THE ROLE FINANCIAL DEVELOPMENT IN NIGERIA'S ECONOMICS GROWTH

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Abstract

This study examined the role of financial development in Nigeria's economic growth over 36 years (1985–2020). The study's data came from the CBN statistical bulletin. Money supply and credit to private sector employers were highlighted as independent variables, whereas Gross Domestic Product served as the dependent variable. Using the E-view package's linear regression data analysis technique, the outcome shows a p value of .000 link between the money supply, loan to the private sector and GDP respectively. The study concluded that financial deepening significantly affects Nigeria's ability to survive.

Key Words: *Money supply, Economic growth, GDP, Financial deepening, Private sector*

1.0 Introduction

Finance helps nations flourish economically. Okafor, Bowale, Onabote, Afolabi, and Ejemeyovwi (2021) say financial sector innovations boost the economy and financial sector. Growth and progress require a monetized economy with a strong financial system, according to Yousuo & Ekioub (2020). A well-developed financial system also allows for optimal resource usage (Okafor, Bowale, Onabote, Afolabi, and Ejemeyovwi, 2021). Financial institutions, tools, and regulators collaborate to improve the sector's growth and development. Yousuo, Ekioub (2020). The financial system in a commercialized economy affects institutional structures, fostering development, according to Nzotta (2004) in Nzotta and Okereke (2009). Loanable funds can transfer more easily. The financial system distributes savings and idle money to firms, families, and the government for investment projects and other profitable uses to maximize returns. Nzotta added that the financial system supports the government's economic policies, which seek non-inflationary growth, exchange rate stability, balance of payment equilibrium, foreign exchange management, and high employment. According to Torruam, Chiawa, and Abur (2016), the Nigerian financial system has two main subsectors: informal and formal. The informal sector includes local moneylenders, thrifts, and savings and loans associations, which lack institutional frameworks and rate structures. Formal institutions include financial and capital markets. Short-term securities and funds are

traded on the money market by institutions. Capital market institutions trade long-term funds and securities.

Okafor, Bowale, Onabote, Afolabi, and Ejemeyovwi (2021) define financial deepening as the growth of financial markets, intermediaries, and institutions that provide financial resources to boost economic performance. Valverde, del Paso, and Fernandez (2004) argue that financial depth warrants genuine development and innovation in traditional and non-traditional financial services. According to Nzotta and Okereke (2009), financial deepening is an economy's financial institutions' ability to invest savings. Financial deepening reduces poverty, according to Hassan, Sanchez, and Yu (2011). Thus, financial depth is crucial to growth (Yousuo and Ekioub, 2020). Nigeria has struggled to attract foreign investment (portfolio) and control capital flight due to its financial system's structure. Systemic sector gaps remain despite several banking sector improvements. This is because domestic savings and investments contribute little to financial development through oligopolistic and uncompetitive economic monetization shifts.

Economic growth is complex and long-term, limited by population expansion, few resources, bad infrastructure, inefficient resource utilization, excessive government intervention, institutional and cultural paradigms that make growth difficult, etc. High economic growth produces more goods and services, lowering unemployment and increasing job possibilities and living standards (Anyanwu and Kalu, 2015). Annual production correlates with national wealth. Typically, it is the annual percentage change in national income. Economic growth generally means an increase in national wealth, including production capacity per capita and structural changes. Economic growth is a restricted rise in national income per capita, and it entails quantitative analysis of this process, focusing on endogenous variable functional connections. Thus, economic growth is the process of expanding national economies, macroeconomic indicators, particularly GDP per capita, in an ascendant but not necessarily linear direction, with positive effects on the economic-social sector, while development shows how growth raises the standard of living.

The relationship between global financial depth and economic growth is being disputed. Sulaiman, Oke, and Azzez (2012), Nzotta and Okereke (2009), Hasan et al. (2009), Waqabaca (2004), and Azege (2004) found a positive correlation between financial deepening and economic growth, while Ardic and Damar (2006) and Guryay, Safakli, and Tuzel (2007) found the opposite. Bank-based, market-based, financial service-based, and law and finance-based theories have examined how financial deepening affects economic growth.

