Bangladesh. To estimate the investment function; public borrowing, gross domestic product (GDP) and interest rate were considered as independent variables while error correction model was used to estimate the long run relationship between the variables in the study. The result of the study did not corroborate the crowding out hypothesis, rather it provided evidence of crowding-in effect.

In a study using Nigeria's data Akomolafe, Bosede, Emmanuel and Mark (2015), investigated the relationship between public debt and private investment using data from time 1980-2010 to estimate the model for an investment function considering public borrowing. This study divided public borrowing into external and domestic debts. This study found that domestic debts crowds out private credit in both the short run and long run, however, external debt crowding out effect only occurs in the short run. The analysis in this study was done using co-integration test and Vector Error Correction Model (VECM). Another study also found that domestic debt has a significant crowding out effect on private sector credit in Nigeria. This study used data from 1970 to 2015 and adopted the Structural VAR technique for the analysis (Senibi et al., 2017).

2.3 Evaluation of Literature Reviewed

Literature shows that public borrowing can either crowd in or crowd out credit to the private sector. The effect public borrowing has on credit to private sector is dependent on several factors. In cases where crowding out effect occurs the channels may vary.

Previous research done in Nigeria identified a crowding out effect of public borrowings on private sector credit. However, the world is dynamic, as a result, new norms and underlying factors that affect issues keep emerging. This study aims to determine if the crowding out effect of private sector credit by public borrowing norm still holds. This study, however, focuses on the effect of level of 'new borrowings' on private sector credit as opposed to previous studies that used the accumulative government debt stock. This would, however, contribute largely to the body of knowledge. In addition, there are factors that affect credit availability which include the risk premium. The authors have computed 'risk premium' that the financial institutions consider before granting credit to private entrepreneurs. This paper uses a data timeline of 2000-2021, this will identify or capture recent developments in Nigeria that concerns the subject. Although similar studies have been done for Nigeria, none has used data timeline that covers up to 2021.

III. DATA AND METHODOLOGY

This study employed quarterly time series data covering the period 2000Q1-2021Q4 and sourced from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS) and Debt Management Office (DMO) etc. The ARDL (Bound Test) approach was employed to examine the response of private sector credit to increase in domestic debt stock. The rationale for selecting the period used was to capture Nigeria's huge debt stock prior to its exit from the Paris Club of debtors in 2005. The Paris Club exit signifies when the country was granted debt relief, leading to a sharp decline in the country's debt stock at that time.

3.1 Model Specification:

The paper employed the Autoregressive Distributive Lag (ARDL) Model to establish the long and short run interactions among the variables in the model, without imposing restrictions on any of the estimates.

The functional and econometric functions of the variables in the model can be expressed as:

$LOGCPS = f(LOGNEWBORRW, LOGFININTERM, LOGRGDP, LOGRISKPRE)$.

The ARDL specification of the above model is thus given as follows:

$$\Delta LOGCPS_t = \alpha_0 + \sum_{i=1}^n \alpha_1 \Delta LOGCPS_{t-i} + \sum_{i=0}^n \alpha_2 \Delta LOGNEWBORRW_{t-i} + \sum_{i=0}^n \alpha_3 \Delta LOGFININTERM_{t-i} + \sum_{i=1}^n \alpha_4 \Delta LOGRGDP_{t-1} + \sum_{i=1}^n \alpha_5 \Delta LOGRISKPRE_{t-i} + \beta_1 LOGCPS_{t-1} + \beta_2 LOGNEWBORRW_{t-1} + \beta_3 LOGFININTERM_{t-1} + \beta_4 LOGRGDP_{t-1} + \beta_5 LOGRISKPRE_{t-1} + \mu_1$$

Δ denotes the first difference operator

α_0 represents the intercept

$\beta_1 - \beta_5$ are long run relationship coefficients and μ_1 is the error term in the equation which is implemented with logged data.

