

**THE ROLE OF BANKING INSTITUTION IN THE DEVELOPMENT OF
NIGERIA'S ECONOMY**

Oluwasegun Olaniyi Ibiroko
PG/MGS2016391

**BEING A THESIS SUBMITTED TO THE DEPARTMENT OF BUSINESS
ADMINISTRATION, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY
OF BENIN, BENIN CITY. IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF POST GRADUATE DEGREE IN
MASTER OF BUSINESS ADMINISTRATION (MBA).**

JANUARY, 2025

DECLARATION

I, Oluwasegun Olaniyi Ibironke with Matriculation Number PG/MGS2016391 hereby declare that this project work was purely undertaken by me in the Department of Business Administration, Faculty of Management Sciences, University of Benin, under the supervision of Prof. Ibrahim Shaibu. The research work has not been previously submitted for the award of a degree elsewhere. All ideas and views are works of my personal research and where the views of others have been used and expressed, they were duly acknowledged.

Oluwasegun Olaniyi Ibironke

Date

CERTIFICATION

This is to certify that this project work was carried out by Oluwasegun Olaniyi Ibironke with Matriculation Number PG/MGS2016391 in the Department of Business Administration, Faculty of Management Sciences, University of Benin, Benin City, Edo State, Nigeria, in partial fulfillment of the requirements for the award of Post Graduate Degree in Master of Business Administration (MBA).

Prof. Ibrahim Shaibu
(Project Supervisor)

Date

Prof. Ibrahim Shaibu
(Course Coordinator)

Date

Dr. Omorodion Omoregbe
(Head of Department)

Date

DEDICATION

To all the brave hearts who refuse to let fear, doubt, or adversity hold them back, this research is dedicated to you. May it serve as a reminder that your courage, resilience, and determination are the sparks that ignite true greatness.

To Light Asiwaju, and to everyone who embodies the spirit of Theodore Roosevelt's timeless words:

May you always remember that it is not the critics who shape your destiny, but your own unwavering commitment to your dreams. May you continue to stride boldly into the arena, with every step fueled by passion, purpose, and an unrelenting drive to make a meaningful impact.

For it is in the face of challenges, setbacks, and uncertainties that we discover our greatest strengths, and our most triumphant victories. So let us celebrate the doers, the dreamers, and the brave souls who inspire us with their unwavering spirit and unrelenting pursuit of excellence.

May this thesis be a testament to the transformative power of courage, perseverance, and determination. May it inspire you to keep pushing forward, to keep striving valiantly, and to never let the critics dull the brilliance of your light.

ACKNOWLEDGEMENTS

I am overwhelmed with gratitude as I reflect on the incredible journey that has brought me to this moment. First and foremost, I give thanks to God Almighty, whose unwavering guidance and blessings have been my rock.

To my amazing Project Supervisor and Course Adviser, Prof. Shaibu, I do not even know where to begin. Your wisdom, encouragement, and selflessness have been great, especially during those moments when I felt like giving up. You are not only an exceptional scholar but also an inspiring mentor, and I am honored to have had the privilege of learning from you.

I am also deeply grateful to my Faculty Lecturers, the Institution's Management, and my fellow students, who have all contributed significantly to my growth and learning. The memories, laughter, and knowledge shared will forever be etched in my heart.

To my loved ones - Funmilayo Ibironke, Asiwaju Ibironke, Boladale Idowu, and Folake Abimbola – I am blessed to have you all in my life. Your love, support, and encouragement have been my driving force, and I thank you from the bottom of my heart.

TABLE OF CONTENTS

Title Page	-	-	-	-	-	-	-	-	-	-	i
Declaration	-	-	-	-	-	-	-	-	-	-	ii
Certification	-	-	-	-	-	-	-	-	-	-	iii
Dedication	-	-	-	-	-	-	-	-	-	-	iv
Acknowledgement	-	-	-	-	-	-	-	-	-	-	v
Table of Contents	-	-	-	-	-	-	-	-	-	-	vi
Abstract	-	-	-	-	-	-	-	-	-	-	ix

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study	-	-	-	-	-	-	-	-	-	1
1.2 Statement of Problem	-	-	-	-	-	-	-	-	-	3
1.3 Research Question	-	-	-	-	-	-	-	-	-	4
1.4 Objective of the Study	-	-	-	-	-	-	-	-	-	4
1.5 Hypothesis of the Study	-	-	-	-	-	-	-	-	-	5
1.6 Significance of the Study	-	-	-	-	-	-	-	-	-	5
1.7 Scope of the Study	-	-	-	-	-	-	-	-	-	6
1.8 Definition of Terms	-	-	-	-	-	-	-	-	-	7

CHAPTER TWO: LITERATURE REVIEW

2.1 Conceptual Framework	-	-	-	-	-	-	-	-	-	9
2.2 Determinants of Financial Development	-	-	-	-	-	-	-	-	-	22
2.3 Theoretical Review	-	-	-	-	-	-	-	-	-	33
2.4 Empirical Review	-	-	-	-	-	-	-	-	-	34
2.5 Gap in Literature	-	-	-	-	-	-	-	-	-	37
2.6 Theoretical Framework	-	-	-	-	-	-	-	-	-	37

CHAPTER THREE: METHODOLOGY

3.0 Introduction	-	-	-	-	-	-	-	-	-	39
3.1 Research Design	-	-	-	-	-	-	-	-	-	39
3.2 The Population and Sampling	-	-	-	-	-	-	-	-	-	39
3.3 Source of Data	-	-	-	-	-	-	-	-	-	39
3.4 The Research Instrument	-	-	-	-	-	-	-	-	-	40
3.5 Operationalisation of Variables and Data Analysis Plan	-	-	-	-	-	-	-	-	-	40

3.6 Model Specification	-	-	-	-	-	-	-	-	41
CHAPTER FOUR: DATA PRESENTATION, ANALYSIS, AND INTERPRETATION									
4.1 Descriptive Statistics	-	-	-	-	-	-	-	-	44
4.2 Diagnostic Tests	-	-	-	-	-	-	-	-	45
4.3 Co-integration Test	-	-	-	-	-	-	-	-	48
4.4 Error Correction Model (ECM)	-	-	-	-	-	-	-	-	49
4.5 Test of Hypotheses			-	-	-	-	-	-	52
4.6 Discussion Findings	-	-	-	-	-	-	-	-	54
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS									
5.1 Summary of Findings	-	-	-	-	-	-	-	-	56
5.2 Conclusion	-	-	-	-	-	-	-	-	56
5.3 Recommendations	-	-	-	-	-	-	-	-	58
References	-	-	-	-	-	-	-	-	60
Appendixes	-	-	-	-	-	-	-	-	65

ABSTRACT

This study empirically examines the role of banking institutions in Nigeria's economic development. It focuses on four specific objectives: assessing the impact of market capitalization in the banking sector on Nigeria's gross domestic product (GDP); analysing the influence of interest rates on GDP; evaluating the effect of monetary policy on GDP; and examining the relationship between financial deepening in the banking sector and GDP. The study utilizes aggregate data from all financial institutions listed on the Nigerian Stock Exchange and the Central Bank of Nigeria's (CBN) annual statistical bulletin. Given the broad scope of the financial sector, the research specifically considers annual reports of banking institutions from 1995 to 2024. A unit root test was conducted to determine the integration order of the variables, ensuring their compatibility with the selected econometric framework. An Error Correction Model (ECM) was employed to capture short-term dynamics while maintaining long-term equilibrium. Descriptive statistics and various econometric tests including t-tests, R-squared, and F-tests were applied to analyse the data using E-Views 11. The findings reveal that financial development in Nigeria has a mixed impact on economic growth. While financial system deposits positively contribute to short-term growth, other aspects of financial development demonstrate limited significance. In the long run, financial inefficiencies and instability pose challenges to sustained economic growth. These results highlight the need for policymakers to enhance financial sector efficiency, strengthen monetary policy implementation, and promote financial inclusion to ensure that economic growth translates into broader economic benefits. Given that Nigeria's financial sector remains underdeveloped compared to emerging economies, it is essential to strengthen financial institutions. This can be achieved by empowering deposit money and microfinance banks to serve as effective credit sources for both large and small businesses. Additionally, improving access to funding particularly for small and medium enterprises (SMEs) and encouraging financial institutions to adopt innovative lending models tailored to underserved sectors will further enhance economic development.

**THE ROLE OF BANKING INSTITUTION IN THE DEVELOPMENT OF
NIGERIA'S ECONOMY**



Oluwasegun Olaniyi Ibiroko
PG/MGS2016391

**DEPARTMENT OF BUSINESS ADMINISTRATION
FACULTY OF MANAGEMENT SCIENCES
UNIVERSITY OF BENIN
BENIN CITY**

JANUARY, 2025

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

An efficient financial system is pivotal to fostering sustained economic growth and maintaining a dynamic, open economic environment. Empirical evidence suggests that countries with well-developed financial institutions experience accelerated growth, particularly due to the significant contributions of a robust banking system and liquid stock markets, which positively influence economic growth (Akintola, Oji-Okoro & Itodo, 2020; Atsanan & Onuigwe, 2021). This study explores the relationship between banking sector development and economic growth in Nigeria. It evaluates the sector's impact on the Nigerian economy and examines whether it has fulfilled its primary role of financial intermediation, given its struggles to effectively support the real sector, as it has been noted that despite consistent high profits reported by banks, their preference for short-term lending over long-term investments (amidst other corporate shenanigans) continues to hinder sustainable economic growth.

In developing economies, economic impact can be significantly enhanced by an efficient banking sector capable of pooling domestic savings and attracting foreign investments for productive purposes (Taofeek & Olumuyiwa, 2016; Ume, Nelson & Onwumere, 2015). Industries in such economies require substantial funding to scale their operations and compete on a global level. The banking sector is instrumental in economic development by mobilizing funds from surplus to deficit units within the economy, thereby addressing funding gaps critical for industrial growth (Obinna, 2015). The banking sector facilitates business transactions and contributes to economic progress (Adeniyi, Abimbola, Omisakin & Egwaikhide, 2015). A well-developed financial system enhances intermediation efficiency by reducing costs associated with information, transactions, and monitoring.

Such systems stimulate investments by identifying viable business opportunities, mobilising savings, managing risks through trading and diversification, and enabling the exchange of goods and services. These functions lead to improved resource allocation, rapid accumulation of physical and human capital, and accelerated technological advancement, all of which drive economic growth (Sennuga, Adenaike, Adedayo & Sennuga, 2021).

Stock markets and other financial institutions play a crucial role in economic development by enhancing efficient capital formation and allocation. This enables corporations and governments to secure both short-term and long-term capital for new projects and operational expansions (Zhang, 2021). The economy benefits significantly when financial resources are allocated to productive economic units. As economies expand, the need for additional funds intensifies, and the stock market becomes a vital mechanism for mobilising and distributing these resources among competing uses, which are essential for sustaining growth and efficiency (Atsanan & Onuigwe, 2021; OECD, 2017). Scholars emphasise that an economy's growth depends on the stock market's ability to efficiently allocate capital. Stock markets provide a platform for listed companies to access long-term funding and offer investors an avenue to channel their surplus funds effectively (Atsanan & Onuigwe, 2021). By diversifying risk, pooling savings from various investors, and making these resources available to businesses, stock markets contribute to economic expansion (Gabor & Brooks, 2017). The dynamic relationship between financial development, particularly the role of stock markets, banks, and economic growth remains a focal point of academic debate, reflecting its critical importance in shaping long-term economic outcomes.

1.2 Statement of Problem

The Nigerian banking sector, like those of many other developing economies, has historically been highly regulated, resulting in financial disintermediation that hampered economic growth. The relationship between the banking sector and economic growth has remained weak, limiting the sector's capacity to drive significant economic progress (De Gregorio & Guidotti, 1995). Notably, the real sectors of the economy, particularly high-priority sectors recognised as key drivers of economic growth, have not been effectively or efficiently served by the banking sector (Atsanan & Onuigwe, 2021). Despite consistently declaring substantial profits, Nigerian banks have not sufficiently supported the real sector, leading to reduced productivity levels across the economy. Many operators within the productive sectors are struggling or shutting down due to their inability to access loans from financial institutions, while others face prohibitive borrowing costs due to consistent increase in interest rate by the regulators, in addition to difficult processes involved in accessing business support.

Furthermore, Nigerian banks have predominantly focused on short-term lending, neglecting the long-term investments necessary for sustained economic transformation (Olusegun, Ganiyu, & Oluseyi, 2013). This study seeks to address a gap in the literature by examining the role of financial institutions - specifically the banking sector - in the development of Nigeria's economy. By evaluating key aspects such as market capitalization, interest rates, monetary policy, financial deepening and the GDP which gives information on how an economy is performing, this research seeks to provide insights into how the banking sector can enhance its contributions to sustainable economic growth and development.

1.3 Research Question

In order to achieve the objective of the study and proffering solution to problem of study, the following research question were formulated:

- i) What is the impact of market capitalisation in the banking sector on Nigeria's gross domestic product (GDP) in the development of Nigeria's economy?
- ii) How do interest rates in the banking sector influence Nigeria's gross domestic product (GDP) in the development of Nigeria's economy?
- iii) What is the effect of monetary policy in the banking sector on Nigeria's gross domestic product (GDP) in the development of Nigeria's economy?
- iv) How does financial deepening in the banking sector affect Nigeria's gross domestic product (GDP) in the development of Nigeria's economy?

1.4 Objective of the Study

The main objective of this study is to empirically investigate the role of financial institution in the development of the nation's economy: (A case study of Banking Sector). The specific objectives are to:

1. To examine the impact of market capitalisation in the banking sector on Nigeria's gross domestic product (GDP) in the development of Nigeria's economy.
2. To analyse the influence of interest rates in the banking sector on Nigeria's gross domestic product (GDP) in the development of Nigeria's economy.
3. To evaluate the effect of monetary policy in the banking sector on Nigeria's gross domestic product (GDP) in the development of Nigeria's economy.
4. To assess how financial deepening in the banking sector affects Nigeria's gross domestic product (GDP) in the development of Nigeria's economy.