If many market economic agents see their investment choices as a stimulant for economic progress, a strong financial system will help. The stock market provides long-term finance for investment initiatives, according to Nwanna and Chinwudu (2016). Important tasks that boost Nigeria's economy are its principal objective. Full implementation of tough financial regulations helps the economy and sector recover from the recent financial reforms and economic crises. Every monetary authority decision will affect financial sector economic actors' investment choices. Foreigners have also struggled to make portfolio investment selections due to domestic exchange rate volatility. The relationship between Nigeria's economic growth and financial development must be examined.

2.0 Literature Review

Conceptual Review

Concept of financial deepening

If market economic agents regard their investment decisions as catalysts for economic growth and development, a well-developed and functional financial system will help growth (Yousou & Ekiou (2018)). Financial deepening involves expanding financial markets, intermediaries, and institutions to provide resources for economic growth. A well-developed financial system allows resource mobilization for optimal application. Financial deepening reduces poverty, according to Hassan, Sanchez, and Yu (2011). Finance determines countries' economic growth and development. According to economic growth theory, banking sector innovations boost economic growth and development (Okafor et al, 2021).

The spread of financial services is called "financial deepening" by economists. It could mean more services and better access for different socioeconomic groups (2017). Financial deepening may affect individuals and societies' economies. By making financial resources available to the poor, financial deepening boosts economic growth. Relationship banking usually helps weak financial system incumbents get financial services. Incumbents also expand through internal resource creation. In an immature financial system, growth is limited by incumbent development. In mature financial systems, banks' appraisal techniques and information gathering and sharing mechanisms allow them to finance marginal activities or firms, resulting in their growth-inducing productive activities in addition to incumbents. Access to external finance for small businesses and prospective entrepreneurs encourages new entrepreneurship and increases competition for established enterprises, which boosts innovation and productivity. According to Arp et al. (2017), widely available formal finance may lead to informal intermediation, or unintended entrepreneurship.

Finance deepening may affect a nation's economy. Financial deepening usually increases the money supply's share of GDP or other price index. It may increase liquidity. Money expands investment and growth choices. In contrast, an underdeveloped financial system restricts cash access, limits people's money, and forces them to use expensive informal sources like money lenders. Lower cash availability would support fewer economic activities and slow economic growth.

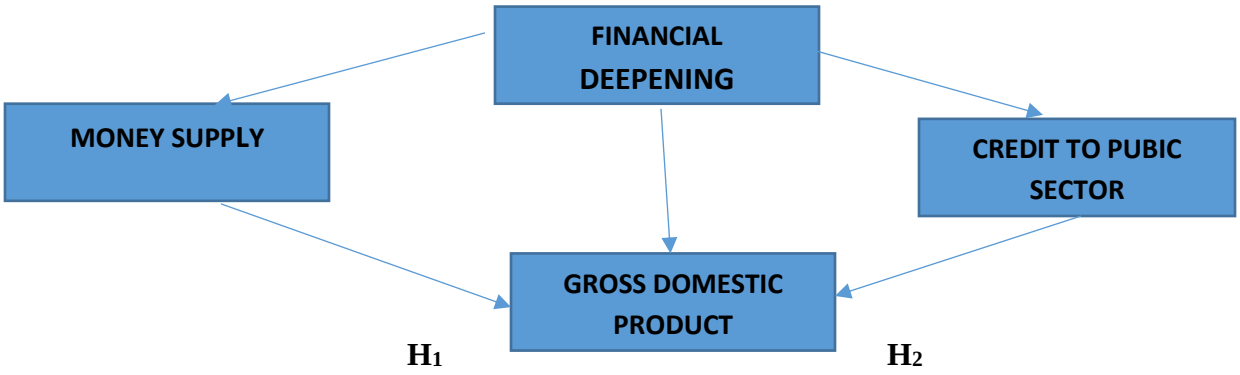
The Nigerian central bank distinguished narrow and broad money in 2006. The former (M1) includes commercial bank current account deposits and money in circulation. M2 measures the entire quantity of money in circulation in the economy and includes bank time, savings, and foreign currency deposits. An excess of money supply occurs when money circulation surpasses economic output. In Ebipre and Amaegberi (2020), inflation occurs when money circulation surpasses the economy's capacity, disrupting the price system.