The specification of the ARDL model of cointegration followed Pesaran et al. (2001). The decision criteria for establishing a long run relationship is based on the F-test of joint significance of the coefficients of variables. The

F-test is a test of hypothesis where the null represents no cointegration among variables and alternative indicates the existence of cointegration. This is presented as follows:

$$\therefore H_1: \hat{\beta}_1 \neq \hat{\beta}_2 \neq \hat{\beta}_3 \neq \hat{\beta}_4 \neq \hat{\beta}_5 \neq \hat{\mu}_1$$

If the F-statistic is greater than the upper bound, the alternative hypothesis is accepted. Conversely, the null hypothesis of no cointegration is accepted if the F-Statistics is below the lower bound and the result is deemed inconclusive, if the F-statistics lies between the upper and lower bounds. When long-run cointegration is established, the next step is to estimate the error correction model to obtain the short run dynamics and long run adjustment parameter. The model is specified as:

$$\Delta LOGCPS_t = \alpha_0 + \sum_{i=1}^n \alpha_1 \Delta LOGCPS_{t-i} + \sum_{i=0}^n \alpha_2 \Delta LOGNEWBORRW_{t-i} + \sum_{i=0}^n \alpha_3 \Delta LOGFININTERM_{t-i} + \sum_{i=1}^n \alpha_4 \Delta LOGRGDP_{t-1} + \sum \alpha_5 \Delta LOGRISKPREM_{t-i} + \theta ECM_{t-1} + e_t$$

Δ denotes the first difference operator

α_0 represents the intercept

$\alpha_1 - \alpha_5$ are short run dynamics of the model, while θ is the rate of adjustment to equilibrium

3.2 Definition of Variables Used in the Model and A Priori Expectations

The variables are logged and measured as follows: The Real Gross Domestic Product (LOGRGDP) evaluates the output performance of the economy during the review period and is a proxy for economic growth. Government’s new domestic borrowing is represented by (LOGNEWBORRW), this is a major variable that represents the level of government indebtedness. We assumed that government new borrowings in a particular period impact on the macroeconomic fundamentals in that period. The financial intermediation which measures the performance and financial stability of the economy is also proxied by (LOGFININTERM). The Risk Premium (LOGRISKPRE) which refers to the risk borne by Deposit Money Banks (DMBs) when granting loans to private customers, is the difference between the Maximum Lending Rates of DMBs and the Treasury Bill Rates which represent government borrowing rate. The credit to private sector (LOGCPS) index measures the amount of credit given to the private sector by DMBs, which is influenced by the amount of government borrowing from the domestic economy. The data used were sourced from the Central Bank of Nigeria (CBN), Debt Management office (DMO) and other Agencies’ websites.

Table 1: List of Variables and their a prior expectation

Variables	Code	Type of Variable	A prior expectation
Credit to Private Sector	LOGCPS	Continuous	Negative (-ve)
Real GDP	LOGRGDP	Continuous	Positive (+ve)
New Domestic Borrowing	LOGNEWBORRW	Continuous	Negative (-ve)
Risk Premium	LOGRISKPREM	Continuous	Negative (-ve)
Financial Intermediation	LOGFININTERM	Continuous	Positive (+ve)

The impact of increasing government domestic debt on the level of credit to private sector is expected to be negative, this implies that as government borrows more from the financial system it crowds out credit to the private sector. In contrast, the relationship between the economic output and level of private sector accessing credit is expected to be positive. As the economy expands, the private sector may have increased access to credit to grow their business. The risk premium is expected to have an inverse relationship with the credit to private sector, the higher the DMBs risk premium, the less the DMBs would want to lend to the private sector. Level of financial intermediation is expected to be positive to availability of credit to the private sector. A positive level of intermediation will make credit available to the private sector.

3.3 Result and Discussion: Diagnostic Tests:

3.3.1 Unit Root Test for Stationary

Given that most macro-economic variable in time series are generally non-stationary, hence it is important to conduct a stationary test in order not to encounter wrong prediction and forecast of regression results. We employed the unit root to examine whether the variables of the model are stationary or not at a given test order of integration. The Augmented Dickey Fuller (ADF) and the Philip Perron (PP) tests were used to compare The decision criterion which involves comparing the computed 't' values with the Mackinnon critical values for rejection of a hypothesis of a unit root at a chosen critical value. The hypothesis is formulated thus:

Ho: $\theta = 1$ (Non stationary or unit root)

H1: $\theta < 1$ (stationary).

The result of the unit root test, using a 5 per cent level of significance criterion is summarized in table below:

Table 2: RESULTS OF STATIONARITY TEST

Variable	ADF			Philip Perron		
	T - Statistics	Prob.	Order of Integr	T - Statistics	Prob.	Order of Integr
LogCPS	-13.1445	0.0001	I(1)	-13.181550	0.0300	I(1)
LogNewborrw	-11.08854	0.0000	I(1)	-11.281550	0.0000	I(1)
LogFininterm	-3.276153	0.0190	I(0)	-3.252884	0.0000	I(0)
LogRGDP	-4.03869	0.0000	I(0)	-6.782620	0.0100	I(0)
LogRISKPRE	-9.030353	0.0020	I(1)	-11.885160	0.0300	I(1)

The ADF and the PP stationary result tests revealed that the variables have mixed order of integration, thus validating the use of the Bounds Test.