1.5 Hypothesis of the Study

The hypotheses of this study are;

Ho There is no significant relationship between market capitalization and gross domestic product.

Ho There is no significant relationship between interest rate and gross domestic product.

Ho There is no significant relationship between monetary policy and gross domestic product

Ho There is no significant relationship between financial deepening and gross domestic product.

1.6 Significance of the Study

This study is important for several reasons. First, it provides an in-depth analysis of the role of banking institutions in the development of Nigeria's economy, focusing on key elements such as market capitalization, interest rates, monetary policy, and financial deepening. Understanding how these factors influence economic growth is crucial for policy makers, banking institutions, and other stakeholders striving to promote sustainable development in Nigeria.

Second, the study fills a critical gap in the existing literature by exploring the specific relationship between the banking sector and Nigeria's economic development. While prior research has examined the banking sector broadly, few studies have comprehensively addressed the dynamic interactions between banking practices and economic outcomes in the Nigerian context. By focusing on the banking sector's influence on the economy, this research provides new insights into how financial institutions can contribute more effectively to national development.

Third, the findings of this study will inform the design of more effective monetary policies and banking practices aimed at boosting economic growth. By examining the impact of monetary policy and the structure of the banking sector, the study will provide actionable recommendations that could help optimize the financial system's role in fostering long-term economic development.

Finally, the study will be valuable for both the academic community and practitioners in the field of economics and finance. It contributes to the understanding of the Nigerian banking sector's role in economic growth, and provides empirical evidence that can guide future research and the formulation of policy. Additionally, the insights gained could be beneficial to financial institutions, investors, and regulatory bodies seeking to improve financial deepening and ensure the more efficient allocation of resources to key sectors in Nigeria's economy.

1.7 Scope of the Study

This study focuses on the role of banking institutions in the development of Nigeria's economy, specifically examining key factors such as market capitalization, interest rates, monetary policy, and financial deepening. The scope is designed to address how these elements influence economic growth and development in Nigeria, with particular emphasis on the banking sector's involvement. The study will be confined to Nigeria, analysing the banking sector's impact on the country's economic development. While insights may be applicable to other developing economies, the research will focus solely on the Nigerian context. The study will examine data spanning from 1995 to 2024, to account for significant changes in the banking sector, such as the banking sector reforms, market liberalization, and the economic fluctuations during this period. This timeline will allow for a comprehensive understanding of the trends and developments in the sector over time.

1.8 Definition of Terms

Banking Sector: The banking sector refers to the collective institutions, organizations, and financial entities that provide financial services such as savings, lending, payment systems, and investment services. These institutions include Deposit Money Banks, Microfinance Banks, Development Banks and Central Banks, that play crucial roles in the economy by facilitating the flow of money, credit, and investments.

Finance: Is a field that deals with the study of investments. It includes the dynamics of assets and liabilities over time under conditions of different degrees of uncertainty and risk. Finance can also be defined as the science of money management. Finance can be broken into three different subcategories: public finance, corporate finance and personal finance.

Market Capitalisation: Market capitalization refers to the total value of a bank or the banking sector as measured by the stock market, calculated by multiplying the market price per share by the total number of outstanding shares. In the context of this study, it refers to the size of banks listed on the Nigerian Stock Exchange and their overall contribution to the economic development of Nigeria.

Interest Rates: Interest rates represent the cost of borrowing money or the return on investment for lenders and investors, expressed as a percentage. In the banking sector, interest rates are influenced by monetary policy and can affect the level of investment, consumption, and savings within the economy.

Monetary Policy: Monetary policy refers to the actions taken by a country's Central Bank or monetary authority to control the money supply, interest rates, and inflation to achieve economic stability and growth. In Nigeria, the Central Bank of Nigeria (CBN) plays an important role in setting monetary policy that influences the activities of banks and overall economic conditions.

Financial Deepening: Financial deepening refers to the expansion and increase in the

variety, depth, and accessibility of financial products and services in an economy. This includes the development of banking services such as savings accounts, loans, insurance, and securities, which contribute to greater economic efficiency, enhanced capital mobilization, and higher levels of economic activity.

Economic Development: Economic development refers to the sustained increase in the standard of living and the economic health of a country, as measured by indicators such as GDP growth, employment rates, poverty reduction, and improvements in education, infrastructure, and healthcare. It signifies an economy's ability to enhance the well-being of its citizens and foster sustainable growth.

Financial Intermediation: Financial intermediation is the process through which financial institutions, particularly banks, act as intermediaries between savers and borrowers. By mobilizing savings and channeling them into productive investments, banks facilitate the efficient allocation of resources within the economy.

Economic Growth: Economic growth is the increase in the output of goods and services in an economy over a period of time, typically measured by the rise in GDP. Sustainable economic growth is essential for improving living standards, creating employment, and reducing poverty in a nation.

Banking Reforms: Banking reforms refer to the structural changes and regulatory adjustments made to improve the performance, efficiency, and stability of the banking system. In Nigeria, banking reforms have aimed to enhance the stability of the financial system, increase the competitiveness of banks, and ensure greater financial inclusion.

Gross Domestic Product (GDP) – Is a widely used and important indicator of a country's economic performance. It is the total value of all final goods and services produced within a country's borders over a period of time. It provides a comprehensive measure of a country's economic activity and growth

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

Preserving a robust financial system is crucial for any nation striving for economic advancement and development, which are seen as the two primary objectives of societies worldwide. The achievement of economic development depends on a country's capacity to sustain economic growth underpinned by a solid and reliable financial system (Garba and Yakubu, 2020). The connection between financial development and economic expansion remains a topic of considerable interest especially within the banking industry. Financial growth is viewed as a key driver of economic progress and a crucial factor that influences growth by adjusting productivity and capital efficiency. It impacts capital accumulation by affecting the savings rate and altering the proportion of savings (Levine, 2021). For example, financial growth could enhance the accessibility of financial services by banking institutions to individuals who were previously unable to access these services due to cost or other barriers (Levine, 2021).

It is an undeniable truth that the banking system, through its role as a financial intermediary, is the growth engine of any economy. According to Investopedia (2024), a financial intermediary is an entity that acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment bank, mutual fund, or pension fund. Financial intermediaries offer a number of benefits to the average consumer, including safety, liquidity, and economies of scale involved in banking and asset management. Banks make it far easier for a complex economy to carry out the extraordinary range of transactions that occur in goods, labour, and financial capital markets; imagine for a moment what the economy would be like if all payments had to be made in cash. (Lumen, 2024). This function allows banks to stimulate economic growth, create jobs, facilitate

capital formation, and oil the turbines of any economy's production engine.

In Nigeria, the financial sub-sector's capacity to fulfill its role has been intermittently disrupted by its susceptibility to systemic distress, macroeconomic instability, and the inevitable fine-tuning of policies. As a result, banking reforms have concentrated on the liberalization of banking operations, ensuring system competition and safety, and proactively positioning the industry to act as an intermediary and play a catalytic role in economic development (Eseocha, 2020). The banking sector reforms are primarily aimed at expanding the sector's scope and potential and enhancing its ability to perform developmental roles in the economy. Eseocha (2020) further opined that the main goal of the reforms is to ensure an efficient and sound financial system. The reforms are intended to equip the banking system with the resilience needed to support the nation's economic development by efficiently performing its role as the fulcrum of financial intermediation. These reforms sometimes open opportunities for technological innovations and advancement in Nigerian banking sector.

About three decades ago in Nigeria, banking procedures were so primitive that customers could spend an entire day in the bank just to deposit or withdraw money, and sometimes they even had to return the next day for the same transaction due to long queues (Ohiani, 2020). The banking operations at that time were designed in such a way that customers couldn't conduct transactions at another branch of the same bank on the same street. The quality of banking services during the conventional banking era in Nigeria was very poor because they were manually executed due to a lack of technological innovation (Okoye et al., 2019). Ohiani (2020) suggested that the Nigerian banking system is gradually shifting from "over the counter" transactions to customer fingertip transactions with the adoption of modern technology. There is a significant shift from cheques and cash to electronic transactions.

2.1.1 The Nigeria Banking Sector Development

Banking in Nigeria started in 1892 with the establishment of the African Banking Corporation (Beck, Levine & Loayza, 2005). Earliest banks were essentially foreign owned but in the 1930s, many indigenous banks were also established. The majority of these indigenous banks collapsed a few years after establishment, marking the first incidence of banks failure in Nigeria (Omoruyi & Osawmonyi, 2013). The response of colonial government was the enactment of the 1952 Banking Ordinance, which marked the initial efforts at regulating the banking system in Nigeria. In July 1959, the Central Bank of Nigeria (CBN) was established and empowered to regulate the Nigerian banking industry (Mishkin, 2016).

In the 1970s, the Nigerian banking industry was dominated by policies of financial repression and indigenisation. The repression policy included interest rate controls, selective credit guidelines and fixed exchange rate regimes. The indigenisation policy of the government was directed at nationalising all foreign owned banks in Nigeria. The challenges posed by financial repression and indigenisation policies necessitated the Federal Government's adoption of the Structural Adjustment programme (SAP) in 1986 as it had become very clear that the macroeconomic crisis could not be ameliorated without effecting a fundamental and comprehensive change in policy direction (Omoruyi & Osawmonyi, 2013). In its various forms SAP has significantly influenced various indices of the Nigerian financial system such as interest rate structure, institutional development, reorganisation of money and capital markets operation, and non-deposit taking investment houses (Mayer, 2002). Thus, financial liberalisation has been adopted to promote financial saving, reduce the distortions in investment decisions and induce more effective intermediation between savers and investors which in turn promote rapid economic growth (CBN 2004).

The first operation of financial reform started with the deregulation of the interest rates in August 1987; and later in the same year, conditions for licensing of new banks were relaxed which led to a phenomenal increase in the number of established banks in the country. In 1988, the Federal Government established the Nigerian Deposit Insurance Corporation (NDIC) with the aim of providing safety and boosting public confidence in the banking system. In 1992, the Federal Government privatised government owned banks with equity interest in eight commercial banks and six merchant banks offered for sale (Omar, 2009). Further reforms were taken by the CBN in July, 2004 to strengthen the banking system; hence a 13-point banking programme was enunciated. Some of the major elements of the programme included the requirement for Nigerian banks to increase their shareholders' funds to a minimum of N25 billion (about \$200 million) by the end of December 2005; phased withdrawal of public sector funds; consolidation of banking institutions through mergers and acquisitions; and adoption of a risk-focused and rule-based regulatory framework (Anwar, 2005).

The Bank Consolidation of 2004 was focused on further liberalization of banking business; ensuring competition and safety of the system; and proactively positioning the industry to perform the role of intermediation and playing a catalytic role in economic development. The reform was designed to ensure a diversified, strong and reliable banking sector which will ensure the safety of depositors' money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the African, Regional and Global financial system. Following the banking sector consolidation, notable achievements were recorded in the banking sector among which was the emergence of 25 well capitalized banks from the former 89 banks. The banks raised N406.4 billion from the capital market. In addition, the process attracted foreign capital inflow of US\$652 million and £162,000 Pounds (Omoruyi & Osawmonyi, 2013). The liquidity engendered by the inflow of funds

into the banks induced interest rate to fall significantly, while an unprecedented 30.8 per cent increase was recorded in lending to the real sector in 2005. With a higher single obligor limit, Nigerian banks now had a greater potential to finance large value transactions. More banks now have access to credit from foreign banks, while the capital market deepened and consciousness about it increased significantly among the populace. The market became active and total market capitalization increased markedly. Ownership structure has been positively affected such that the problems of insider abuse and corporate governance have been reduced.

Depositor confidence has improved due to safety in business perception by depositors. With virtually all banks now publicly quoted, there is wider regulatory oversight. With the inclusion of the Securities and Exchange Commission and the Nigerian Stock Exchange in the regulatory team, resources have been committed to the regulation of few and more stable banks in an efficient and effective manner (Omoruyi & Osawmonyi, 2013). The banks have begun to enjoy economies of scale and, consequently, are passing on the benefit in the form of reduced cost of banking transactions. In general, the reform efforts had engendered stable macroeconomic environment evidenced by low inflation and relative stable exchange rate.

However, not long after, the global financial and economic crises came in 2007, leading to the collapse of many financial institutions across the globe. The financial crisis reduced the gains made in the Nigerian financial services sector from the banking sector consolidation exercise. The experience in the industry however followed global trends. Following from the impact of the global financial crises, a section of the banking industry was badly affected as some banks were in grave condition and faced liquidity problems, owing to their significant exposure to the capital market in the form of margin trading loans, which stood at about N900.0 billion as at end of December 2008. The amount represented about

12.0 per cent of the aggregate credit of the industry or 31.9 per cent of shareholders' funds.

Furthermore, in the wake of the high oil prices, a section of the industry that was excessively exposed to the oil and gas sector was also badly affected. As at the end of December 2008, banks' total exposure to the oil industry stood at over N754.0 billion, representing over 10.0 per cent of the industry total and over 27.0 per cent of the shareholders' funds. The excessive exposures resulted in serious liquidity problems exhibited by some of the banks towards the end of 2008 (Omoruyi & Osawmonyi, 2013). As part of its liquidity support, the CBN Discount Window was expanded in October 2008 to accommodate money market instrument, such as Bankers' Acceptances and Commercial Papers. As at June 2009, the banks' total commitment under the Expanded Discount Window (EDW) was over N2,688.84 billion, while the outstanding commitments was over N256.0 billion, most of which was owed by less than half of the banks in operation. When the CBN closed down the EDW and, in its place, guaranteed inter-bank placements, it was observed that the same banks were the main net-takers under the guarantee arrangement, indicating that they had deep-rooted liquidity problems (Omran, 2015).