Financial Deepening and the Economy

Nzotta and Okereke (2009) provide three hypotheses to explain the relationship between financial development and economic growth: supply leading hypothesis, demand following hypothesis, and bi-directional causality. They believe the supply-leading paradigm supports financial development boosting economic growth. This implies that it impacts all economies' development. They proposed the demand-following hypothesis, which states that finance follows actual sector changes. Financial asset stock changes depend on actual economy growth. They believe the bi-directional causality theory is in the center since finance and growth affect each other (Yousou & Ekiou, 2018).

Keynes stated in 1936 that government expenditure should rise to stimulate the economy and achieve full employment. Thus, government spending increases income, demand, and money need. This causes an imbalance, which is corrected by lower private investment due to higher interest rates. Higher interest rates inhibit private investment, hence government expenditure stimulates and discourages it (Yousou & Ekiou, 2018).

Conceptual framework for financial deepening and economic growth of Nigeria



Source: Authors' Conceptualization, 2023

Theoretical Review

This study is supported by three process theory of neoclassical growth, the Supply-Leading and Demand-Following Model and the endogenous growth model

The Neoclassical Growth Model,

The standard Solow and Swan (1957) neoclassical growth model seeks to understand how material inputs like physical capital and labor affect long-term economic growth. Technological advancement may be more important than capital growth, according to this model. Homogenous aggregate production is assumed in the model. It argues that economies with the same savings, depreciation, labor force expansion, and

productivity growth will reach the same income level. The model equation is Y = A f (K, L1-). K is capital, L is labor, 1- is capital-labor elasticity, and A is baseline technology (Yousou & Ekiou, 2018).

The model shows that when technical coefficients are changeable, the capital-labour ratio tends to move toward equilibrium. It claims that long-term per capita development depends completely on external technical advancement. Per capita and K/L output rise temporarily when savings rise. At higher per capita output, both would expand continuously. Per capita and K/L output rise temporarily when savings rise. Savings affect long-term per capita output but not growth. Capital formation and technological advancement are prioritized in economic growth measurement. The Neoclassical model regards technology as a driver of economic growth, but it assumes a given pace of technical progress (Yousou & Ekiou (2018)).

The Supply-Leading and Demand-Following Model

Finance-growth nexus demand-following and supply-leading assumptions. According to Agu and Chukwu (2008), Schumpeter, 1911, is the main proponent of supply-leading, along with Calderon and Liu, 2003, Gurley and Shaw, 1967, King and Levine, 1993, and McKinnon, 1973. The idea is that

financial development boosts the economy. Thus, an increase in saving, investment, and capital accumulation efficiency boosts economic growth beyond financial development. A major benefit of the supply-leading strategy is that as entrepreneurs acquire access to more cash, their expectations rise and new vistas (or alternatives) open up, forcing them to "think big" and make daring decisions. The demand-following perspective holds that financial development follows real sector changes (Karimo & Ogbonna, 2017).

Endogenous Growth Model

The first to suggest direct and indirect links between financial companies and long-term economic growth were Levine (1991) and Bencivenga & Smith (1991). This assumes income distribution, financial stability, and technological advances effect growth. Thus, productivity growth in relation to growth, investments, savings, and financial markets underlines the link between long-term social growth and financial advancement. As King & Levine (1993) [18] emphasizes the link between economic growth and entrepreneurship, financial institutions must promote and monitor competent entrepreneurs in innovative operations and product launches (Samuel-Hope et al., 2020).

Empirical Review

Samuel-Hope and colleagues (2020) examined how financial deepening affected Nigeria's economic growth from 1981 to 2018. Time and savings deposits held by commercial banks, money supply, private sector credit, and economic growth are examined in this study. The data for this study came from CBN Bulletin issues. It was then analyzed using Autoregressive Distributed Lag (ARDL). Our study found a long-term association but no statistically significant regressors. Private sector GDP contribution inversely correlated with GDP growth. Conversely, money supply to GDP correlated positively with economic growth. Commercial banks' time and savings deposits also hurt national growth. Economic stakeholders should actively promote private sector credit policy. Increasing savings interest rates could encourage saving. Implement rules that efficiently allocate savings to productive investments to increase financial depth.