From table 2, the Augmented Dickey Fuller (ADF) and the Philip Perron (PP) test showed that LogCPS, Lognew borrw and Log Riskpre were stationary at first difference, while LogRGDP and LogRiskpre were stationary at levels, respectively.

3.4 Estimation of Variables

3.4.1 Bounds Tests for Cointegration

We adopted the Bound Test (ARDL) to show whether cointegration relationship exist among the variables that determine the level of credit to private sector. After the order of integration has been established, we then tested for the long run relationship between the variables using the bounds test. The ARDL model was also used to confirm the result of the cointegration.

From Table 3 below, the result of the bounds test demonstrates a strong evidence of a long-run relationship between the variables when compared with the Pesaran et al (2001) critical value at the lower and upper bounds. The F-statistic in the model is greater than both the lower and the upper bounds critical value, hence the conclusion that there exists long-run relationship between the private sector credits and the independent variables. Subsequently, our equation is estimated using the ARDL cointegration technique for long run estimates.

Table 3: Result of F-Bound Test (cointegration) Result

Test Statistic	Value	Significance	I(0)	I(1)
F-statistic	6.609760	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

3.4.2 ARDL Long-Run Regression Results

We adopted the Long-Run test (ARDL) to show whether a long-run cointegration relationship exist among the variables that affects the level of credit to private sector. The ARDL model was also used to confirm the result of the cointegration test. The variables include: logNewborrw, logFininterm, logRGDP and logRiskPrem.

Table 4: ARDL Long run Regression Result**Dependent Variable: D(CPS)****Selected Model: ARDL (3,2,0,1,2,2,)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGFININTERM	-1.630918	0.26345	-6.190626	0.0000
LOGRGDP	1.356931	0.308643	4.396449	0.0000
RISKPREM	-0.041343	0.014695	-2.813331	0.0062
LOGNEWBORRW	-0.169527	0.351631	-0.482116	0.6311
C	-2.583985	1.125989	-2.294859	0.0245

Interpretation of Result:

From the result, government new borrowing level showed a negative sign, but statistically insignificant relationship with credit to private sector both in the long run. This result conforms to the a priori expectation and implies that an increase in total domestic debts or new borrowings by government would lead to a decrease in the level of credit to private sector.

The insignificant effect of borrowings on crowding out of private sector in the long run suggests that government borrowing from banks is not the only reason behind the crowding out of private credit borrowing. Other structural factors exist that hinder the availability of funds to private sector rather than borrowing to the public sector. For instance, risk premium, cost of funds, Banks' treasury bills/bonds reflecting banks' preference to invest, market imperfections and substantial amount of excess liquidity, are fundamental issues that can negatively affect the confidence of DMBs granting facilities to individuals.

Financial intermediation (LOGFININTERM) showed a highly significant negative impact. This result does not conform with a-prior expectation that; as financial intermediation is deepened in an economy, it improves the disposal income of DMBs and lending for private investment purposes.

RGDP (LOGRGDP) showed a significant positive relationship with the level of credit to private sector. From the result, this conformed to a-prior expectation. Positive output of the economy implies that all sectors in the economy are performing well, and as such, commercial banks profit more from their operations, thus leading to increased availability of funds to lend to the general population.

The Risk Premium (LOGRISKPRE) is described as the risk margin that the DMBs will have to bear for granting loan to the public, the higher the risk premium, the lesser the tendency for the DMBs to disburse loans to the public and vice-versa. The risk premium in this study is computed by the difference between maximum lending rate and the Treasury Bill Rate (TBR). The TBR is regarded as the government borrowing rates. From our result, the risk premium is negative and statistically significant, meaning that higher risk premium affects the decisions for DMBs or any financial institutions to borrow to the private sector.

Meanwhile the F-statistic figure in the bounds test reflects the long-run relationship among variables based on whether it is greater or lower than the threshold. In this case, according to the figure in the result above, the figure (6.61) is greater than both lower and upper bounds indicating a long-run relationship among the variables of study. F-statistics of (6.61) which is far above the rule of thumb of (2) shows the overall significance of the model in both short and the long-run.

3.4.3 ARDL Error Correction Regression

The key output of the short-run dynamics is the computed coefficient of the error correction model (ECM). In line with a priori expectation, the ECM coefficient (0.32) was negative and highly significant at 1 percent; an indication of the presence of cointegrating relationship among the variable. The parameter indicates a positive relationship between the variables to which the parameter applies and the variable on which the vector is normalized.

