

Effect of Financial Development on Economic Growth in Nigeria

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ABSTRACT

This study examined the effect of financial development on economic growth in Nigeria from 1990 to 2024. The study generated the effect of financial depth, the influence of private sector credit to GDP ratio, the effect of stock market development and the effect of banking sector development on economic growth in Nigeria. Data for the study was generated principally from secondary sources and the statistical techniques employed in analyzing the data was ordinary least square method. The result of the findings which are stated in line with the objectives showed that, financial development indicators are banking sectors assets to GDP. It was also observed that broad money supply to GDP had a negative and significant effect of economic growth. The study recommended that it is essential to foster a sustainable economy by channeling financial resources into productive investment activities that promote economic growth. It further recommended that the government should undertake further initiatives to deepen the financial sector in alignment with global development trends.

KEYWORDS: Financial development, economic growth, financial depth, private sector credit to GDP ratio, stock market development, banking sector development

Introduction

Financial development is a **critical and inescapable part of economic development**. Globally, the phenomenon of economic growth, characterized by positive shifts in the value of goods and services, continues to be of uppermost importance. Therefore, economic theory suggests that the factors of production, including labor, capital, and land, are vital in driving economic expansion. Moreover, growth theories highlight the significant role of technological advancements in altering the production function (Tyson, 2021). Financial development refers to the ability of financial institutions to attract and efficiently mobilize financial savings for investment purposes, thereby contributing to sustainable economic growth. Numerous developing countries, including Nigeria, have adopted strategic development plans focused on the modernization and improvement of their financial sectors. For example, since the 1980s, Nigeria has undertaken reforms and policy changes as part of the Structural Adjustment Programme (SAP) proposed by the Bretton Woods institutions in 1986. A well-developed financial system enhances investment by identifying and funding good business opportunities, mobilizes savings, enables trading, hedges and diversifies risks, and facilitates the exchange of goods and services, thereby resulting to increase in the growth of economic activities in the country. These functions result in a more efficient allocation of resources, rapid accumulation of physical and human capital, and faster technological progress, which in turn results in economic growth (Adekunle, Salami & Adedipe, 2020).

Financial institutions channel resources from surplus economic units to deficit units for investment purposes. This consists of the provision of loans and advances to the private and public sectors for the growth of domestic output and promotion of the export trade, agricultural production and provision of infrastructure. The deregulation of Nigeria's financial system, coupled with the swift globalization of financial markets and the increase in cross-border financial activities within the country, has generated significant interest in assessing the extent of financial development in Nigeria. These changes are evident in the growth of financial institutions, a surge in capital and money market operations, the expansion of bank branches, a higher utilization of credit and debit cards, and the increased adoption of payment technologies such as ATMs and electronic deposit transfers. This advancement in financial development is anticipated to contribute to economic growth, as a robust financial sector ensures the availability of funds for investment purposes.

These reforms have brought changes in Nigeria's financial sector to encourage competition, strengthen the supervisory and regulatory framework, and streamline public involvement in the financial system. Many new financial instruments/assets and techniques have been developed and existing ones have been modified, the financial markets have been adapted to meet new demands and new circumstances. All these have been aimed at developing the financial system. Unfortunately, the positivity expected from financial development and economic growth nexus is yet to be seen in Nigeria. Despite advancements in the Nigerian banking sector, it continues to face significant challenges

A newly released report by Stren and Blan (2025) indicated that the Nigerian financial sector is expected to undergo significant changes in 2025, driven by regulatory reforms, technological advancements, and market expansion that will shape the industry in the coming year. The report highlights bank recapitalization, Mergers and Acquisitions (M&A), financial inclusion, cryptocurrency regulation, and ESG financing as major areas of focus. These changes are expected to strengthen the sector's stability, enhance digital financial services, and attract more local and international investments expected to boost the Economic growth in Nigeria. According to the report, the Central Bank of Nigeria (CBN) will continue implementing its Banking Sector Recapitalization Programme 2024, with financial institutions working to meet the March 2026 compliance deadline. With these anticipated developments, Nigeria's financial sector is on track for long-term growth, innovation, and resilience, positioning the country as a major player in Africa's economic landscape. The specific objectives are to:

- Ascertain the effect of financial depth (measured by broad money supply to GDP ratio) on economic growth in Nigeria.
- Investigate the influence of private sector credit to GDP ratio on economic growth in Nigeria.
- Determine the effect of stock market development (proxied by market capitalization to GDP ratio) on economic growth in Nigeria.
- Evaluate the effect of banking sector development (proxied by total bank assets to GDP ratio) on economic growth in Nigeria.