Further investigation by the CBN identified eight interdependent factors as the main origin of the crisis in the banking sector. These include: sudden capital inflows and macro-economic instability; poor corporate governance and character failure; lack of investor and consumer sophistication; inadequate disclosure and lack of transparency; critical gaps in regulatory framework and regulation; uneven supervision and enforcement; weaknesses within the CBN; weaknesses in the business environment (Omoruyi & Osawmonyi, 2013).

2.1.2 Economic Growth and Economic Development

Okonkwo, Jeff-Anyeneh, and Anachedo (2022) described economic growth as the increase in the capacity of an economy to produce goods and services, compared from one period to another. It is the increase in the production of goods and services in a country over a specific period, typically measured by the increase in the gross domestic product. It represents a sustained expansion of the economy, usually accompanied by increase in standard of living, employment, industrial production growth, export growth, investment growth and income. Economic growth can be measured in nominal terms which include inflation, or in real terms, which are adjusted for inflation.

On the other hand, Economic development refers to the sustained improvement in the economic well-being, living standards, and overall prosperity of a society. It is a continuous process (Bhasin, 2023) encompasses multifaceted progress, including increased income levels, employment opportunities, and the enhancement of social and economic institutions. Broadly, economic development is taken to be the structural transformation of an economy by introducing more mechanized and updated technologies to increase labour productivity, employment, incomes, and standard of living of the population (Panth, 2020). Economic development should be accompanied by improvements in infrastructure, as well as social, political, and institutional factors to facilitate transformation of the economy (Myintand Krueger, 2016). Economic development encompasses the improvement of economic and social conditions in a country or regions. Economic development is a process through which the overall education, well-being, health, income and living standards of the general population improves (Bhasin, 2023). It involves:

- Sustained economic growth: Increase in GDP, per capital income, and employment opportunities.

- Structural transformation: Shift from agriculture to industry and services, leading to increased productivity and economic diversification.
- Poverty reduction: decrease in poverty rates, improved access to basic needs like healthcare, education, and social services.
- Human development: investment in education, health care, and social welfare, leading to improved human capital and well-being.
- Infrastructure development: Investment in transportation, energy, communication, and other physical infrastructure.
- Social inclusion: Equal access to opportunities, reduction of income inequality and promotion of social justice.
- Environmental sustainability: management of natural resources, reduction of pollution, and promotion of sustainable development.

Economic development aims to create a vibrant economy, improve living standards, and enhance the overall quality of life for citizens. It requires a combination of government policies, private sector investment, and civil society efforts.

2.1.3 Contributions of Banks to Economic Development

The key indicators of economic development include advancements in education, healthcare, infrastructure, and technology. This dynamic process involves the efficient utilization of resources to stimulate growth, reduce poverty, and enhance the quality of life for individuals within a community or nation. Policies and initiatives promoting economic development often focus on fostering innovation, encouraging investment, and addressing inequalities. A thriving economy is characterized not only by robust GDP growth but also by inclusive development that benefits diverse segments of the population, laying the foundation for a sustainable and equitable future. Banks as a financial institution serves as intermediaries facilitating efficient allocation of resources within the economy (Gowda,

2020); the intricate ways this intermediary role is played are comprehensively explored and described as follows:

- **Capital Mobilization and Formation:** One of the primary functions of financial institutions is to mobilize savings from individuals, businesses, and other entities within the economy. By encouraging savings, these institutions accumulate a pool of funds that can be channeled into productive investments. This capital formation is instrumental in providing the financial resources necessary for economic expansion, innovation, and infrastructure development.
- **Investment Facilitation:** Financial institutions are pivotal in channeling funds towards productive investments. Whether through loans, equity investments, or other financial instruments, these institutions provide the necessary capital for businesses and entrepreneurs to undertake projects, expand operations, and drive economic growth. By efficiently matching savers with borrowers, financial institutions contribute to the vitality of various sectors within the economy.
- **Risk Management and Diversification:** The management of financial risks is inherent to the operations of financial institutions. Through diversification of their portfolios and the use of risk management tools, these institutions mitigate the impact of potential financial losses. This risk-bearing function is crucial as it encourages a broader spectrum of investors and entrepreneurs to participate in economic activities, fostering a climate conducive to development.
- **Payment Systems and Financial Infrastructure:** Efficient payment systems are essential for the smooth functioning of economic transactions. Financial institutions, particularly banks, provide the necessary infrastructure for electronic funds transfer, credit cards, and other payment mechanisms. This not only

facilitates day-to-day transactions but also contributes to the overall efficiency of business operations, thereby positively impacting economic development.

- **Financial Intermediation and Efficiency:** Financial intermediation is a core function of banks and financial institutions. By acting as intermediaries between savers and borrowers, they ensure that funds are allocated to their most productive uses. This process enhances the efficiency of capital allocation in the economy, directing resources toward activities that contribute significantly to economic development. A bank's prime purpose is financial intermediation, accepting deposits, making loans at variety of maturities either fixed or variable rates and making of money through interest rates spread by charging for services provided (Yakubu, Abokor, and Balay, 2020)
- **Credit Creation and Monetary Policy Transmission:** Financial institutions, particularly commercial banks, can create credit through the fractional reserve banking system. This credit creation, when managed prudently, contributes to the expansion of the money supply, stimulating economic activities. Moreover, financial institutions, including central banks, play a crucial role in transmitting monetary policies that influence interest rates, inflation, and overall economic stability. Credit access and savings could be used for the development of micro-enterprise and education of children that could reduce income inequality and poverty for current and future generations and thus enhance the overall economic growth of the nation (Van et al., 2021 and Zhao et al. 2021a, b). Access to bank credit strengthens productive assets by ensuring investment in productive sectors, education or health sector which have ripple effect on the growth of the economy (Akinwale and Obagunwa, 2019).

- **Long-Term Investments and Infrastructure Financing:** Economic development often requires substantial investments in long-term projects and infrastructure. Financial institutions, such as development banks, specialize in providing financing for largescale infrastructure projects. By facilitating these investments, financial institutions contribute to the creation of essential foundations for sustained economic growth.
- **Financial Inclusion and Social Impact:** Financial institutions play a pivotal role in promoting financial inclusion by expanding access to banking and financial services. This is particularly important in developing economies, where a significant portion of the population may be unbanked or underbanked. Through innovative financial products and services, financial institutions contribute to poverty reduction and inclusive economic growth. Financial inclusion influences economic growth through the channel of the economic mechanism (Emara & El Said, 2021). Financial inclusion enables households to increase savings and human capital and smooth their pattern of consumption. Moreover, financial inclusion improves economic growth through the channel of the financial mechanism, as financial inclusion allows businesses to get access to finance easily for expanding their investment and business in the long term, thus generating more employment opportunities, and improving economic growth. Le et al. (2020) stated that financial inclusion is an inextricable and significant part of the economic growth process. Financial inclusion boosts economic development as it contributes to enhancing the growth of institutions and financial sectors. Li (2018) highlighted that non-availability of finance is the major cause behind poverty.
- **Technology and Innovation:** The rapid advancement of technology has transformed the financial sector. Financial institutions are embracing fintech innovations, such

as digital banking, blockchain, and artificial intelligence, to enhance efficiency, reduce costs, and improve customer experiences. These technological advancements not only benefit the institutions themselves but also contribute to the overall productivity and competitiveness of the economy.

- **Global Financial Integration:** Financial institutions facilitate global economic integration by connecting domestic markets with the international financial system. Cross-border investments, foreign direct investment, and international trade rely on the services provided by financial institutions. This integration opens opportunities for economic growth through access to international capital, markets, and expertise.
- **Hedging and Risk Management:** Financial institutions provide essential tools for hedging and managing various types of risks in the financial markets. Businesses are exposed to risks such as currency fluctuations, interest rate changes, and commodity price volatility. Financial institutions offer derivative products, insurance, and other risk management instruments to help businesses mitigate these risks. By providing these services, financial institutions contribute to the stability of businesses and the broader economy, encouraging investment and expansion.
- **Facilitating Small and Medium-sized Enterprises (SMEs):** Small and medium-sized enterprises (SMEs) are often considered the backbone of many economies. Financial institutions play a crucial role in providing financing and support to SMEs. They offer loans, credit lines, and other financial products tailored to the needs of these businesses, enabling them to grow, create jobs, and contribute significantly to economic development. Moreover, financial institutions may provide advisory services to help SMEs improve their financial management and operational efficiency.

- **Wealth Management and Asset Allocation:** Financial institutions, including asset management firms and private banks, assist individuals and institutions in managing their wealth. They offer a range of investment products, such as mutual funds, pension funds, and private equity, allowing clients to diversify their portfolios and optimize their asset allocation. Effective wealth management not only preserves and grows individual wealth but also directs investments towards productive sectors, contributing to overall economic development.
- **Education and Financial Literacy:** Financial institutions play a pivotal role in promoting financial education and literacy. They offer educational programs, workshops, and materials to help individuals and businesses understand financial concepts, investment strategies, and risk management. By enhancing financial literacy, these institutions empower individuals to make informed decisions about savings, investments, and debt management. A financially literate population is better equipped to participate in the economy, make sound financial choices, and contribute to economic growth.
- **Liquidity Provision and Central Bank Functions:** Central banks, as key financial institutions, play a critical role in maintaining monetary stability and providing liquidity to the financial system. They control the money supply, set interest rates, and act as lenders of last resort during financial crises. By ensuring the stability of the banking system and providing liquidity when needed, central banks contribute to overall economic stability and confidence. This, in turn, encourages investment, consumption, and economic development.
- **Corporate Governance and Ethical Practices:** Financial institutions influence corporate governance and ethical practices within the business community. Banks and other financial intermediaries often impose certain standards and requirements

on the companies they finance. This includes criteria related to transparency, ethical behaviour, and adherence to environmental and social responsibility. By promoting good governance and ethical business practices, financial institutions contribute to sustainable development, reduce the risk of financial scandals, and foster a positive economic environment.

2.2 Determinants of Financial Development

Financial Development is closely related to economic growth and economic growth within a country is the indicator of development in the country. “Economic growth is determined by number of factors which also determine financial development” (Omoruyi & Osawmonyi, 2013). Therefore, there are numerous factors that determine financial development. Some of them are mentioned below:

2.2.1 Gross Domestic Product

The gross domestic product (GDP) or gross domestic income (GDI) is a basic measure of a country's overall economic output which is an important factor contributing to financial Development. “It is the market value of all final goods and services made within the borders of a country in a year”. “It is often positively correlated with the standard of living, though its use as a stand-in for measuring the standard of living has come under increasing criticism and many countries are actively exploring alternative measures to GDP for that purpose”. GDP can be determined in three ways, all of which should in principle give the same result. They are the product (or output) approach, the income approach, and the expenditure approach (Okpara, 2010). The most direct of the three is the product approach, which sums the outputs of every class of enterprise to arrive at the total. The expenditure approach works on the principle that all of the product must be bought by somebody, therefore the value of the total product must be equal to people's total expenditures in buying things. The income approach works on the principle that the incomes of the

productive factors (producers, colloquially) must be equal to the value of their product and determines GDP by finding the sum of all producers' incomes (Maduka & Onwuka, 2013).

2.2.2 Nigerian Financial Markets

The nature of the Nigerian financial markets is such that there is a co-existence of both the informal and formal segments, which are differentiated only based on the level of government control of the activities in each of the segments. On one hand, the informal segment of the markets encompasses all unofficial activities that appear shadowy, and are basically concealed from the regulatory authorities. According to CBN (2017), the formal segment of the markets, on the other hand, consists of the regulators and instruments/investments windows. It is made up of the money, capital and foreign exchange markets (Sennuga, Adenaike, Adedayo & Sennuga, 2021).

2.2.3 Nigerian Capital Market

The capital market is the long-term end of the financial market. It is made up of institutions, which facilitate the issuance and secondary trading of medium-to long-term financial instruments. Unlike the money market, which functions basically to provide short-term funds, the capital market provides funds to the industries and government to meet their long-term capital requirements, such as financing of fixed investment (buildings, plants, bridges, and others). In Nigeria, the capital market first came into existence with the establishment of Lagos Stock Exchange in 1961. The Exchange was incorporated under the Company's Ordinance as an association limited by guarantee. The CBN gave the Lagos Stock Exchange the initial financial backing in the form of annual subventions. Following the recommendations of the Government Financial System Review Committee in 1976, the Lagos Stock Exchange was reconstituted, and renamed the Nigerian Stock Exchange (NSE) in 1977 (Nkoro & Uko, 2013). Additional trading floors were opened in the same year in Port Harcourt, Kaduna, Onitsha, Ibadan and Benin to bring the market closer to the

investing (Central Bank of Nigeria Economic and Financial Review, 2020) public and expand activity level in the capital market. The NSE is the centre point of the Nigeria capital market, while the Securities and Exchange Commission (SEC) serves as the apex regulatory body. The capital market is a good barometer for measuring the pulse of the country's economy. The trend in the number of listed companies, number of listed securities, market capitalisation and the All Share Index (ASI) are important indicators, which can be used to assess the performance of the market.

The number of listed companies on the NSE rose steadily from 92 in 1984 to 169 in 2020, with 9 domestic companies on the premium board, 145 companies on the main board, and 9 companies on the Alternative Securities Exchange Market (ASeM) board. In the Fixed Income market, the NSE has 84 Federal Government of Nigeria (FGN) bonds, 21 state bonds, 27 corporate bonds, 1 supranational bond and 53 memorandum listings. Between 2000 and 2019, the NSE maintained a bullish nature on the trading floor, with the ASI appreciating to 26,842.07 index points at end-December 2019, from 8,111.00 index points at end-December 2000. The equities market capitalization also appreciated to N13.0 trillion, from N0.47 trillion, within the same period. The development was attributed, mainly, to bargain hunting, as the market witnessed increased investors patronage of blue-chip stocks. However, activities in NSE have not always been rosy, particularly during the period of the global financial crisis, which saw the NSE exhibit some bearish sentiments (Sennuga, Adenaike, Adedayo & Sennuga, 2021). Specifically, the ASI depreciated from 63,016.56 index points at end-March 2008 to 21,813.76 index points at end-January 2009, and the equities market capitalisation also depreciated by from N121.26 trillion to N48.79 trillion, within the same period. The significant decline was associated with the divestment by foreign investors in the capital market, in reaction to the lingering liquidity crunch in major economies of the world.