Table 5: ARDL Error Correction Regression Result

Dependent Variable: D(LOGDOMCREDIT)

Selected Model: ARDL(2, 0, 0, 2, 0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOGDOMCREDIT(-1))	-0.230616	0.08563	-2.69317	0.0087
D(RISKPREM)	-0.023069	0.00613	3.762992	0.0003
D(RISKPREM(-1))	0.014528	0.006099	2.382032	0.0197
CointEq(-1)*	-0.32318	0.04973	6.498753	0
R-squared	0.584602	Mean dependent var		0.044729
Adjusted R-squared	0.562087	S.D. dependent var		0.17157
S.E. of regression	0.137032	Akaike info criterion		-1.091804
Sum squared resid	1.539785	Schwarz criterion		-0.977649
Log likelihood	50.94758	Hannan-Quinn criter.		-1.045862
Durbin-Watson stat	2.12228			

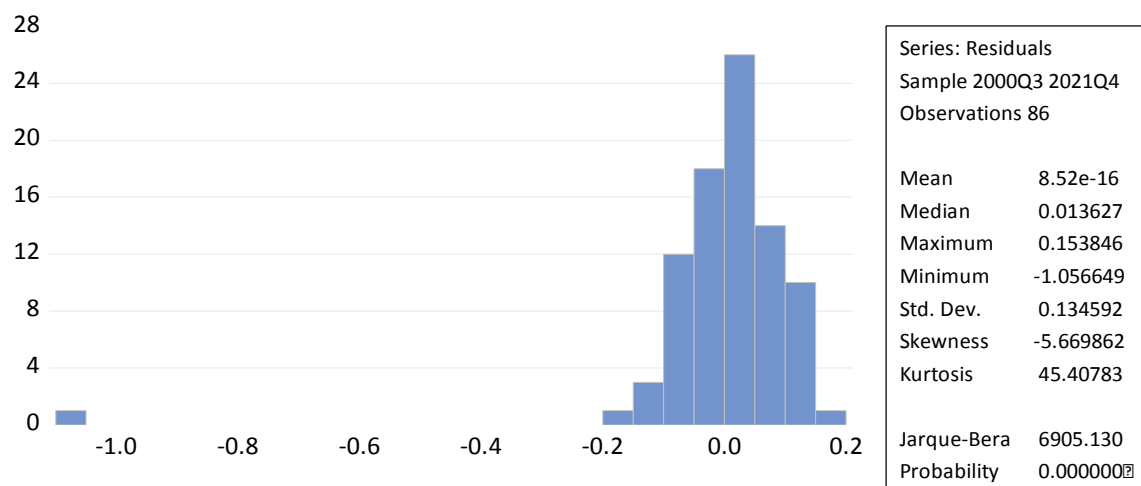
The error correction term represents the adjustment process from the initial disequilibrium to a long-term equilibrium path. The error correction term represented by (0.32) or 32.00 percent indicates that about 32.00 percent of the disequilibrium of private sector credit resulting from a shock in the preceding quarter would be corrected in the subsequent quarter to attain equilibrium level in the longrun. In addition, we have been able to achieve a major objective of the paper which is to evaluate and ascertain if a long-term relationship exists between the private sector credits and new borrowings with the aid of ARDL approach. This has been achieved with the results from the Bounds Test. The diagnostic and stability tests carried out affirmed the stability of the model, no serial correlation problem and the model was adjudged to be homoscedastic.

3.4.4 Model Diagnostic tests:

The F-Statistics is not significant; this implies that there is no serial correlation among the variables used for the estimation; similarly, the heteroskedasticity test does not suggest presence of heteroscedasticity among the variables, meaning that the variables and the error terms are normally distributed.