Theoretical framework

The study was anchored on Demand following along with the feedback mechanism because the theory's suggest that financial development occurs when there is increase in the demand for

financial services, innovations, and the introduction of new financial strategies will lead to growth in the real economy.

Demand following and supply-leading hypotheses

The demand-following hypothesis posits that effective and successful use of economic productivity is a driving force behind financial development (Patrick, 1966). Supporting this hypothesis, Robinson (1952) contended that "where productivity thrives, finance follows," suggesting that financial development is merely a reaction to the increasing demand for financial services that accompanies growth in the real economy. Consequently, as the real economy expands, there emerges a need for modern financial institutions, financial assets, and associated financial services to cater to this demand. Thus, the evolution of the financial system is perceived as a direct result of economic development. This implies that the financial system is shaped by the economic landscape, institutional frameworks, as well as individual motivations, perspectives, tastes, and preferences. The more rapidly the real economy grows, the higher the demand for financial resources by businesses. In the relationship between economic growth and financial development, a key aspect is the relationship between the stock of financial assets and liabilities and the real capital stock, alongside their optimal composition, growth rate, and efficient allocation and utilization. Consequently, the financial system impacts the capital stock in three distinct manners. First, financial intermediaries facilitate intermediation among various asset holders, promoting greater efficiency in the allocation of tangible wealth. Second, by acting as intermediaries between savers and investors, they can improve allocative efficiency in new investments, thereby reallocating capital from less productive to more productive uses. Third, by offering incentives for savings and investments, they can stimulate an increase in the capital accumulation rate. Acknowledging the vital role of financial intermediaries and the disparities in saving and investment distribution between developed and developing nations, Patrick asserts that with the advancement of financial markets, an almost optimal allocation of investments can be achieved, thereby supporting economic growth. Conversely, if the financial system is underdeveloped or inefficient, it can hinder growth.

Literature review

Rehman and Hysa (2021) conducted a study focusing on six Western Balkans Countries (WBC) to examine the relationships among financial development, remittances, and economic growth, utilizing annual panel data spanning from 2000 to 2017. Through the application of the Generalized Method of Moments (GMM) analysis, the study revealed that financial development, as indicated by the broad money ratio, and remittances have a positive influence on the economic growth of WBC. However, the relationship between financial development and remittances exhibited a significant yet diminishing effect on economic growth. The findings indicated that both remittances and financial development contribute to the economic growth of WBC. To maximize the advantages of financial development, it is essential to implement policies that foster the growth of non-deposit financial institutions and promote a narrow interest rate margin to encourage investments and stimulate economic growth. Haan, Pleninger and Sturm, (2021) explored the impact of financial development on poverty rates, considering its effects on income inequality, economic growth, and financial instability. The study measured financial development using the ratio of private credit to GDP, while the poverty gap served as the indicator for poverty. The fixed effects analysis of a panel comprising eighty-four countries from 1975 to 2014 indicated that financial development did not have a direct effect on the poverty gap. Nevertheless, as financial

development led to increased inequality, which subsequently contributed to higher poverty levels, it was determined that financial development indirectly affects poverty through this channel. This suggests that the overall impact of financial development on the poverty gap is contingent upon whether income inequality or economic growth exerts a stronger influence. The research conducted by Efanga, Ogochukwu, and Ugwuanyi (2020) examined the influence of financial depth on the Nigerian economy during the period from 1981 to 2018. Economic growth was assessed through the real gross domestic product, while the independent variables included the ratios of money supply, private sector credit, and market capitalization. For the analysis of the data, co-integration tests and Fully Modified Least Squares (FMOLS) methods were utilized. The findings revealed that financial depth was a significant driver of growth. Consequently, the study suggested that monetary authorities should provide sufficient financial resources to the economy through the effective implementation of monetary policy to further stimulate economic growth.