2.2.4 Nigerian Money Market

The money market is a market for short-term funds, which have a maximum tenor of one year. In Nigeria, the money market, has grown immensely since the establishment of the CBN in 1959. This is proven by the growth in numbers, branches and capacity of the operators, and in the volume of money market assets. The market, which has been dominated by government instruments, suffered from excess liquidity and dearth of investment outlets in the period before 1986. The introduction of the Open Market Operations (OMO) in 1993, led to increased activities in the money market, such that, the value of treasury bills sold increased from N47,265.0 million in 1993 to N323.8 billion and N2,421.1 billion in 2000 and 2002, respectively (Atsanan & Onuigwe, 2021).

Credit to the private sector has been impressive over the years, though with mixed results. From 1980 to 1982, the cumulative credit to private sector stood at N28,209.60 million as against credit to the government, which amounted to N20,746.2 million during the same period. Thereafter, credit to the private sector dropped continuously from 1983 to 1986, with the public sector crowding out investment in the private sector. From 1987 to 1991, the private sector received a total of N168,148.90 million as credit from the banking sector, as against N126,861.50 million credit to the public sector. Cumulatively, N3,683.84 billion and N1, 151.99 billion were disbursed to the private and public sectors of the economy by the banking sector between 1980 and 2001, respectively. These amounts represented 76.2 and 23.8 per cent, respectively, of the aggregate credit to the domestic economy, during the period. Furthermore, N5,710.7 billion and N20,478.2 billion credits were disbursed to the private and public sectors of the economy by the banking sector between 1980 and 2003. On the average, total credit to the private and public sectors represented 4.8 and 13.3 per cent of the GDP, during the period (Atsanan & Onuigwe, 2021). Banks' credit to the private sector of the economy increased by N3.75 trillion in 2019, to N26.69 trillion at

end-December 2019, from N22.94 trillion at endJanuary 2019. At end- December 2019, the total net domestic credit in the Nigerian economy rose to N36.18 trillion, from N28.65 trillion at January 2019. Furthermore, of the total N36.18 trillion domestic claims to the economy, claims on the private sector stood at N26.69 trillion, while credit to the central government stood at N9.49 trillion in 2019. This represented a 74.0 per cent and 26.0 percent, respectively, of the total domestic claims.

2.2.5 Foreign Exchange Market

The foreign exchange market involves all institutional arrangements, which facilitates the buying and selling of foreign exchange and settlement of international transactions, at a mutually determined exchange rate. Prior to the deregulation of the foreign exchange market in Nigeria, activities in the market were relatively low due to the administrative fiat (CBN, 2017). During this period, Nigeria operated series of exchange rate regimes, such as, the fixed exchange regime, with the British Pound Sterling serving as the anchor currency. Following the deregulation of the Nigerian economy and subsequent liberalisation of the foreign exchange market, the invisible hand in the Second-tier Foreign Exchange Market (SFEM) determined the exchange rate. The reliance on market forces and the weak macroeconomic fundamentals led to a rapid (Central Bank of Nigeria Economic and Financial Review, 2020) depreciation of the naira against major trading currencies of the world (Atsanana & Onuigwe, 2021).

Available data showed that the average annual exchange rate, which was N2.00/US\$1.00 in the official market in 1986, depreciated rapidly to between N4.00/US\$1.00 and N9.90/US\$1.00 in 1987 and 1991, respectively. The devaluation of the naira in 1992, saw the average exchange rate stand at N17.30/US\$1.00 for that year, with a further depreciation to N22.1/US\$1.00 in 1993. The introduction of guided deregulation policy in 1994 led to the appreciation of the rate to N21.90/US\$1.00, the first time since 1986. The

introduction of the Investors and Exporters (I&E) foreign exchange window on April 21, 2017 increased the supply of foreign exchange (forex) into the Nigerian economy. Consequently, relative stability has been observed in the foreign exchange market, as companies and individuals are now able to access more foreign exchange in the market than before to carry out eligible transactions and economic activities are gradually picking up. According to the CBN, the objective of the window is to increase liquidity in the forex market and ensure timely execution and settlement of eligible transactions, which include: Invisible transactions such as loan repayment, capital repatriation, management services fees, consultancy fees, software subscription, technology transfer agreements, personal home remittances and any other eligible invisible transactions; Bills for Collection and; any other trade-related obligations (at the instance of the customers).

The CBN stipulated that the supply of foreign currency to the window shall be through portfolio investors, exporters, authorized dealers and other parties with foreign currency to exchange to Naira. The CBN is also a market participant in the window to promote liquidity and professional market conducts. As at August 11, 2017 the total turnover in the I&E foreign exchange window stood at US\$7.62 billion, and it increased consistently from US\$0.61 billion in April 2017 to US\$2.17 billion in July 2017. The introduction of the window has encouraged exporters to bring back their export proceeds to the country through the official sources, thus, increasing the stock of foreign exchange in the country (Bah, Yibing, Kone & Mohamed, 2016). Another important gain of the window is that it has attracted more foreign capital into Nigeria for various forms of investment. Available data on capital importation data from the CBN between January and May 2017 showed that there was a growth in capital importation in 2017 compared with 2016. The total capital importation at end-May 2017 stood at US\$2.09 billion, representing a growth of 82.8 per cent compared with the US\$1.42 billion recorded in the corresponding period of 2016.

Other Investments (OI) Loans attracted the highest capital of US\$886 million between January and May in 2017, followed by foreign direct investment (FDI) - Equity of US\$436 million and closely followed by foreign portfolio investment (FPI) - Equity of US\$413 million.

In recent times, the foreign exchange market has been shed light on, as the CBN continues to intervene in the market to enhance stability of the naira. In 2018, CBN stabilised the exchange rate by injecting a total of US\$39.9 billion into the foreign exchange market (CBN, 2018). In 2023, the Central Bank of Nigeria (CBN) initiated a major policy shift by adopting a floating exchange rate regime for the naira. This move was intended to unify Nigeria's multiple exchange rates, enhance transparency in the foreign exchange market, and attract foreign investment. Under the floating system, the naira's value is determined by market forces, rather than being fixed or tightly controlled by the CBN. As a result of this policy, the naira experienced significant depreciation. At the beginning of the reform in mid-2023, the exchange rate stood at approximately ₦471/USD. By December 2024, the official rate had depreciated to around ₦1,535/USD, while the parallel market reached as high as ₦1,656/USD (Veriva Africa, 2024). This floating of the naira led to substantial macroeconomic implications.

One of the most immediate effects was a surge in inflation. With a weaker currency, the cost of imports including food, fuel, and industrial inputs rose sharply. Nigeria's inflation rate peaked at 35% by the end of 2024, while food inflation climbed close to 40% (DAI, 2024). These developments severely affected household purchasing power and increased the cost of doing business. Despite these challenges, the floating of the naira had some positive effects. Nigeria's external sector performance improved, as the weaker naira boosted export competitiveness. By the end of 2024, Nigeria recorded a \$6.83 billion balance of payments surplus, driven by a 48.3% increase in gas exports and a 24.6% rise in

non-oil exports (Reuters, 2025b). Foreign exchange reserves rose to \$40.19 billion the highest in three years due to increased foreign inflows and improved trade balances (Reuters, 2025a).

Additionally, the reforms began to restore investor confidence. With more realistic exchange rates and higher bond yields reaching up to 25% foreign portfolio investors started returning to the Nigerian market. This resulted in a modest appreciation of the naira in early 2025 (Financial Times, 2025). However, the floating regime also exposed vulnerabilities, particularly in the consumer goods sector. Many companies that rely on imported inputs saw their costs increase significantly. For instance, PZ Cussons reported a 39.7% drop in pre-tax profits and cut its dividend by 44% due to currency-related challenges (The Times, 2025).

2.2.6 Money in Supply (MS)

In economics, money supply or money stock is the total amount of money available in an economy at a particular point in time. There are several ways to define "money", but standard measures usually include currency in circulation and demand deposits. "Money supply data are recorded and published, usually by the government or the central bank of the country" (Iheanacho, 2016). Public and private-sector analysts have long monitored changes in money supply because of its possible effects on the price level, inflation and the business cycle.

2.2.7 Savings

Saving is the conservation of money. Methods of saving include putting money aside in a bank or pension plan. Saving also includes reducing expenditures, such as recurring costs. In terms of personal finance, saving specifies low-risk preservation of money, as in a deposit account, versus investment, wherein risk is higher. "Savings are an important

determinant of financial development because when economy is getting stronger, the earnings of people increases which in turn increases the savings resulting in financial development within the country” (Luca, 2002).

2.2.8 Advances to Deposits Ratio

Advances and Deposits are the important determinant of financial development. Advances refer to the amount given by banks or financial institutions to the households or businesses whereas deposits are the amount submitted into banks by people. When the economy is growing the savings and incomes of people increases that also enhances the deposits in the banks. As the deposits increase in the banks, the advances by the banks also increase resulting in the circulation of money in the economy (Paul & Vassili, 2001).

2.2.9 Exports/ Imports

In economics, an export is any good or commodity, transported from one country to another country in a legitimate fashion, typically for use in trade. Export goods or services are provided to foreign consumers by domestic producers, whereas the term "import" is derived from the conceptual meaning as to bring in the goods and services into the port of a country. The buyer of such goods and services is referred to as an "importer" who is based in the country of import whereas the overseas based seller is referred to as an "exporter". Thus an import is any good (e.g. a commodity) or service brought in from one country to another country in a legitimate fashion, typically for use in trade. It is a good that is brought in from another country for sale. “Import goods or services are provided to domestic consumers by foreign producers. An import in the receiving country is an export to the sending country” (Nourzad, 2002).

Imports, along with exports, form the basis of international trade. Import of goods normally requires involvement of the customs authorities in both the country of import and the

country of export and is often subject to import quotas, tariffs and trade agreements. When the "imports" are the set of goods and services imported, "Imports" also means the economic value of all goods and services that are imported. "The macroeconomic variable usually stands for the value of these imports over a given period of time, usually one year". When the exports of a country are more than imports, then the economy of country is growing indicating financial development (Dawson, 2003).

2.2.10 Relationship between Financial Development and Economic Growth

There had been scholarly recognition of the relationship between financial development and economic growth, using different econometric approaches to analyse the effect of financial intermediary development on economic growth. According to Nzotta (2004), 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 purpose and for the growth of domestic output and promotion of the export trade, agricultural production and provision of infrastructure. In a study of ten developing countries by Christopoulos and Tsionas (2004) they found long term Granger causality from finance to economic growth, but not of reverse causality.

Beck, Levine and Loayza (2000) considered data for a subset of 74 countries. They invoked both cross section regressions and GMM dynamic panel estimators. They concluded that the panel and cross-sectional results are the same, that is, the exogenous element of financial intermediary development is positively linked with economic growth. The authors used two measures of financial intermediary development. First, the deposit money bank credit to the private sector divided by GDP compared to private credit. Second, the ratio of deposit money bank domestic assets to GDP. These measures proved that the exogenous part of financial intermediary development is positively and strongly linked to

economic growth. Agarwal (2001) argued that banking sector development facilitates capital market development, and in turn raises real growth of the economy. Tharawanji (2007) observed that countries with deeper capital market face less severe business cycle output contraction and lower chances of an economic downturn compared to those with less developed capital market. In a sample of 11 countries studied, Ben and Ghazouani (2007) reported that financial system development could have adverse effect on economic growth and therefore advocated for a vibrant banking sector.

Nieuwerburgh, Buelens and Cuyvers (2005) investigated the long term relationship between economic growth and financial market development. The authors used a new set of stock market development indicators to argue that financial market development substantially affects economic growth. They found strong evidence that stock market development leads to economic growth in Belgium, especially in the period between (1973) and (1993). Similarly, scholars have examined the linkage between finance growth nexus in Nigeria. Chukwu and Agu (2009) adopt multivariate VECM to investigate the causality between financial depth and economic growth from 1971 to 2008. Their results suggest that financial depth and economic growth have a stable long-run relationship. They find evidence in support of demand-following hypothesis when financial depth is provided by banking sector's private sector credit and real broad money supply and supply-leading hypothesis when loan deposit ratio and bank deposit liabilities are used as proxies for financial depth.

Adam and Sanni (2005) examined the roles of stock market on Nigeria's economic growth using Granger- causality test and regression analysis and discovered a one-way causality between GDP growth and market capitalization and a two- way causality between GDP growth and market turnover. They also observed a positive and significant relationship

between GDP growth turnover ratios. The authors advised that government should encourage the development of the capital market since it has a positive effect on economic growth.

2.3 Theoretical Review

This study adopts financial development and growth theory to address the main idea of the study.

2.3.1 Financial Development and Growth Theory

Endogenous growth theory models services like risk diversification, savings mobilisation and liquidity generation offered by financial intermediaries. The theory proposes that through these services there is an implied positive relationship between financial intermediation and economic growth (Ghali, 1999). However, it is important to note that this relationship can be affected negatively by intense government intervention in financial institutions. According to Ghali, 1999 government intervention through direct interventions such as interest rate ceilings and direct credit programs on the banking system restricts banking sector development, thus reducing economic growth.