3.4.5 Normality Test

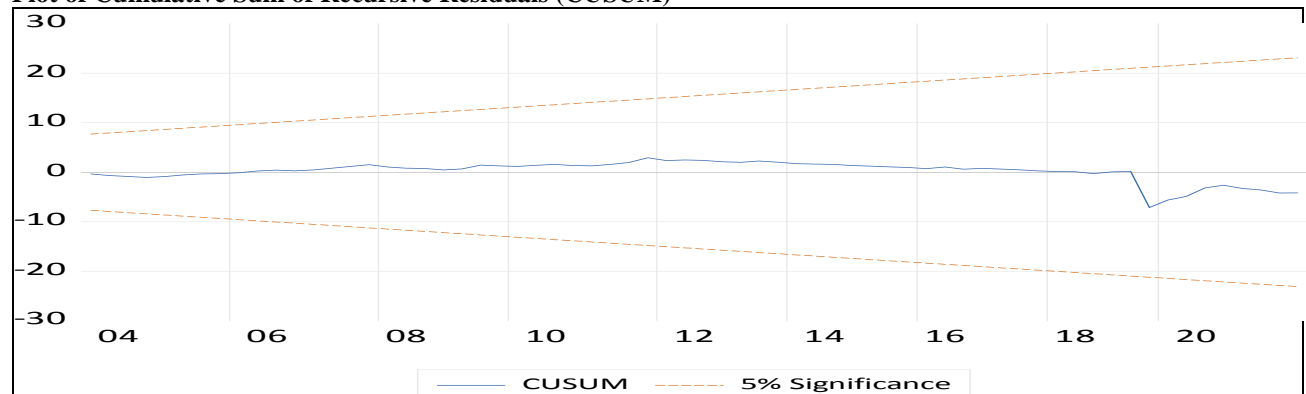
The normality test confirms that the variables used in the model are normally distributed and within the upper and the lower bound of 5 percent significance.



3.4.6 Model Stability Test

In order to incorporate the short-run dynamics for consistency of long-run parameters, we used the stability of long-run coefficients as a basis for the error-correction term. We thus applied the CUSUM tests developed by Brown et al (1975). From the plots of the CUSUM, the statistics are within the critical 5 per cent bounds implying that the coefficient of the model is stable.

Plot of Cumulative Sum of Recursive Residuals (CUSUM)



3.4.7 Residual Diagnostic Test

The result below shows that the model is devoid of autocorrelations as the F-statistics is not significant, we therefore rejected the null.

Table 6: Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	1.228316	Prob. F(2,75)	0.2986
Obs*R-squared	2.727596	Prob. Chi-Square(2)	0.2557

Table 7: Heteroskedasticity Test: Breusch-Pagan-Godfrey

Null hypothesis: Homoskedasticity

F-statistic	1.344875	Prob. F(8,77)	0.2345
Obs*R-squared	10.54335	Prob. Chi-Square(8)	0.2289
Scaled explained SS	187.6692	Prob. Chi-Square(8)	0.0000

IV. POLICY RECOMMENDATION

The study revealed that government borrowings crowds out private sector credit (Investments) in Nigeria, which significantly impacts on the economy's output.

- ✚ Therefore, the government should cut down on its recurrent expenditure and increase its capital expenditure in order to create economic activities; most borrowings of government in Nigeria are usually channeled towards recurrent items, rather than capital.
- ✚ The government through the DMO should reschedule the domestic debt from shorter term to longer-term maturity instruments with appropriate interest rates as well as ensure proper utilization of the funds.
- ✚ More of externally sourced borrowings should be used for financing of budget deficits rather than domestic borrowings, A longer maturity structure implies a smaller proportion of the debt refinanced at any given time.
- ✚ Financing of government budget should be tied to other financing sources such as privatization proceeds, taxes and other forms of independent revenues, rather than borrowings.
- ✚ The DMO should restructure domestic borrowings away from the banking sector as the dominant holder of debt instruments.
- ✚ Government borrowings should be on need basis and be project specific.
- ✚ The Central Bank of Nigeria, as a matter of policy, needs to mandate the DMBs to allocate part of their reserves for growth and development of the private sector.

- ✚ The government should develop cost-effective expenditure policies for managing the public expenditure mix in order to reduce financial wastes and the privatization of public utilities, both of which are significant drains on government revenue.

V. CONCLUSION

The long-term influence of Nigeria's borrowing on private lending is examined in this research. According to the findings, domestic borrowings has a detrimental impact on private sector credit. Government's excess borrowings from the banking sector to finance huge fiscal deficit thus, usually crowds out private investors. The results also show that the performance of the economy measured by GDP and 'risk premium' which lenders have to factor in their lending sentiments/decisions also impact on credit to the private sector. Based on these findings, it is more so importantly recommended that macro-economic variables such as lending and inflation rates which determines the accessibility of credits to the private sector be taken into considerations by the monetary and fiscal authorities.

The study, however, concludes that since the private sector is the engine of growth in any economy, government's fiscal policy framework should be to continuously support private sector growth. The government embark on more capital projects, that would create employment opportunities for the growing labour force, this will lead to increased economic growth in the both the short and long run.

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