Nwaolisa and Cyril (2019) examined how market capitalisation, private sector credit, and money supply affect the Nigerian economy. The study examined NBS and CBN statistical bulletin data using ordinary least square (OLS) regression analysis. The analysis covered 1990–2016. All three elements were supposed to boost Nigeria's financial deepening. Thus, practitioners were advised to lower stock market liquidity hurdles, international market limits, market entrance, and unproductive credit. These measures optimise private sector lending in productive industries. It was also suggested that actions to improve investible cash inflows and bank lending capability would increase private sector influence and money supply in Nigeria.

Yousou and Ekiou (2018) examined financial deepening and economic growth in Nigeria from 1981 to 2018. Four aims of the study are to examine how monetized credit, savings, and stock markets affect economic growth and how administrative regimes affect it. The analysis used 2018 Central Bank of Nigeria statistical bulletin time series data. The data was analyzed using classical least squares multiple regressions with a dummy variable to account for regime effects. The findings show that financial deepening affects economic growth immediately and long-term. The f-statistics show that the computed regression line is statistically significant. Stock market and credit criteria positively and statistically significantly affect economic growth. Savings requirements negatively impact economic growth statistically. However, monetized criteria boost short-term growth but are statistically unimportant. The

unit root test shows that all dataset variables have unit roots. The selected financial deepening indicators also influence Nigeria's economic growth, especially during civilian government, with great efficacy. We suggest strong efforts to increase the financial subsector's impact on economic growth to promote and sustain its role in the economy.

For 1981–2015, Mesagan, Olunkwa, and Yusuf (2018) evaluated the relationship between financial sector development and manufacturing performance in Nigeria. The researchers measured manufacturing performance using a traditional least square regression model and three indicators: manufacturing capacity utilization, output, and value added. Financial development was proxied by money supply as a percentage of GDP, private sector domestic credit, and liquidity ratio. Credit to the private sector and money supply had a statistically insignificant beneficial effect on capacity utilization and output in the near run. In the near term, they hurt manufacturing value added, but in the long term, money supply and private sector credit helped manufactured production. Africa-related developments followed.

Karimo and Ogbonna (2017) examined how financial deepening affected Nigerian economic growth from 1970 to 2013. The study examined Nigeria's growth and financial deepening using the Toda-Yamamoto augmented Granger causality test. The Nigerian growth-financial deepening link supports the supply-leading concept. Growth happens because of financial deepening, not vice versa. The report recommended eliminating private sector credit expansion impediments in legislative measures. Restoring investors' trust in stock market operations was also stressed.

A research by Alrabadi and Kharabsheh (2016) examined the dynamic relationship between financial deepening and economic growth in Jordan from 1992 to 2014. The researchers analyzed the data using vector autoregressive regressions, Granger causality, and Johansen-Juselius

cointegration tests. Quarterly data suggests financial deepening does not significantly affect short-term economic growth. Regardless of the proxy used to quantify financial depth, cointegration tests show a statistically significant long-term equilibrium link between the two variables. The Granger causality test also shows a bidirectional causal relationship between economic growth and financial depth, measured by private sector lending. However, economic development and financial deepening are unidirectionally causative, especially when using deposits and money supply (M2) as indices.

Ndalu (2016) examined how economic growth affects insurance financial involvement in Kenya. Causal research was used from 2003 to 2008. The researchers found that the insurance penetration ratio, which measures economic insurance use, rose 0.10% in 2008. The financial industry expanded during the period investigated, explaining this growth. By the end of the reviewed period, insurance penetration was 2.7%. The long-term business section was 0.9% and the general business segment 1.8%. The projected regression line intercept is 8.395, according to regression analysis. It also suggests that economic growth increases 1.375 every unit of insurance penetration ratio. Single equation analysis is used in most research investigations to analyze the variable of interest and specific objectives. Our study examined how political administration affects financial deepening's ability to sustain economic growth using multiple regression analysis utilizing the traditional least square method. We divided the political regime into military and civil. To represent each administration type, we created a binary/category variable with values of 1 or 0. This paper examines Nigeria's financial deepening and economic growth to fill a gap in the literature. A detailed analysis of contentious effects in the evaluated literature underpins this study.