In a separate investigation involving selected countries within the Economic Community of West African States (ECOWAS), Iheonu, Asongu, Odo, and Ojiem (2020) explored the effects of financial sector development on investment from 1985 to 2017. The Augmented Mean Group methodology was employed for data analysis, which accounted for country-specific cross-sectional dependence, heterogeneity, and the Granger non-causality test for cross-sectional dependence. The results highlighted that the relationship between investment-driven financial development and the chosen proxy varied. While domestic credit to the private sector did not significantly boost domestic investments, the efficiency of bank intermediation and the broad money supply had a significant negative impact on investments. Additionally, domestic credit to the private sector was found to Granger-cause domestic investments. The study recommended careful consideration of the financial development measures employed as policy tools to promote domestic investment. Etale and Edoumiekumo (2020) examined the impact of the financial system on economic development in Nigeria, specifically investigating the relationship between financial sector policies and economic growth, with an emphasis on the insurance sector during the period from 2010 to 2018. They utilized aggregate capital formation, gross insurance premium, and aggregate insurance investment as indicators of financial sector policies, while gross domestic product served as a measure of economic growth. The analysis employed descriptive statistics and multiple regression techniques. The findings revealed a significant correlation between aggregate capital formation and gross insurance investment with GDP, whereas the aggregate insurance premium exhibited an insignificant impact on GDP. Additionally, it was noted that aggregate capital formation and gross insurance premium negatively affected GDP, while aggregate insurance investment had a positive relationship with GDP. Consequently, it was recommended that regulatory bodies implement policies to enhance the attractiveness of the insurance sector in Nigeria.

In a separate study, Samuel-Hope, Ehimare, and Osuma (2020) investigated the effects of financial deepening on Nigeria's economy over a span of thirty-eight years, from 1981 to 2018. This research aimed to determine the influence of commercial banks' time and savings deposits, money supply, and credit to the private sector on economic growth. The data analysis was conducted using the Autoregressive Distributed Lag (ARDL) approach. The results indicated a long-term relationship; however, none of the independent variables were found to be statistically significant. It was observed that credit to the private sector negatively impacted GDP, while the money supply ratio contributed positively to GDP growth. Conversely, time and savings deposits in commercial banks

were associated with a decline in economic growth. The study advocates for the adoption of policies that promote credit extension to the private sector by relevant stakeholders.

Nwakoby, Oleka, and Ananwude (2019) conducted an evaluation of financial deepening and its contribution to economic growth in Nigeria from 1986 to 2018. The analysis utilized the Auto-Regressive Distributed Lag (ARDL) methodology alongside Granger causality tests. The findings indicated that financial deepening within the banking sector did not significantly promote economic growth. This suggests a need for collaboration between the Central Bank of Nigeria and other regulatory authorities to develop and implement policies aimed at enhancing both the banking sector and capital market development, thereby ensuring the effective mobilization of financial resources. Additionally, the insurance sector should receive attention, despite the general public's lack of awareness regarding the significance of insurance policies. In a similar vein, Kamalu, Ibrahim, Ahmad, and Mustapha (2019) investigated the causal relationships among financial development, financial inclusion, trade openness,

Foreign Direct Investment (FDI), and economic growth in Nigeria from 1970 to 2018. Their analysis employed the Ng Perron and Zivot Andrews unit root tests, the Gregory and Hansen cointegration test, and the Non-Granger causality Toda and Yamamoto test. The results supported the supply-leading hypothesis, revealing no causal relationship between trade openness and economic growth. Consequently, the study concluded that financial development and financial inclusion are critical factors influencing economic growth, with a more significant impact observed when a larger segment of the population has access to formal financial services.

Financial development

Experts in economic development frequently use the concept of financial development which is the capacity of a financial institution to efficiently and effectually allocate savings for investment reasons. Financial development has been described as one of those approaches that can accelerate the speed of growth. According to Udemé, Chinelo and Georgina (2020) Financial development may be defined as increasing the introduction and supply of financial sector (financial market) assets or securities within the economy while Kisaka (2021) sees financial development as an increased in the ratio of the money supply to Gross Domestic Product (GDP) or some price index.