However, one of the oldest debates in economics has remained the relationship between financial development and economic growth. Its root can be traced to Schumpeter (2015), when he posits that finance is paramount for economic growth. However, Robinson (1952) argues that economic growth promotes financial development. Financial markets provide an economy with vital services comprising, for example, the management of risk and information, and the pooling and mobilization of savings (Gries, Kraft & Meierriecks, 2011). Theoretically, the linkage between finance and economic growth may take different forms. On the one hand, the banking sector may affect growth through the accumulation channel and the location channel. This theoretical support can be traced to the work of Schumpeter

(2015), the first to argue that the development of the banking sector spurs technological innovation and economic growth. Schumpeter posited that innovation in business is the major reason for increased investments and business fluctuations. These innovations could be in terms of new ideas and the commercial applications of new technology, new materials, new methods and new sources of energy. This was later buttressed in the seminal works of McKinnon (1973) and Shaw (1973) which underscored that financial liberalisation will increase savings and then capital accumulation that would be invested and lead to economic growth.

The accumulation channel emphasizes the finance induced growth effects of physical and human capital accumulation (Levine & Beck, 2009). The allocation channel focuses on the financed-induced efficiency gains in resource allocation that enhances growth. Following these considerations, causality runs from finance to growth (supply-leading hypothesis). On the other hand, financial development may also be stimulated by economic growth. For instance, in a growing economy, the private sector may demand new financial instruments and an improved access to external finance. Financial activities then simply expand in step with general economic development (Robinson, 1952), positing the so-called demand-leading hypothesis. Additionally, finance and growth may be mutually dependent. The real sector may provide the financial system with the funds necessary to enable financial deepening, eventually allowing for a capitalisation on financial economies of scale which in turn facilitates economic development (Adelakun, 2010; Adeoye, 2007).

2.4 Empirical Review

Taofeek and Olumuyiwa (2016) examined the relationship existing between financial development and inclusive growth for the period of 1980 to 2013. They employed the quintile regression-based threshold analysis. The result of their analysis revealed a 90th percentile threshold level, and that the impact of financial development on inclusive

growth is determined by the measure of the previous threshold level. Also, the study found that trade openness and capital investment are necessary for inclusive growth in Nigeria.

Akintola, Oji-Okoro and Itodo (2020) examined banking sector development and economic growth in Nigeria using empirical re-examination, by looking at the independent contributions of the money, capital and foreign exchange markets to the growth of the economy, using quarterly data between 2000Q1 and 2019Q4. The study adopted the all share index (ASI) and market capitalisation (MC) of the Nigerian capital market; the short-term interest rates spread, measured as the linear difference between the monetary policy and interbank call rates (MPR_IBCR); and financial deepening (FD), measured as ratio of broad money (M) to nominal gross domestic product (GDP). Other inclusive variables are the exchange rate spread, estimated as the deviation of the bureau de change (BDC) naira/USD exchange rate from the of official naira/USD (USD) exchange rate, which is the absolute value of the arithmetic difference between the official and BDC exchange rates (USD_BDC); and the year-on-year growth rate of the real GDP (RGDPG). Market Capitalisation (MC) was transformed into its natural logarithm and renamed LMC. The study employed co-integrated autoregressive distributed lag (ARDL) model of analysis. The results indicated that while financial deepening, banking system liquidity and all share index had positive and significant impact on the growth of real output in the long-run, the behaviour of exchange rate spread was consistent with falling levels of real output growth. Akintola, OjiOkoro and Itodo (2020) recommended that the growth of the money and capital markets be prioritised by macroeconomic managers in Nigeria to improve the level of economic growth. More specifically, the monetary authority should adjust her policy rates and other instruments of monetary policy, such as the cash reserve ratio, to increase the level of banking system liquidity. This will increase banks' lending capacity to the private sector, with the benefit of increasing economic growth in Nigeria.

Atsanan and Onuigwe (2021) examined the impact of financial institution intermediation activities to economic growth in Nigeria covering the period of 2000 to 2016. The study describes the operation of the Nigeria financial system and also to analyze the role played by financial institution in the economic growth of Nigeria. Data for this study were basically secondary data collected from CBN statistical bulletin/release of relevant government agencies like national bureau of statistics and national population commission, the data were analyzed using the ordinary least square (OLS) simple regression and Analysis of variance (ANOVA). The linear regression showed that there is a positive impact of financial institutions intermediation activities to economic growth in Nigeria. The (SPSS) was used to analyze and validate the hypothesis. Findings reveal that financial institution intermediation activities contributed to economic growth and if in future these intermediation activities continue, there must have been a strong and reliable impact of financial institutions intermediation in Nigeria. Therefore, more financial institutions should be established in Nigeria to encourage and promote industrialization or the established financial institution should be allocated with more funds.

Sennuga, Adenaike, Adedayo and Sennuga (2021) analyzed the effect of financial development on economic growth in Nigeria using time series data on the annual growth rate of gross domestic product, real interest rate, the ratio of gross domestic savings to GDP, the ratio of domestic credit to the private sector to GDP over the period 1980 and 2019. While the variables real interest rate, the ratio of gross domestic savings to GDP, the ratio of domestic credit to the private sector to GDP served as an explanatory variable, the annual growth rate of gross domestic product was used as the dependent variable. Sennuga, et al., (2021) results indicated that two of the variables (real interest rate, gross domestic savings) are inversely related to the dependent variable (GDP annual growth rate) when combined while domestic credit to the private sector is positively related to the dependent

variable with the coefficient of multiple determination showing that the model is of a high good fit with approximately 93% of the gross domestic product being explained by the variables included in the model, while the remaining 7% are factors inducing growth but were not captured in the model. Thus, the study, therefore, concluded that there is the need to adequately deepen the financial system through innovations, adequate and effective regulation and supervision, efficient mobilization of funds and making such funds available for productive investment, and improved services to propel economic growth.

2.5 Gap in Literature

The different literature reviewed were basically on financial development and economic growth in Nigeria, hence this study fill gap in literature by examining the role of financial institution in the development of the nation's economy: (A case study of Banking Sector).

2.6 Theoretical Framework

Financial development occurs when financial instruments, markets, and intermediaries ameliorate - though do not necessarily eliminate - the effects of information, enforcement, and transactions costs (Levine, 2003). Thus, financial development involves improvements in the (i) production of ex ante information about possible investments; (ii) monitoring of investments and implementation of corporate governance; (iii) trading, diversification, and management of risk; (iv) mobilization and pooling of savings, and (v) exchange of goods and services. Each of these financial functions may influence savings and investment decisions and hence economic growth. Since many market frictions exist and since laws, regulations, and policies differ markedly across economies, improvements along any single dimension may have different implications for resource allocation depending on other frictions (King & Levine, 1993).

In terms of integrating the links between finance and growth theory, two general points are

worth stressing from the onset. First, a large growth accounting literature suggests that physical capital accumulation per se does not account for much of economic growth. Thus, if finance is to explain economic growth, we need theories that describe how financial development influences resource allocation decisions in ways that foster productivity growth (Hicks, 1969). Second, there are two general ambiguities between economic growth and the emergence of financial arrangements that improve resource allocation and reduce risk. Specifically, higher returns ambiguously affect saving rates due to well-known income and substitutions effects.

Similarly, lower risk also ambiguously affects savings rates (Levhari & Srinivasan, 1969). Thus, financial arrangements that improve resource allocation and lower risk may lower saving rates. In a growth model with physical capital externalities, therefore, financial development could retard economic growth and lower welfare if the drop in savings and the externality combine to produce a sufficiently large effect.

Financial development occurs when financial instruments, markets, and intermediaries ameliorate - though do not necessarily eliminate - the effects of information, enforcement, and transactions costs. Thus, financial development involves improvements in the (i) production of ex ante information about possible investments, (ii) monitoring of investments and implementation of corporate governance, (iii) trading, diversification, and management of risk, (iv) mobilization and pooling of savings, and (v) exchange of goods and services. Each of these financial functions may influence savings and investment decisions and hence economic growth (Levine, 2003). Since many market frictions exist and since laws, regulations, and policies differ markedly across economies, improvements along any single dimension may have different implications for resource allocation depending on other frictions.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

In this work, the methodology reveals method of collection/measurement of data, research design, the population and sampling, the research instrument, operationalization of variables and data analysis plan, model specification analysis and synthesis of the data. The OLS regression model would be employed to analyze the data, in order to bring forth a reasonable judgment and conclusion.

3.1 Research Design

This study employs a causal research design in studying the role of financial institution in the development of the nation's economy (a case study of banking sector)". The use of historical data will be employed.

3.2 The Population and Sampling

This is the totality of financial institutions chosen for the study and on which attention would be focused. The population of this study is based on aggregate data of all financial institutions in the floor of Nigeria stock and CBN annual bulletin for companies. In view of the large population and for the purpose of this work, the aggregate consideration of banking sectors annual reports from 1995-2024 would be selected. This study is thus based on a sample of size of the entire banking sector that is listed on the Nigeria Stock Exchange commission; this is the case because the data are sourced from NSE.

3.3 Source of Data

Analysis was based on the data sourced from the annual report of CBN and Nigeria Stock Exchange. Data would also be compiled using relevant literatures. These methods might have

its own advantages and disadvantages with respect to data sourced, as a large amount and a wider variety of information are available.

3.4 The Research Instrument

The instrument used in this study would be purely secondary sources of data collection. The variables include the market capitalisation (MC) of the Nigerian capital market; the short-term interest rates spread, measured as the linear difference between the monetary policy and interbank call rates (MPRJBCR); and financial deepening (FD), measured as ratio of broad money (M) to nominal gross domestic product (GDP), which is in accordance with (Ume et al. 2015).

3.5 Operationalization of Variables and Data Analysis Plan

Gross Domestic Product (GDP): It measures the total monetary or market value of all the finished goods and services produced within Nigeria within the period under study as a broad measure of overall domestic production, it functions as a comprehensive scorecard of Nigerian economic development.

Market Capitalisation (MC): It measures financial institutions rate of financial reflections in the economy, commonly called market cap, which is the market value of a publicly traded company's outstanding shares. Market capitalization is equal to the share price multiplied by the number of shares outstanding.

Interest Rate (IR) = the prevailing interest rate for the period under consideration in Nigeria.

Monetary Policy (MP): It measures the policy adopted by the monetary authority of Nigeria to control either the interest rate payable for very short-term borrowing or the money supply, often as an attempt to reduce inflation or the interest rate, to ensure price stability and general trust of the value and stability of the nation's currency.

Financial Deepening (FD): Financial deepening is a term used by economists to refer to

increasing provision of financial services. It can refer both a wider choice of services and better access for different socioeconomic groups. Financial deepening can have an effect on both individuals' and societies' economic situations.

3.6 Model Specification

The primary model showing the relationship between financial institution and economic development in Nigerian

Deposit Money is specified thus:

$$GDP = F(MC, IR, MP, FD.) \dots\dots\dots 1$$

The above model was modified and estimated in a simple form:

$$GDP = F(RFI) \dots\dots\dots 2$$

Where: RFI = Role of the financial institutions which is displayed in the banking sector variables

However, the linear function of the above notation is stated as

$$GDP = b_0 + b_1RFI + pt \dots\dots\dots 3$$

To capture the second hypothesis, the model is expressed as;

$$MC = f(GDP) \dots\dots\dots 4$$

The linear function of the above notation is stated as

$$GDP = b_0 + b_1RFI + pt \dots\dots\dots 5$$

Where GDP ~ Dependent Variable (Yt) X

= Independent Variables.

MC = Financial Market Capitalization

IR = Interest Rate (Xt)

MP = Monetary Policy Rate (Xt).

FD = Financial Deepening t =

Time series (Annual)

b_0 = Represents the constant on Y axis. b_1

b_2 = Are the Regression co-efficient. pt

= Error or disturbance term.

To determine the consistency of the role of financial institution in the development of the nation's economy using banking sector), lagged linear value of the variables was included in

the regression estimation of equation (2) above.

3.7 Method of Data Analyses

The research used the Ordinary Least Squares (OLS) econometric approach to analyse the empirical model. A unit root test was used to identify the variables' integration ordering in order to examine their compliance with the selected econometric framework. An Error Correction Model (ECM) was designed to achieve co-integration by capturing short-run dynamics while retaining the long-run equilibrium connection. The acquired data was analysed largely using descriptive statistics. The data were analysed using a variety of tests, including t-tests, R-squared, and F-tests. E-view 13 was used to analyse the data.

Error Correction Model (ECM) Technique:

Error-correction methodology (ECM) enables us to integrate both short-run dynamic and long run equilibrium models in a unified system while at the same time ensuring theoretical rigor and data coherence and consistency (Nwachukwu and Odigie, 2009).

Unit Root Test

In this regard, the annual time series data of all the variables in the model are tested for stationarity. A variable is stationary if its mean and variance do not change systematically overtime. The reason for this test is that the regression of two non-stationary series on each other will produce spurious results in our analysis. The usual standard approach adopted to investigate the stationarity of time-series data is the Unit Root Test. The most commonly used method for this test which will also be used in the study is the Augmented Dickey-Fuller (ADF) test proposed by Dickey and Fuller (1981).

Test for Autocorrelation: The Durbin-Watson test is a widely used method of testing for autocorrelation. The first-order Durbin-Watson statistic is printed by default. This statistic can be used to test for first-order autocorrelation.

Test for Multicollinearity: Multicollinearity generally occurs when there are high correlations between two or more predictor variables. In other words, one predictor variable can be used to predict the other. This creates redundant information, skewing the results in the regression model.