3.0 Research Method

Non-experimental design was employed to achieve study goals. The researcher chose this research strategy to evaluate if financial deepening indicator affects Nigerian economic growth. The studied population is the Nigerian economy. This study samples the Nigerian economy. Due to the study objective, the sample size was chosen purposefully. Sample size was dependent on current variable data to track trend changes. The data collection method was secondary. To determine the factors' effects, the CBN annual report, Nigeria economic report, and statistical bulletin from 1985 to 2022 were used for data analysis. The study used only E-view software for analysis. The variable relationships were examined using panel data and the ordinary least square approach. The functional form of a simple linear regression model adopted in this study is given by; $Y = f(x)$

In accordance with the study objectives, the explicit form of the equation was adopted

$RGDP = \beta_0 + \beta_{1+} MNS + e$…..…..... (1)

$RGDP = \beta_0 + \beta_{1+} CPS + e$..……..... (2)

Where;

RGDP= real gross domestic product (dependent variable)

MNS= Money supply (independent variables)

CPS= Credit to public sector (Independent variables)

β_0 and β_1 = Coefficients of the estimated variables.

e = Error term.

Descriptive Statistics

	RGDP	MONEY_SU...	CREDIT_TO...
Mean	37952962	8132.599	6570.360
Median	30333579	1729.442	1013.515
Maximum	72094094	36014.88	29051.61
Minimum	14953913	22.29924	13.07034
Std. Dev.	20619071	11136.33	8967.999
Skewness	0.478508	1.234284	1.131947
Kurtosis	1.619370	3.188831	2.877571
Jarque-Bera	4.233029	9.194225	7.710313
Probability	0.120451	0.010081	0.021170
Sum	1.37E+09	292773.6	236532.9
Sum Sq. Dev.	1.49E+16	4.34E+09	2.81E+09
Observations	36	36	36

Source: Researcher's computation, 2023

From the descriptive table, gross domestic product is average 37952962 and ranges from 14953913 to 72094094 and a standard deviation of 20619071. Money supply is averaged 8132.599 and ranges from 22.29924 to 36014.88 with a standard deviation of 11136.33. Natural value of credit to private sector (CTPS) is averaged 6570.360 and ranges from 13.07034 to 29051.61 with a corresponding standard deviation of 8967.999. With respect to the statistical distribution of the data, money supply is leptokurtic given the values of the kurtosis in excess of 3 while GDP and Credit to private sector are platykurtic. Also, GDP, Money supply and Credit to private sector are positively skewed.

Test summary for hypothesis one

H_0: There is no significant relationship between money supply and gross domestic product of Nigeria

Table 1
Dependent Variable: GDP
Method: Least Squares

Date: 11/20/23 Time: 17:51
Sample (adjusted): 1991 2020
Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MONEY SUPPLY	1611.639	116.3802	13.84805	0.0000
	26550693	1742030.	15.24123	0.0000

R-squared	0.872593	Mean dependent var	42267837
Adjusted R-squared	0.868043	S.D. dependent var	19926450
S.E. of regression	7238460.	Akaike info criterion	34.49206
Sum squared resid	1.47E+15	Schwarz criterion	34.58547
Log likelihood	-515.3808	Hannan-Quinn criter.	34.52194
F-statistic	191.7686	Durbin-Watson stat	0.128182
Prob(F-statistic)	0.000000		

Source: Researchers Compilation (2023)

Interpretation: The aforementioned test outcome indicates a noteworthy relationship between money supply and gross domestic product (GDP), as evidenced by a p-value of 0.0000, which is below the conventional threshold of 0.05. Consequently, the null hypotheses (Ho) were not accepted. Therefore, it was determined that the money supply has a substantial impact on the Gross Domestic Product (GDP) of the Nigerian economy.

Test summary for hypothesis Two

H_0: There is no significant relationship between Credit to Private Sector (CTPS) and gross domestic product of Nigeria

Table 2
Dependent Variable: GDP
Method: Least Squares
Date: 11/20/23 Time: 18:00
Sample (adjusted): 1991 2020
Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CREDIT TO PRIVATE SECTOR	2023.654	133.5294	15.15512	0.0000
C	26321968	1611410.	16.33474	0.0000

R-squared	0.891337	Mean dependent var	42267837
Adjusted R-squared	0.887456	S.D. dependent var	19926450
S.E. of regression	6684833.	Akaike info criterion	34.33292
Sum squared resid	1.25E+15	Schwarz criterion	34.42633
Log likelihood	-512.9938	Hannan-Quinn criter.	34.36280
F-statistic	229.6776	Durbin-Watson stat	0.180460
Prob(F-statistic)	0.000000		

Source: Researchers Compilation (2022)

Interpretation: The aforementioned test outcome indicates that there is a statistically significant relationship between Credit to Private Sector (CTPS) and gross domestic product (GDP), as evidenced by a p-value of 0.0000, which is below the commonly accepted threshold of 0.05. Consequently, the null hypotheses (Ho) were not accepted. Therefore, it can be inferred that the impact of Credit to Private Sector (CTPS) on the Gross Domestic Product (GDP) of the Nigerian economy is substantial.