The more liquid money is available in an economy, the more opportunities exist for continued growth. Money availability in an economy means opportunities exist for continued growth. Two fundamental measurable quantifiers are usually adopted to gauge the size of financial markets: intermediation ratio and monetary ratio. While the latter contains liquid liabilities or pecuniary-related measures such as broad money supply to GDP ratio, intermediation ratio on the other hand comprises of bank-dependent barometers such as credit to the private sector and savings to time deposit. As noted by Olaniyi (2020), financial development involves the effective mobilization of resources within the formal financial sector, the alleviation of liquidity constraints faced by banks, and the expansion of funds available for project financing. Consequently, the process of financial development is fundamentally supported by the beneficial impact of financial sector activities on economic growth.

In a similar vein, Valickova (2018) indicated that financial development represents a concerted effort to enhance the financial system, leading to an increase in financial instruments and assets within the financial markets, thereby fostering economic expansion. This implies that a greater

number of intermediary activities would facilitate the efficient allocation of resources across various sectors of the economy (Chukwuka, 2022).

Financial depth

Financial depth captures the financial sector relative to the economy. It is the size of banks, other financial institutions, and financial markets in a country, taken together and compared to a measure of economic output. It can also be defined as the ratio of liquid liabilities to Gross Domestic Product (GDP). Its application as an indicator of financial development is based on the premise that there exists a direct correlation between the size of the financial sector and its ability to deliver high-quality financial services (Samuel-Hope, Ehimare, and Osuma, 2020). This perspective is further supported by the argument that a broader monetary aggregate, represented by the M3 to GDP ratio, is more effective than the M2 to GDP ratio in reflecting financial development, particularly in nations where money serves primarily as a store of value Valickova, 2021. Nkoro and Uko (2017) noted that financial depth measures often include deposits in banks by other financial intermediaries, leading to potential double counting issues.

Banking sector development or bank ratio

A further indicator of financial development recognized in the literature is the bank ratio, which reflects the development of the banking sector. The bank ratio is calculated by dividing bank credit by the total of bank credit and domestic assets held by the central bank (Valickova, 2021). This measure was first utilized by King and Levine (1993) in their research. The purpose of the bank ratio is to evaluate the role of commercial banks in comparison to central banks in the distribution of surplus resources within the economy (King and Levine, 1993). Consequently, higher bank ratio values suggest enhanced financial development, as commercial banks are generally more effective in fulfilling primary functions than central banks. However, Etale and Edoumiekumo (2020) highlighted certain limitations of this measure, noting that non-bank financial institutions also engage in financial activities.

Financial activity

Several financial activity measures have been recognized as indicators of financial development. These include the ratio of private credit extended by domestic commercial banks to GDP, as utilized by Owhofasa and Aiyedogbon (2013), and Karimo and Ogbonna (2017); the ratio of private sector credit from domestic deposit money banks and other non-bank financial institutions to GDP (Ustarz and Fanta, 2021); and the ratio of credit allocated to private enterprises relative to total domestic credit (Rousseau and Watchel, 2011). Such measures serve as more effective indicators of the financial system's size and service quality, as they concentrate on credit distribution to the private sector.

Economic growth

Economic growth is an increase in the production of economic goods and services in a period of time compared with a previous period. It can be measured in nominal or real terms. Economic literature defines economic growth as a sustained enhancement in the ability to meet the demand for goods and services, which results from an accelerated scale of production and heightened productivity, often driven by innovations in products and processes. This concept encompasses both the expansion of a nation's real economy and the physical growth of its economic framework (Fofack, 2014). Typically, economic growth is assessed through changes in domestic production, which reflects a country's total economic output over the previous year. This assessment includes

the total value of goods and services produced within a nation, regardless of whether they are sold domestically or internationally. Exports are included as they originate from domestic production, while imports are deducted from the total. The rate of economic growth extends beyond mere economic metrics; it also influences societal advancement and national development.