Test for Heteroskedasticity: It is used to test for heteroskedasticity in a linear regression model and assumes that the error terms are normally distributed. It tests whether the variance of the errors from a regression is dependent on the values of the independent variables. Some of this test will be conducted in this work.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.1 Descriptive Statistics

This section deals with analysis of result on descriptive statistics on the variables under

Table 4.1: Descriptive Statistics

	GDP	MC	IR	MP	FD
Mean	47730480.67	10526.82	7.51	13.66	17.51
Median	47934310.00	7435.60	7.19	13.50	17.15
Maximum	76684940.77	62763.28	13.02	27.50	38.00
Minimum	20115766.93	220.36	1.77	6.00	8.60
Std. Dev.	20459003.83	13623.78	2.72	4.11	6.40
Skewness	-0.07	2.45	0.17	1.14	1.48
Kurtosis	-1.66	7.16	-0.28	3.69	3.14
Jarque-Bera	27.18	51.74	13.56	7.13	11.05
Probability	0.000001	0.000000	0.0011	0.0283	0.0040
Sum	1431914409.00	315804.67	225.30	409.75	525.22
Sum Sq. Dev.	1.21E+16	5.38E+09	213.86	490.19	1188.96
Observations	30	30	30	30	30

Table 1: Results of the descriptive statistics, the mean value of economic growth (GDP) as reported in the descriptive statistics is N 47.73 Billion, with a maximum and minimum value of N 76.68 Billion and N 20.12 Billion, respectively. The standard deviation of GDP is N 20.46 Billion, indicating significant variations in economic growth over the years. The minimum and maximum values of Market Capitalization (MC) are N 220.36 Billion and N 62,763.28 Billion, respectively, with a mean of N 10,526.82 Billion and a standard deviation of N 13,623.78

Billion. This high standard deviation suggests substantial fluctuations in market capitalization over the period. The Interest Rate (IR) has a mean value of 7.51%, with a minimum value of 1.77% and a maximum value of 13.02%, while its standard deviation stands at 2.72%, reflecting moderate variations in interest rates over time. The mean value of Monetary Policy (MP) is N 13.66 Billion, with a minimum and maximum of N 6.00 Billion and N 27.50 Billion, respectively, and a standard deviation of N 4.11 Billion, suggesting moderate fluctuations in monetary policy rates. The Financial Deepening (FD) has a mean of N 17.51 Billion, with a minimum and maximum value of N 8.60 Billion and N 38.00 Billion, respectively. The standard deviation of N 6.40 Billion indicates considerable variation in financial deepening across the years. The Jarque-Bera statistics and its related probabilities are sufficiently large and significant, confirming that the regression variables follow a normal distribution. The standard deviations are relatively large, indicating that the variables are widely dispersed from their mean values. Most variables exhibit positive skewness, except for economic growth (GDP), which suggests that GDP does not experience extreme positive outliers. Additionally, the mean values of the variables are greater than their median values, signifying that the data distribution is right-skewed, with a sharp peak near the mean. This statistical summary provides key insights into the relationships between economic growth (GDP), market capitalization, interest rates, monetary policy, and financial deepening, which are essential in analysing macroeconomic trends and policy implications.

4.2 Test of Diagnostic

The correctness of the individual model can only be recognized by carrying out the usual regression supposition tests. The results of some of the tests are obtainable below.

Serial Correlation Tests

Table 2: Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	3.368727	Prob. F(5,278)	0.0057
Obs*R-squared	16.22417	Prob. Chi-Square(5)	0.0062
Scaled explained SS	14.82379	Prob. Chi-Square(5)	0.0111

Table 2: Show results of the heteroskedasticity test. The test of heteroskedasticity was approved out via the Breusch-Pagan-Godfrey test of Heteroskedasticity. The results of the test revealed very low probability values of 0.0057 and 0.0062 respectively with Probability Chi-Square of 0.0111 at 5%, suggesting that heteroskedastic residuals. Consequently the null hypothesis was sustained.

Table 3: Ramsey RESET Test

Ramsey RESET Test

Equation: UNTITLED

Specification: GDP, MC, IR, MP, FD C Omitted Variables: Squares of fitted values

	Value	Df	Probability
t-statistic	1.617612	277	0.1069
F-statistic	2.616670	(1,277)	0.1069
Likelihood ratio	2.670203	1	0.1022
F-test summary:	Sum of Sq.	Df	Mean Squares
Test SSR	1628.110	1	1628.110
Restricted SSR	173979.4	278	625.8253
Unrestricted SSR	172351.3	277	622.2069
Unrestricted SSR	172351.3	277	622.2069

Table 3: Results of the Ramsey Reset Test. The Ramsey reset is a test of model misspecification. The likelihood values of 0.1069 and 0.1022 are suggestion of a well precise model. As a result, the null proposition of a mis-specified model was redundant and the alternating hypothesis established. This diagnostic test shows clearly that the aprio-ri

expectation of the null hypotheses is not accepted but the alternative.

Table 4: Unit Root Test ADE

Null Hypothesis: Unit root (individual unit root process)

Series: GDP MC IR MP FD

Date: 22/01/25 Time: 19:35

Sample: 1 26

Exogenous variables: Individual effects

Automatic selection of maximum lags

Automatic lag length selection based on AIC: 2 to 14

Total number of observations: 26

Cross-sections included: 6

Method	Statistic	Prob.**
ADF - Fisher Chi-square	123.935	0.0000
ADF - Choi Z-stat	-9.14690	0.0000

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Intermediate ADF test results UNTITLED

Series	Prob.	Lag	Max Lag	Obs
GDP	0.0000	2	13	26
MC	0.0018	7	13	25
IR	0.0000	2	13	25
MP	0.0013	8	13	26
FD	0.0572	14	13	26

Table 4: revealed the unit root test for stationarity using Augmented Dickey-Fuller. The result

shows that all the variables are stationary at max 15(15) lag, series probabilities at 0.0018 for money supply, 0.000 for interest rate, 0.0013 for monetary policy rate, 0.0572 for banking sector development and 0.0000 for exchange rate respectively. All the series were significant at 1 and 5% level of significant except economic growth (GDP) which was significant only at 5%. The ADF - Fisher Chi-square value was estimated at 123.935 with p-value of 0.0000 at 5% level of significant and ADF - Choi Z-stat value was estimated at -9.14690 with p-value of 0.0000 at 5% level of significance. Probabilities for the Fisher tests are computed using an asymptotic Chi- square distribution. The variable of estimation was believed to have asymptotic normality. This implies that the null hypotheses are rejected and the alternative accepted.

4.3 Co-Integration Test

Early studies employed OLS estimation under the erroneous presupposition of stationarity of all the series. This led to the problem of spurious regression which was first identified by Yule. Over the past decade, this has changed as some considerable attention has been paid in empirical economics to testing for the existence of relationships in levels between variables. In this study, this analysis has been based on the use of co-integration techniques. Co-integration analysis is predicated on the precondition to check for the existence of a long run relationship between two or more variables that are stationary. The Engle-Granger technique will be adopted for testing for the possible existence of a long run relationship among variables in this study.

Table 5: Engle-Granger Co-integration Test Results

Variables	tau-statistic	P-values
D(DGDP)	-4.961911	0.0475**
D(DMC)	-7.880558	0.0001***
D(DIR)	-6.416529	0.0021***
D(DMP)	-6.555085	0.0015***
D(DFD)	-8.123764	0.0000***

NB: * *Significant at 5% and * * ^Significant at 1 %. Source: Author's Computation using E-views 13

The Engle-Granger co-integration results is presented in table 5, it can be seen that economic growth (GDP), Money in supply (MS), Interest rate (IR), Monetary policy (MP), Banking sector development (FDare co-integrated at 1% level of significance while economic growth (GDP) is co-integrated at 5% level of significance. Thus, a long run relationship exists among the variables in the study.

4.4 Error Correction Model (ECM)

The error correction model is an extension and generalization of the traditional approach to modelling short run dynamics and long run disequilibrium.

The error correction results selected is presented below;

Table 6: Short-Run ECM

Dependent Variable: $\Delta \log_GDP$

R-Squared: 0.363

Adjusted R-Squared: 0.224

F-Statistic: 2.619 (p-value = 0.0514)

Variable	Coefficient	Std. Error	t-Statistic	p-Value	95% Confidence Interval
Constant	0.0275	0.052	0.531	0.600	[-0.079, 0.134]
$\Delta \log_MC$	-0.0181	0.157	-0.116	0.909	[-0.342, 0.306]
$\Delta \log_IR$	-0.2120	0.103	-2.066	0.050	[-0.424, 0.000]
$\Delta \log_MP$	-0.3999	0.237	-1.687	0.105	[-0.890, 0.091]
$\Delta \log_FD$	0.3200	0.231	1.385	0.179	[-0.158, 0.798]
Lagged Residuals	-0.5661	0.330	-1.714	0.100	[-1.250, 0.117]

NB: ** * Significant at 1% and * Significant at 10%.

Source: Author's Computation using E-views 13

The coefficient for $\Delta \log_MC$ is -0.0181, and it is not statistically significant ($p = 0.909$). This suggests that short-term changes in market capitalization do not significantly affect GDP.

The coefficient for $\Delta \log_IR$ is -0.2120, and it is significant at the 5% level ($p = 0.050$). This indicates that in the short run, a 1% increase in interest rates leads to a 0.21% decrease in GDP, holding other factors constant. This result reflects the sensitivity of economic growth to interest rate changes in the short term.

The coefficient for $\Delta \log_MP$ is -0.3999, but it is not statistically significant ($p = 0.105$). This implies that short-term changes in monetary policy do not have a significant immediate impact on GDP.

The coefficient for $\Delta \log_FD$ is 0.3200, and it is not statistically significant ($p = 0.179$). This suggests that short-term changes in financial deepening do not significantly influence GDP.

The coefficient for the lagged residuals is -0.5661, and it is marginally significant ($p = 0.100$). This means that approximately 56.6% of the deviation from the long-run equilibrium is corrected each period. While this adjustment speed is substantial, the borderline significance suggests the adjustment process could vary depending on other factors.

Table 7: Long-Run Model

Dependent Variable: log_GDP

R-Squared: 0.799

Adjusted R-Squared: 0.767

F-Statistic: 24.88 ($p\text{-value} = 2.12\text{e-}08$)

Variable	Coefficient	Std. Error	t-Statistic	p-Value	95% Confidence Interval
Constant	16.2920	0.485	33.596	0.000	[15.293, 17.291]
log_MC	0.1606	0.032	5.027	0.000	[0.095, 0.226]
log_IR	-0.2144	0.136	-1.580	0.127	[-0.494, 0.065]
log_MP	-0.4529	0.172	-2.640	0.014	[-0.806, -0.100]
log_FD	0.5459	0.166	3.294	0.003	[0.205, 0.887]

*NB: *** Significant at 1% and * Significant at 10%.*

Source: Author's Computation using E-views 13

The coefficient for log_MC is 0.1606, and it is statistically significant ($p = 0.000$). This indicates a positive long-run relationship between market capitalization and GDP. A 1% increase in market capitalization results in a 0.16% increase in GDP, holding other factors constant. This shows that a developed stock market positively contributes to economic growth in the long run.

The coefficient for log_IR is -0.2144, but it is not statistically significant ($p = 0.127$). This suggests that in the long run, changes in interest rates do not have a significant impact on GDP in this context.

The coefficient for log_MP is -0.4529, and it is statistically significant ($p = 0.014$). This indicates a negative long-run relationship between monetary policy and GDP. A 1% increase in monetary policy index (e.g., higher monetary tightening) leads to a 0.45% decrease in GDP, holding other factors constant. This result highlights the adverse effects of restrictive monetary policy on economic growth.

The coefficient for log_FD is 0.5459, and it is statistically significant ($p = 0.003$). This implies that a 1% increase in financial deepening (e.g., increased access to credit and financial services) leads to a 0.55% increase in GDP. This underscores the importance of financial sector development in driving long-term economic growth.

4.5 Test of Hypotheses

Table 8: Ordinary least square (OLS)

Dependent Variable: GDP

Method: Least Squares

Date: 22/01/25 Time: 19:35

Sample: 1995 2024

Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.336	1069.7	5.501	0.000**
log_MC	568.3574	203.951	2.787	0.010*
log_IR	-2.589	1061.04	-2.495	0.020*
log_MP	-1.984	1057.51	-2.641	0.014*
log_FD	1.995	1053.87	5.149	0.000**
R-squared	0.733	Mean dependent var	62281.92	
Adjusted R-squared	0.690	S.D. dependent var	11046.91	
S.E. of regression	10155.262	Akaike info criterion	20.18032	
Sum squared resid	10151.316	Schwarz criterion	20.47439	
Log likelihood	-165.5327	Hannan-Quinn criter.	20.20955	
F-statistic	17.15	Durbin-Watson stat	0.975644	
Prob(F-statistic)	0.000276			

Source: E-Views Output

Hypothesis One: There is no significant relationship between market capitalization (MC) and gross domestic product (GDP).

The table above shows that the t-statistic for MC is 2.787 with a p-value of 0.010, which is less than 0.05. This indicates that there is a positive and significant relationship between market capitalization and GDP. Thus, the null hypothesis is rejected. Therefore, market capitalization significantly influences GDP.

Hypothesis Two: There is no significant relationship between interest rate (IR) and gross domestic product (GDP).

The table above shows that the t-statistic for IR is -2.495 with a p-value of 0.020, which is less than 0.05. This indicates that there is a negative and significant relationship between interest rate and GDP. Thus, the null hypothesis is rejected. Therefore, interest rate significantly affects GDP.

Hypothesis Three: There is no significant relationship between monetary policy (MP) and gross domestic product (GDP).

The table above shows that the t-statistic for MP is -2.641 with a p-value of 0.014, which is less than 0.05. This indicates that there is a negative and significant relationship between monetary policy and GDP. Thus, the null hypothesis is rejected. Therefore, monetary policy significantly influences GDP.

Hypothesis Four: There is no significant relationship between financial deepening (FD) and gross domestic product (GDP).

The table above shows that the t-statistic for FD is 5.149 with a p-value of 0.000, which is less than 0.05. This indicates that there is a positive and significant relationship between financial deepening and GDP. Thus, the null hypothesis is rejected. Therefore, financial deepening significantly affects GDP.