Discussion of Findings

Effects of money supply on GDP

Consistent with the findings of model one, the analysis revealed a statistically significant relationship between money supply and GDP. As a result, the initial null hypothesis (Ho) was not accepted. The coefficients and p-values of the independent variable in model one (MS) are both 0.000, as indicated in the table (Regression Results). This observation demonstrates that MS has a notable propensity to generate significant positive effects, as evidenced by the results. The findings of the Master's study, specifically the first hypothesis, align with the prevailing perspectives in the field, as exemplified by Onyiewu (2012), which suggest that monetary policy, as represented by changes in money supply, has a positive influence on the growth of Gross Domestic Product (GDP). Moreover, the outcome regarding the impact of money supply (MS) on GDP contradicts the conclusions drawn by numerous foreign scholars, including Precious and Palesa (2014). Their study revealed that money supply is not a significant monetary policy tool for fostering economic growth in South Africa. The significance of the result can be attributed to the effective implementation of coordinated monetary policy measures, which have led to a sustainable economic growth.

Effect of credit to private sector on GDP

In the second model, the independent variable of credit to the private sector was examined in relation to the dependent variable of gross domestic product (GDP). The results of this analysis showed that the coefficients maintained the same signs as in the first model, with a positive relationship observed between credit to the private sector and GDP. These findings are presented in Table 4.2.2 under the section titled "Regression Results." As a result, the second hypothesis (Ho) was rejected. This suggests that there is a positive and statistically significant relationship between CTPS and GDP. The findings of hypothesis two, which examines the relationship between credit to the private sector (CTPS) and gross domestic product (GDP), align with the conclusions drawn by Nzomoi and Rutto (2012). Their study also demonstrated a

positive influence of credit on sector-specific GDP. In general, the provision of credit from the private sector plays a significant role in supporting the overall health and development of the economy, as it has the potential to stimulate growth within specific sectors.

5.0 Conclusion and Recommendations

This study constitutes a non-experimental research endeavor aimed at investigating the impact of financial deepening indicators on the economic growth of Nigeria over a span of 36 years (1985-2022). The data utilized in this study was sourced from the CBN statistical bulletin. The study identified two research questions and corresponding hypotheses, focusing on the variables of money supply and credit to the private sector as independent variables, and Gross Domestic Product as the dependent variable. The validation of the research hypotheses was conducted through the utilization of a linear regression method for data analysis, employing the E-view package. The findings indicate a statistically significant association between the money supply and GDP, as evidenced by a p-value of .000. Furthermore, it is worth noting that the allocation of credit to the private sector in Nigeria has a noteworthy and substantial impact on the country's Gross Domestic Product (GDP), as evidenced by a p-value of .000. Based on the results of the study, it was observed that there was a notable impact of the money supply and GDP on the observed phenomenon. Furthermore, the allocation of credit to the private sector in Nigeria has been observed to have a notable and favorable impact on the country's economy. This study thus provides evidence supporting the notion that monetary policies possess the capacity to enhance the longevity and viability of the Nigerian economy. The importance of monetary policy in the Nigerian economy is underscored by this study, which posits that monetary policy plays a substantial and favorable role in the sustainability of Nigeria. Based on the empirical evidence, the study suggests that it would be advantageous for the government to persist in formulating strategies aimed at augmenting credit access for private enterprises. This measure is expected to enhance the overall performance of the private sector, thereby fostering long-term economic growth in Nigeria. The regulatory authority, namely the Central Bank of Nigeria (CBN), should exert efforts to regulate the increasing interest rate and employ monetary policy instruments to mitigate the surplus money in circulation. Moreover, it is imperative for the government to promote private sectors by augmenting their access to lending opportunities. Ultimately, it is imperative to promote investment in technology in order to achieve substantial economic growth and ensure financial stability.

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