Financial development and economic growth

There is a prevailing understanding, both explicitly and implicitly, that an efficient financial system is a catalyst for economic growth. The role of the financial system in fostering economic growth is based on its ability to provide an effective payment system, mobilize savings, and enhance investment allocation (Ohwofasa and Aiyedogbon, 2013). Consequently, a robust exchange system is deemed essential for achieving economic prosperity. Payment systems evolve in tandem with economic growth, which encompasses productivity improvements and the continuous emergence of new markets. Moreover, financial markets and banking intermediation play a crucial role in optimizing the mobilization of available savings, thereby supporting economic growth. They facilitate the aggregation of financial resources within the economy (Kapaya, 2020). This process allows for the diversification of investment risks and offers more advantageous investment opportunities to savers, promoting financial savings over the mere retention of profitable assets. Such a shift in savings behavior can further bolster the development of the financial system. Furthermore, financial development is closely linked to the advancement of financial markets. Atje and Jovanovic (1993) analyzed a sample of 75 countries and demonstrated a positive impact of financial markets on economic growth. They employed dummy variables to account for biases linked to unobserve and simultaneous country-specific effects. The first method utilized cross-sectional data with an instrumental variable, using the legal origin of each country to capture the exogenous component of financial development in the cross-sectional regressions. All estimations confirmed a positive correlation between economic growth and financial development, indicating that financial reforms foster both financial development and economic growth.

Over the years, the Nigerian financial sector has undergone considerable restructuring and rapid market-oriented changes since the introduction of the Structural Adjustment Programme (SAP) in 1986. Prior to this period, the financial system was characterized by stringent regulations, including caps on interest rates and credit expansion, elevated reserve requirements, a selective credit framework, and limitations on entry into the banking sector. The subsequent deregulation resulted in a swift increase in financial institutions, driven by incentives linked to the sector's expansion and growth. Consequently, the number of banks rose from 41 in 1986 to 115 by 1997. Additionally, the number of bank branches grew from 1,323 in 1986 to 2,551 in 1997. Community banks, now referred to as microfinance banks, increased from 169 in 1990 to 695 in 2009, while specialized non-bank financial institutions expanded from 84 in 1990 to 242 in 2008 (CBN, 2019). This deregulation heightened competition within the industry, prompting many banks to implement various strategies to strengthen their operations. However, inefficiencies in banking practices, inadequate management, poor allocation of financial resources, and political interference led to bank distress, which diminished the financial system's capacity to mobilize resources. In the year 2000, Nigeria implemented a universal banking system, resulting in the merger of merchant and commercial banks, which evolved into Deposit Money Banks (DMBs). Additionally, the establishment of the Debt Management Office (DMO) in the same year stimulated investment in government securities.

The introduction of a bank consolidation policy in 2005 raised the minimum paid-up capital for commercial banks to N25 billion, leading to a significant reduction in the number of banks from 85 to 25. This consolidation initiative was designed to foster the development of more robust banking institutions. The deregulation of banking operations intensified competition within the financial sector. For instance, the proportion of savings mobilized by commercial banks decreased from 99% in 1960 to 84% in 1985, and further to 70% in 1994. This downward trend indicated a more diversified financial landscape, where other financial entities, such as microfinance banks (formerly known as community banks) and merchant banks, assumed important roles in deposit collection and investment financing (CBN, 2016). In 2025, Nigeria has over 50 licensed banks, including commercial, merchant, development, and microfinance banks. The list also includes non interest banks. There are 21 commercial banks operating in Nigeria presently.

Empirical review

In a recent study, Sambo, and Sulong (2021) explored the asymmetric relationships between financial development and economic growth by integrating financial globalization uncertainty and inflation into a production function that encompasses the Nigerian economy from 1980 to 2019. The threshold ARDL method was employed to assess the asymmetric co integration among the model variables and to determine the extent of their interrelationships. The findings revealed long-term effects among the parameters, taking asymmetries into account. Specifically, the results of the asymmetric estimation indicated that positive shocks in financial development had a dampening effect on economic growth, whereas negative shocks in financial development were found to enhance Nigeria's economic growth. In contrast, while the inflation rate exhibited a positive correlation, the uncertainty surrounding financial globalization yielded an insignificant outcome. Sennuga, Adnnaike and Adedayo (2021) examined the impact of financial development on the Nigerian economy by utilizing annual data on GDP, real interest rates, financial depth, and financial activities from 1980 to 2019. In this analysis, the real interest rate, savings ratio, and financial activities were treated as explanatory variables, with GDP serving as the dependent variable. The results indicated that two of the explanatory variables (real interest rate and gross domestic savings) had an inverse relationship with the dependent variable (annual GDP growth rate) when considered together, while financial activities were positively correlated with GDP. The coefficient of multiple determination suggested that the model had a high degree of fit, with approximately 93% of GDP being accounted for by the components of financial development. The research concluded that there is an urgent necessity to advance financial development through innovations, alongside effective and sufficient regulatory and supervisory measures. This is essential for mobilizing funds and ensuring their availability for productive investments, as well as for enhancing service delivery that would stimulate economic growth.