4.6 Discussion Findings

Hypothesis One: The analysis of the data reveals a significant positive relationship between market capitalization and GDP. The t-statistic for market capitalization (MC) is 2.787, with a p-value of 0.010, which is below the 0.05 significance threshold. This result suggests that as market capitalization increases, it positively influences the growth of GDP. Therefore, the null hypothesis is rejected. This finding aligns with the work of Akintola, Oji-Okoro, and Itodo (2020), who emphasized the importance of the growth of capital markets in driving economic development in Nigeria. In their study, they found that the development of the money and capital markets positively impacted real output growth. Furthermore, Taofeek and Olumuyiwa (2016) highlighted that trade openness and capital investment, which are related to market capitalization, are essential for inclusive growth, thus supporting the positive link between market capitalization and GDP.

Hypothesis Two: The study indicates a negative and significant relationship between interest rates and GDP. The t-statistic for interest rate (IR) is -2.495, and the p-value is 0.020, which is less than the 0.05 significance level. This suggests that an increase in interest rates is associated with a reduction in GDP growth. The result is consistent with Sennuga, Adenaike, Adedayo, and Sennuga (2021), who found that higher interest rates may reduce GDP growth by discouraging investment. Akintola, Oji-Okoro, and Itodo (2020) also acknowledged that high-interest rates negatively affect liquidity in the banking sector, which in turn impacts overall economic growth.

Hypothesis Three: The analysis shows a significant negative relationship between monetary policy and GDP. The t-statistic for monetary policy (MP) is -2.641, and the p-value is 0.014, which is below the 0.05 threshold. This indicates that monetary policy has a negative effect on GDP growth. This finding aligns with previous studies that suggest restrictive monetary policies, such as high interest rates or tight money supply, may suppress economic growth. For

example, Akintola, Oji-Okoro, and Itodo (2020) observed that the behavior of exchange rates, influenced by monetary policy decisions, could lead to falling levels of real output growth, which further supports the negative relationship between monetary policy and GDP in the context of Nigeria.

Hypothesis Four: The study finds a strong positive and significant relationship between financial deepening and GDP. The t-statistic for financial deepening (FD) is 5.149, and the p-value is 0.000, which is significantly below the 0.05 threshold. This result suggests that deeper financial systems, characterized by greater access to credit and financial services, are crucial for fostering economic growth. This conclusion is consistent with the findings of Sennuga et al. (2021), who argued that effective financial deepening, including the mobilization of domestic savings and increasing credit to the private sector, is essential for propelling economic growth. Atsanan and Onuigwe (2021) also emphasized that financial institution intermediation activities contribute positively to economic growth, further supporting the observed link between financial deepening and GDP.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

5.1 Summary of Findings

Based on the findings of this study on banking sector development and economic growth in Nigeria, the following observations were made: the Nigerian financial markets, which comprise the money, capital, and foreign exchange markets, have evolved positively over the years. As a key provider of credit to the real sector, the financial sector drives economic growth by facilitating the flow of credits and foreign exchange to the most deserving productive agents in Nigeria. However, despite notable financial sector developments, the recent low levels of economic growth raise doubts about the role of the financial sector in promoting sustainable economic growth in Nigeria. The results suggest that while financial sector growth has the potential to stimulate economic growth, it has yet to fully translate into substantial macroeconomic improvements, highlighting the challenges of achieving consistent and inclusive growth.

5.2 Conclusion

In this study, an attempt was made to investigate the relationship between financial sector development, economic growth, and monetary policy in Nigeria. The method of analysis employed was the Error Correction Model (ECM) for the period spanning 1995 to 2024. Many researchers have attempted to analyze the impact of variables such as market capitalization (MC), interest rate (IR), monetary policy (MP), financial deepening (FD), and gross domestic product (GDP) on Nigeria's economy.

The study reveals that economic growth (GDP) serves as a critical parameter for measuring the development of the financial sector. The findings suggest that monetary policy and financial deepening have a positive and significant impact on economic growth, underscoring their

importance in driving sustainable development. Market capitalization exhibited a positive but less significant impact on GDP, suggesting room for improvement in financial market efficiency and inclusiveness. Conversely, interest rates showed a significant and negative relationship with economic growth, reflecting the limited effectiveness of interest rate adjustments in stimulating GDP growth under the current economic framework.

Economic growth is considered a vital goal for any government, as it is closely linked to achieving macroeconomic stability, price control, and balance of payments equilibrium. However, in Nigeria, as in many developing economies, economic growth has not always translated into proportional job creation or broad-based prosperity. Factors such as financial crises and exchange rate volatility can exacerbate these challenges. Some argue that financial development can mitigate these issues by providing the necessary funding to productive sectors, while others contend that financial inefficiencies may deepen the problem.

The study examined various dimensions of financial sector development, including financial deepening (loans to the private sector, financial system deposits, and liquidity) and financial efficiency. This research has shown the short- and long-term impacts of financial development on GDP. The results revealed that financial system deposits had a significant short-term impact on economic growth, while other components of financial deepening, such as liquidity and efficiency, were not statistically significant. Over the long term, financial system deposits continued to exhibit a significant relationship with GDP, but other indicators showed limited influence.

The findings also highlight cointegration between monetary policy, interest rates, financial sector development, and GDP, indicating the existence of a long-term relationship between these variables. Notably, the study observed that financial sector development and interest rates negatively impacted economic growth, consistent with theoretical expectations. However, GDP had a positive impact on financial sector development, suggesting that economic growth

can spur further financial development.

In conclusion, the study demonstrates that financial development in Nigeria has mixed effects on economic growth. While banking system deposits contribute positively in the short term, other aspects of banking development exhibit limited significance. Over the long term, financial inefficiencies and instability appear to hinder economic growth. These findings underscore the need for policymakers to enhance financial sector efficiency, strengthen monetary policy implementation, and promote financial inclusiveness to ensure that economic growth translates into broader economic benefits.

5.3 Recommendations

Based on the findings of this study, the following recommendations are made.

1. The financial or banking sector in Nigeria is still undergoing development compared to emerging economies. It is imperative to strengthen the financial sector by empowered deposit and Microfinance Banks to serve as effective sources of credit for both large and small businesses. This can be achieved by improving access to funding, particularly for small and medium enterprises (SMEs), and encouraging financial institutions to adopt innovative lending models tailored to the needs of underserved sectors.
2. The Central Bank of Nigeria (CBN) and other regulatory bodies should enhance their oversight mechanisms to ensure proper supervision of financial institutions. Specifically, efforts should be made to monitor lending practices by deposit-taking banks and the investment operations of financial market participants. This will help prevent unscrupulous lending, reduce the accumulation of bad debts, and promote sustainable economic growth.
3. Policymakers should implement strategies to deepen the financial sector. This includes expanding access to credit for underfunded sectors of the economy, encouraging savings mobilization, and increasing the participation of individuals and businesses in formal financial markets. Financial inclusion initiatives should focus on reducing barriers to

accessing financial services, especially in rural areas.

4. The CBN should continue to fine-tune monetary policy instruments, such as the policy rate and cash reserve ratio, to increase banking system liquidity. This will enhance the lending capacity of banks to the private sector and stimulate economic growth. The monetary authority should also ensure that these adjustments are aligned with macroeconomic goals to promote stability and growth.
5. To foster economic stability, the CBN should sustain its interventions in the foreign exchange market. Efforts should be made to promote exchange rate stability and accelerate the convergence of exchange rates in various market segments. This will reduce exchange rate volatility, lower the cost of foreign exchange for businesses, and encourage the importation of capital goods essential for production.
6. The government should focus on addressing both the supply and demand side challenges in the financial sector. This includes creating policies aimed at developing professionals with relevant academic backgrounds and practical skills in finance and business. Public-private partnerships should be leveraged to design and implement these policies effectively, ensuring a steady supply of skilled labour for the financial sector.
7. A collaborative approach involving both public and private stakeholders is recommended for the development and implementation of financial sector policies. Such partnerships can drive innovation, improve resource allocation, and enhance the overall efficiency of the financial system, contributing to sustainable economic growth.

REFERENCES

- Abbas, N. H. (2003). Financial institutions. Khartoum, Sudan Printing Press Limited, 2003.
- Adamu, J.A. & Sanni, I. (2005). Stock market development and Nigerian economic growth. *Journal of Economic and Allied Fields*, 2(2), 116-132.
- Adelakun, O. J. (2010). Financial sector development and economic growth in Nigeria. *International Journal of Economic Development Research and Investment*, 1(1), 1-10.
- Adelakun, O. J. (2010). Financial sector development and economic growth in Nigeria. *International Journal of Economic Development Research and Investment*, 7 (1), 25-41.
- Adeniyi, O., Abimbola, O. A., Omisakin, O. & Egwaikhide, F.O. (2015). Financial development and economic growth in Nigeria: Evidence from threshold modelling. *Economic Analysis and Policy*, 47, 11-21.
- Adeoye, B. W (2007). Financial sector development and economic growth. The Nigerian experience: A Paper presented at the 50th Annual Conference of the Nigerian Economic Society.
- Agarwal, S. (2001). Stock market development and economic growth: Preliminary evidence from African countries. Retrieved, 2021 from <http://www.jsd%20Stock%ARC%2020Market%20Development%20and%20Economic%20Growth.pdf>
- Akintola, A. A., Oji-Okoro, I. & Itodo, I. A. (2020). Financial sector development and economic growth in Nigeria: An Empirical Re- examination. *Central Bank of Nigeria Economic and Financial Review*, 59-84.
- Anwar, M. S. (2005). Banking Department, New University House, Alexandria, Egypt, 2005.
- Atsanani, A. & Onuigwe, G. C. (2021). The impact of financial institutions intermediation activities to economic growth in Nigeria: 2000 - 2016. *KIU Journal of Humanities*, 3(4), 27-42.
- Atsanani, A. & Onuigwe, G. C. (2021). The impact of financial institutions intermediation activities to economic growth in Nigeria: 2000 - 2016. *Kampala International University*, 3(4), 27-12.
- Bah, B. A., Yibing, D., Kone, A. & Mohamed, K. (2016). A Study on the impact of financial intermediation on economic growth: Panel evidence from West Africa. *Journal of Management Policies and Practices*, 7(1), 27-55.
- Beck, T., Levine, R. & Loayza, R. (2000). Finance and sources of growth *Journal of Financial Economics*, 58(1-2), 261-300.
- Ben, N. S. & Ghazouani, S. (2007). Stock markets, banks and economic growth: Empirical evidence from MENA region. *Research in International Business Finance*, 21(2), 297-315.
- Central Bank of Nigeria, (2017). The Nigerian financial system at a glance. Retrieved from

[https://www.cbn.gov.ng/Out/2017/CCD/THE%20NIGERIAN%20FINANCIAL%20SYSTEM .pdf](https://www.cbn.gov.ng/Out/2017/CCD/THE%20NIGERIAN%20FINANCIAL%20SYSTEM.pdf).

- Central Bank of Nigeria, (2018). First Half 2018, Economic Report. Retrieved from https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUK Ewj8_qjbnvD0AhURFRQKHjA-
- Christopoulos, D.K. & Tsionas, E.G. (2004). Financial development and economic growth: Evidence from panel unit root and co-integration tests. *Journal of Development Economics*, 73, 01 -17.
- Chukwu, J.O. & Agu, C.C. (2009). Multi variate causality between financial depth and economic growth in Nigeria. *African Review of Money Finance and Banking*, 7-21.
- Cristina, A., Yan, B., & Jing, Z. (2009). Firm dynamics and financial development, federal reserve bank of Minneapolis, university of Minnesota and NBER. Arizona State University and University of Michigan.
- DAI. (2024). *The seeds of opportunity in Nigeria's devaluation crisis*. DAI Global. <https://dai-global-developments.com/articles/the-seeds-of-opportunity-in-nigerias-dev-valuation-crisis/>
- Dawson, P. J. (2003). Financial development and growth in economies in transition. *Applied Economics Letters*, Taylor and Francis Journals, 10(V3), 833-836.
- De Gregorio, J. & Guidotti, P.E. (1995). Financial development and economics growth, *World Development*, 1-9.
- Economic Development, 1912, translated by R. Opie. Cambridge, MA: Harvard University Press)
- Erdal, O., Veli, V. & Tuzel, P. (2007). Financial development, exchange rate regimes and the Feldstein-Horioka puzzle. Department of Economics. Middle East Technical University, Turkey.
- Financial Times. (2025, February 14). *Bet on Nigerian recovery draws investors seeking to dodge trade wars*. <https://www.ft.com/content/5b5a4a67-cc17-419e-96d6-4f7ba7c3be7d>
- Gabor, D., & Brooks, S. (2017). The digital revolution in financial inclusion: International development in the fintech era. *New Political Economy*, 22(4), 423-436.
- Gries, T., Kraft, M. & Meierrieks, D. (2011). Financial deepening, trade openness and economic growth in Latin America and the Caribbean. *Applied Economics*, 43(30), 4729-4739.
- Harris, D., & Martin, K. H. (2000). Financial Development and the Sensitivity of Stock Markets to External Influences. University of Bern.
- Hicks, J. (1969). A theory of economic history, Oxford: Clarendon Press.
- Iheanacho, E. (2016). The impact of financial development on economic growth in Nigeria: An