In a similar vein, Bassey, Okoi, Imoh, (2021) examined the effects of financial openness and development on Nigeria's economic growth from 1981 to 2019, utilizing the Auto-Regressive Distributed Lag (ARDL) model. The study employed the credit ratio and informal finance as indicators of financial development and financial openness, respectively. The findings indicated that while financial development in the context of financial openness had a positive but insignificant effect on economic growth, financial openness itself was found to negatively impact economic growth. The authors recommended that the Central Bank of Nigeria (CBN) enhance its regulatory and supervisory measures within the financial sector to mitigate the risks of financial

distress. In another empirical investigation, Manasseh, Okoh, Abada, Ogbuabor, Alio, Lawal Nwakoby, and Asogwa, (2021) assessed the influence of financial intermediation on economic growth in Nigeria, using quarterly time series data from the first quarter of 1994 to the fourth quarter of 2018. The Ordinary Least Squares (OLS) method was employed for estimation. Per-capita GDP served as a proxy for economic growth, while bank deposits, credit, and reserves represented financial intermediation. The results indicated that bank deposits, reserves, and credit positively contributed to GDP per capita, suggesting that increased bank credit and deposits foster economic growth, although the effect of bank credit was deemed insignificant. The findings prompted a recommendation for the implementation of policy reforms aimed at enhancing the efficiency and development of banks in Nigeria. In a research study focused on Sub-Saharan Africa (SSA), Ustarz and Fanta (2021) examined the relationship between financial development and economic productivity utilizing the Generalized Method of Moments (GMM) and data spanning from 1990 to 2018. Their findings indicated that financial development positively influenced agricultural production; however, a specific level of financial development must be reached before it can significantly contribute to industrial growth. This suggests that policymakers in SSA should continue to prioritize financial development as a means to foster industrialization.

Methodology

Ex-post facto research design was utilized to collect, analyze, and interpret data pertinent to the study's objectives. Ex-post-facto research represents a type of empirical investigation where the events under examination have already transpired, and relevant information regarding these events has been previously documented and published. This study employed a quantitative and explanatory approach, characterized by its descriptive nature. Quantitative research focuses on the collection of numerical data, allowing for an objective examination, while explanatory research seeks to establish causal relationships among variables. The data utilized in this study were annual time series acquired from secondary sources, specifically from the Central Bank of Nigeria (CBN) Statistical Bulletin, volume 30, 2023. This indicates that all data collected for the variables originated from a single source, as detailed in the CBN Statistical Bulletin, volume 30, 2023. After conducting a comprehensive analysis of the research was to verify the relationship between financial development and economic growth.

The aforementioned model was adopted, modified and replaced with a measure of financial development based on the stock market, specifically the market capitalization to GDP ratio, given the stock market's significant role within the financial system. Consequently, financial development in this study was assessed using four (4) variables: broad money supply ratio, private sector credit ratio, market capitalization ratio, and bank assets ratio. Therefore, the model employed for this study is specified as follows:

$$\text{Log (RGDP)} = f(\text{MOS, PSC, MCP, and BSA})$$

$$\text{Log (RGDP)} = \beta_0 + \beta_1 (\text{MOS}) + \beta_2 (\text{PSC}) + \beta_3 (\text{MCP}) + \beta_4 (\text{BSA})$$

Where,

RGDP = Real gross domestic product

MOS = Broad money supply to GDP ratio

PSC = Private sector credit to GDP ratio

MCP = Market capitalization to GDP ratio

BSA = Bank assets to GDP ratio

β_0 = Constant parameter

$\beta_1, \beta_2, \beta_3, \beta_4$ = Estimated coefficients of the independent variables

ε = Error term

Log = Natural log

The study employed the multiple regression statistical technical in the estimation of the relevant data. In analyzing the data gathered for this work to establishing the relationship between independent and dependent variables.

Data analysis and Findings

Table 1: Ordinary Least Square (OLS) multiple regression results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(RGDP(-1))	-0.582354	0.166088	-3.506292	0.0127
D(MOS)	-0.091752	0.019046	-4.817473	0.0029
D(PSC)	-0.018358	0.003689	-4.976199	0.0001
D(MCP)	0.005874	0.001068	5.501675	0.0000
D(MCP(-1))	-0.006712	0.001411	-4.757738	0.0001
D(BSA)	-0.003410	0.001776	-1.919830	0.0700
D(BSA(-1))	-0.010676	0.002740	-3.895839	0.0010
ECM(-1)	-0.237878	0.031639	-7.518630	0.0000
R-squared	0.774290	Mean dependent var		0.042191
Adjusted R-squared	0.687479	S.D. dependent var		0.041292
S.E. of regression	0.023084	Akaike info criterion		-4.457609
Sum squared resid	0.013854	Schwarz criterion		-3.978688
Log likelihood	93.46577	Hannan-Quinn criter.		-4.288767
Durbin-Watson stat	2.104143			

Source: Author's computations, using EViews 10

The analysis indicated that the model achieved an Adjusted R-squared value of approximately 0.687479. This statistic reflects the proportion of variability in LOG (RGDP) that can be explained by fluctuations in the variables MOS, PSC, BS, MCP, SAV, and COB. Consequently, it suggests that these explanatory variables, which represent indicators of financial development, collectively account for around 68.75% of the overall variability in the dependent variable, which is real gross domestic product. Furthermore, the Durbin-Watson statistic was recorded at 2.104143, which is close to 2. A Durbin-Watson value of 2 indicates the absence of autocorrelation in the residuals. Conversely, a value approaching 0 suggests the presence of positive autocorrelation (first-order), while a value nearing 4 indicates negative autocorrelation (second-order). Therefore, it can be concluded that the regression model does not exhibit any form of autocorrelation, reinforcing its reliability for drawing inferences. Additionally, the lagged coefficient for the dependent variable (RGDP) demonstrated that the RGDP from the previous year significantly influences the current year's RGDP. The short-run coefficients for the financial development indicators revealed that, with the exception of MCP, the variables MOS, PSC, BSA exerted negative effects on RGDP. The pronounced negative impacts of these financial development indicators in the short run may be attributed to the time lag inherent in the process of resource mobilization and production.

Conclusion

This research empirically examined the causal relationship between financial development and economic growth in Nigeria, focusing on both supply-leading and demand-following hypotheses. The analysis explored the causality between financial development and economic growth, as well as the impact of various financial development indicators, including the ratio of broad money supply to GDP, private sector credit to GDP, market capitalization to GDP, banking sector assets to GDP, total savings to GDP, and currency outside the bank to GDP, on real GDP (economic growth). This indicates that the relationship between financial development and economic growth in Nigeria is time-dependent.

Recommendations

The findings and conclusions of the study yield several policy implications, emphasizing that financial development and economic growth should be prioritized by policymakers. Accordingly, the following recommendations are proposed:

1. It is essential to foster a sustainable economy capable of channelling financial resources into productive investment activities that promote economic growth.
2. The government should undertake further initiatives to deepen the financial sector in alignment with global development trends. This approach will reflect the global shift from merely transforming production and consumption patterns to empowering society as a whole.
3. To facilitate economic growth, it is crucial to address factors that may impede the expansion of credit to the private sector. Therefore, the Asset Management Corporation of Nigeria (AMCON) should enhance its efforts to alleviate commercial banks of non-performing loans, thereby improving their capacity to provide credit to the real economy.
4. Monetary authorities ought to implement policy reforms aimed at bolstering confidence in the Nigerian financial system. Such reforms will contribute to the establishment of a robust market-oriented financial sector, leading to an increase in the growth of financial markets, which in turn will foster financial development and stimulate economic growth.

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