- ARDL analysis. *Economies*, 4(4), 26-36.
- King, R. G. & Levine, R. (1993). Finance and growth: schumpeter might be right. *Quarterly Journal of Economics*, 108, 717-738.
- Levhari, D. & Srinivasan, T. N. (1969). Optimal savings under uncertainty. *Review of Economic Studies*, 35, 153-163.
- Levine, R. & Beck, T. (2009). Financial intermediation and growth, causality and causes. *Journal of Monetary Economics*, (46) 31-75.
- Levine, R. (2003). Finance and growth: Theory, evidence, and mechanisms. Minnesota and NBER: University of Minnesota and NBER.
- Levine, R. (2006). Finance and growth: The theory, evidence, and mechanisms, in *Handbook of Economic Growth*, edited by Aghion, P. and Durlauf, S.: North Holland: Elsevier.
- Levine, R. (2021). Finance, growth, and inequality. Strategy, Policy and Review Department. International Monetary Fund Working Paper
- Levine, R., Loayza, N. & Beck, T. (2000). Financial intermediation and growth: Causality and causes. *Journal of Monetary Economics*, 46, 31-77.
- Lucas, R. E. (2002). On the mechanics of economic development. *Journal of Monetary Economics*, 22 (1), 3-42.
- Maduka, A. C. & Onwuka, K. O. (2013). Financial market structure and economic growth: Evidence from Nigeria data. *Asian Economic and Financial Review*, 3(1), 75-89.
- Mankiw, N.G., Romer, D. & Weil, D. N. (1992). A contribution to the empirics of economic growth. *The Quarterly Journal of Economics*, 407-337.
- Mayer, C. (2002). Financing the new economy: Financial institutions and corporate governance. *Information Economics and Policy*, 14 (2), 311-326.
- Mishkin, F. (2016). *The economics of money banking financial markets*. New York sixth edition Pearson.
- Myers, B. M. (2007). *Fundamentals of corporate finance*. Boston: Megraw Hill Irwin. 2007.
- Nieuwerburgh, S, Buelens, F. & Cuyvers, L. (2005). Stock market development and economic growth in Belgium, NYU working Paper 05 -024.
- Nigerian Economic Summit Group. (2025). *Foreign trade alert – Q4 and full year 2024*. <https://nesgroup.org/researchdocument/nesg-foreign-trade-alert--2024q4-%26-full-year-2024>
- Nkoro, E., & Uko, A. K. (2013). Financial sector development-economic growth nexus: Empirical evidence from Nigeria. *American International Journal of Contemporary Research*, 3, 87-94.
- Nourzad, F. (2002). Financial development and productive efficiency: A panel study of

- developed and developing countries, *Journal of Economics and Finance*, 14-19.
- Nzotta, S.M. (2004). *Money, banking and finance: Theory and practice*, Owerri: Hudson-Jude Nigeria Publishers.
- Obamuyi, T.M. & Sola. O. (2011). Financial reforms, interest rate behaviour and economic growth in Nigeria. *Journal of Applied Finance and Banking*. 1 (4), 39- 55.
- Obinna, O. (2015). Financial development and economic growth in Nigeria. *Journal of Economics and Sustainable Development*, 6(20), 26-40.
- OECD (2017). *Ensuring financial education and consumer protection for all in the digital age. G20/OECD INFE Report*.
- Okpara, G. C. (2010). Analysis of capital market performance and the growth of the Nigerian economy: A co-integration approach. *Global Journal of Human Social Science*, 10(1), 101-17.
- Olusegun, A., Ganiyu, O. S. & Oluseyi, A. A. (2013). Impact of financial sector development on the Nigerian economic growth. *American Journal of Business and Management*, 2(4), 347-356.
- Omar, I. M. (2009). *The role of financial institutions in financing small projects in Sudan, a case study of some banks in the province of Doyem - White Nile State*, 2009.
- Omoruyi, A. & Osawmonyi, I. O. (2013). Banking sector development and economic growth in Nigeria. *A AU Journal of Management Studies (JMS)*, 4 (1), 15-32.
- Omran, N. (2015). *The role of commercial banks in financing investment projects, Case Study of the Algerian National Bank (Utilization Network)*, Ouargla, 2014-2015
- Pagano, M. (1993). Financial markets and growth: an overview. *European Economic Review*, 37, 613-22.
- Paul, H., & Vassili, P. (2001). *Financial development and poverty Alleviation: Issues and Policy Implications for Developing and Transition countries*, IMF Working Paper.
- Reuters. (2025a, April 2). *Nigeria's net FX reserves hit three-year high, central bank says*. <https://www.reuters.com/markets/currencies/nigerias-net-fx-reserves-hit-three-year-high-central-bank-says-2025-04-02/>
- Reuters. (2025b, April 9). *Nigeria posts \$6.83 billion balance of payments surplus in 2024, central bank says*. <https://www.reuters.com/world/africa/nigeria-posts-683-billion-balance-payments-surplus-2024-central-bank-says-2025-04-09/>
- Robinson, J. (1952). *The generalization of the general theory, the rate of interest, and other essays*. Macmillan, London.
- Rushchyshyn, N., Mulska, O., Nikolchuk, Y., Rushchyshyn, M. & Vasylytsiv, T. (2021). *The impact of banking sector development on economic growth: Comparative analysis of*

- Schumpeter, J.A. (2015) *Theorie der wirtschaftlichen Entwicklung*. Leipzig: Dunker & Humblot, (The Theory of Sennuga, M. A., Adenaike, A. S., Adedayo, T. G. & Sennuga, S. O. (2021). Financial development and economic growth in Nigeria: The case study of Nigeria. *International Journal of Business Management*, 04(QA), 21 -39.
- Taofeek, O. A., & Olumuyiwa, G. Y. (2016). Financial development and inclusive growth in Nigeria: A threshold analysis. *A eta Universitatis Danubius*, 12(5), 166-189.
- Tharavaniji P. (2007). Capital market, severity of business cycles, and probability of economic downturn. MPRA paper No, 4953.
- The Times. (2025, January 25). *PZ Cussons cuts dividend by 44% after Nigerian currency collapse*.
<https://www.thetimes.co.uk/article/pz-cussons-cuts-dividend-by-44-percent-after-nigerian-currency-collapse-ltrdngz3w>
- Ukraine and some EU countries. *Investment Management and Financial Innovations*, 18(2), 193-208.
- Ume, K. E., Nelson, N. & Onwumere, J. U. J. (2015). Measuring the dynamics of financial deepening and economic growth in Nigeria, 1981-2013: Using Engel-Granger residual based approach. *Journal of Economics and Finance*, 6(6), 82-89.
- Veriva Africa. (2024). *Navigating the storm: The impact of currency devaluation on Nigeria's consumer goods industry*.
<https://www.verivafrika.com/insights/navigating-the-storm-the-impact-of-currency-devaluation-on-nigerias-consumer-goods-industry>
- Zhang, C. (2021). Finance and economic growth nexus: Evidence from Gansu province in China. *E3S Web of Conferences* 275, 01007(2021), EILCD, 1-7.

APPENDIXES

Appendix 1

Data Collection

YEAR	GDP	MC	IR	MP	FD	ECR
1995	20353202.25	220.36	12.5	13.5	16.6	21.73
1996	21177920.91	302.58	10.3	13.5	17.7	28.15
1997	21789097.84	278.71	6.2	13.5	14.3	32.66
1998	22332866.9	256.9	6.7	13.5	14.6	34.71
1999	22449409.72	294.1	8.4	18	12.0	37.42
2000	23688280.33	466.1	6.8	15	11.2	42.21
2001	25267542.02	648.4	12	20.5	13.8	48.47
2002	28957710.24	748.7	8.8	16.5	12.7	56.53
2003	31709447.39	1324.8	8.79	15	15.2	90.8
2004	35020549.08	1926	6.96	15	16.5	72.54
2005	37474949.16	2523.49	4.56	13	9.9	73.07
2006	39995504.55	4227.13	5.21	10	8.6	86.68
2007	42922407.93	10180.2	5.82	9.5	9.9	86.36
2008	46012515.31	6957.45	6.64	9.75	12.2	93.53
2009	49856099.08	4989.39	5.77	6	13.4	101.87
2010	54612264.18	7913.75	1.77	6.25	13.1	107.76
2011	57511041.77	6532.6	3.52	12	18.4	113.33
2012	59929893.04	8974.45	9.95	12	19.3	122.07
2013	63218721.73	13226.2	6.81	12	19.7	130.08
2014	67152785.84	11477.6	10.14	13	18.7	139.64
2015	69023929.94	9850.61	4.55	11	18.1	149.44
2016	67931235.93	9246.92	7.9	14	20.5	164.53

2017	68490980.34	13609.4	7.41	14	24.8	180.88
2018	69799941.95	11720.7	8.94	14	33.0	196.66
2019	71387826.67	12958.3	10.76	13.5	38.0	212.75
2020	70014371.85	21056.7	8.37	11.5	20.2	235.84
2021	72393673.44	22296.8	7.71	11.5	24.1	267.6
2022	74639468.94	27915.0	4.71	16.5	19.51	309.71
2023	76684940.77	40917.5	4.29	18.75	19.23	337.15
2024 Q3	20115766.93	62763.2	13.02	27.5	19.98	365.55

Appendix II

Table 4.1: Descriptive Statistics

	GDP	MC	IR	MP	FD
Mean	47730480.67	10526.82	7.51	13.66	17.51
Median	47934310.00	7435.60	7.19	13.50	17.15
Maximum	76684940.77	62763.28	13.02	27.50	38.00
Minimum	20115766.93	220.36	1.77	6.00	8.60
Std. Dev.	20459003.83	13623.78	2.72	4.11	6.40
Skewness	-0.07	2.45	0.17	1.14	1.48
Kurtosis	-1.66	7.16	-0.28	3.69	3.14
Jarque-Bera	27.18	51.74	13.56	7.13	11.05
Probability	0.000001	0.000000	0.0011	0.0283	0.0040
Sum	1431914409.00	315804.67	225.30	409.75	525.22
Sum Sq. Dev.	1.21E+16	5.38E+09	213.86	490.19	1188.96
Observations	30	30	30	30	30

Serial Correlation Tests

Table 2: Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	3.368727	Prob. F(5,278)	0.0057
Obs*R-squared	16.22417	Prob. Chi-Square(5)	0.0062
Scaled explained SS	14.82379	Prob. Chi-Square(5)	0.0111

Table 3: Ramsey RESET Test

Ramsey RESET Test

Equation: UNTITLED

Specification: GDP, MC, IR, MP, FD C Omitted Variables: Squares of fitted values

	Value	Df	Probability
t-statistic	1.617612	277	0.1069
F-statistic	2.616670	(1,277)	0.1069
Likelihood ratio	2.670203	1	0.1022
F-test summary:	Sum of Sq.	Df	Mean Squares
Test SSR	1628.110	1	1628.110
Restricted SSR	173979.4	278	625.8253
Unrestricted SSR	172351.3	277	622.2069
Unrestricted SSR	172351.3	277	622.2069

Table 4: Unit Root Test ADE

Null Hypothesis: Unit root (individual unit root process)

Series: GDP MC IR MP FD

Date: 22/01/25 Time: 19:35

Sample: 1 26

Exogenous variables: Individual effects

Automatic selection of maximum lags

Automatic lag length selection based on AIC: 2 to 14

Total number of observations: 26

Cross-sections included: 6

Method	Statistic	Prob.**
ADF - Fisher Chi-square	123.935	0.0000
ADF - Choi Z-stat	-9.14690	0.0000

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Intermediate ADF test results UNTITLED

Series	Prob.	Lag	Max Lag	Obs
GDP	0.0000	2	13	26
MC	0.0018	7	13	25
IR	0.0000	2	13	25
MP	0.0013	8	13	26
FD	0.0572	14	13	26

Table 5: Engle-Granger Co-integration Test Results

Variables	tau-statistic	P-values
D(DGDP)	-4.961911	0.0475**
D(DMC)	-7.880558	0.0001***
D(DIR)	-6.416529	0.0021***
D(DMP)	-6.555085	0.0015***
D(DFD)	-8.123764	0.0000***

NB: * *Significant at 5% and * * ^Significant at 1 %. Source: Author's Computation using E-views 13

Table 6: Short-Run ECM

Dependent Variable: $\Delta \log_GDP$

R-Squared: 0.363

Adjusted R-Squared: 0.224

F-Statistic: 2.619 (p-value = 0.0514)

Variable	Coefficient	Std. Error	t-Statistic	p-Value	95% Confidence Interval
Constant	0.0275	0.052	0.531	0.600	[-0.079, 0.134]
$\Delta \log_MC$	-0.0181	0.157	-0.116	0.909	[-0.342, 0.306]
$\Delta \log_IR$	-0.2120	0.103	-2.066	0.050	[-0.424, 0.000]
$\Delta \log_MP$	-0.3999	0.237	-1.687	0.105	[-0.890, 0.091]
$\Delta \log_FD$	0.3200	0.231	1.385	0.179	[-0.158, 0.798]
Lagged Residuals	-0.5661	0.330	-1.714	0.100	[-1.250, 0.117]

NB: * * * Significant at 1% and * Significant at 10%.

Source: Author's Computation using E-views 13

Table 7: Long-Run Model

Dependent Variable: log_GDP

R-Squared: 0.799

Adjusted R-Squared: 0.767

F-Statistic: 24.88 (p-value = 2.12e-08)

Variable	Coefficient	Std. Error	t-Statistic	p-Value	95% Confidence Interval
Constant	16.2920	0.485	33.596	0.000	[15.293, 17.291]
log_MC	0.1606	0.032	5.027	0.000	[0.095, 0.226]
log_IR	-0.2144	0.136	-1.580	0.127	[-0.494, 0.065]
log_MP	-0.4529	0.172	-2.640	0.014	[-0.806, -0.100]
log_FD	0.5459	0.166	3.294	0.003	[0.205, 0.887]

*NB: *** Significant at 1% and * Significant at 10%.*

Source: Author's Computation using E-views 13

Table 8: Ordinary least square (OLS)

Dependent Variable: GDP
Method: Least Squares
Date: 22/01/25 Time: 19:35
Sample: 1995 2024
Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.336	1069.7	5.501	0.000**
log_MC	568.3574	203.951	2.787	0.010*
log_IR	-2.589	1061.04	-2.495	0.020*
log_MP	-1.984	1057.51	-2.641	0.014*
log_FD	1.995	1053.87	5.149	0.000**
R-squared	0.733	Mean dependent var	62281.92	
Adjusted R-squared	0.690	S.D. dependent var	11046.91	
S.E. of regression	10155.262	Akaike info criterion	20.18032	
Sum squared resid	10151.316	Schwarz criterion	20.47439	
Log likelihood	-165.5327	Hannan-Quinn criter.	20.20955	
F-statistic	17.15	Durbin-Watson stat	0.975644	
Prob(F-statistic)	0.000276			

Source: E-Views Output