

Institutional Quality, Financial Development and Inclusive Growth in Nigeria

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Certification

This is to certify that **Oluwatosin Yewande Baruwa** with matriculation number **LCU/PG/001168** carried out this research work titled “Institutional Quality, Financial Development and Inclusive Growth in Nigeria” in the Department of Economics, Faculty of Management and Social Sciences, Lead City University, Ibadan, Oyo State, for the award of Doctor of Philosophy Degree in Economics and that this has not been previously submitted.

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Dedication

This research work is dedicated to Almighty God and My Mother.

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Abstract

Over the last decade, policymakers and economists have focused on the macroeconomic effects of financial development and institutional quality. Despite financial development being recognized as a growth stimulant, studies on Nigeria's institutions, financial development, and inclusive growth nexus are scarce and contradictory owing to weak institutions and inappropriateness of GDP as a measure of inclusive growth. This study, therefore, investigates the interrelationship among financial sector development, institutions, and inclusive growth in Nigeria from 1985 to 2020. The data were analyzed using Vector Error Correction Model and Autoregressive Distributed Lag approaches with the inference drawn at a 5% level of significance. The result showed that the composite index of financial development had a significant positive ($\beta = 0.433, t < 0.10$) and negative ($\beta = -4.234, t < 0.05$) effect on inclusive growth in the short-run and long run, respectively in Nigeria. The negative influence of financial development on inclusive growth resulted from low domestic credit to private sector, insufficient money supply and high lending rate spread. Furthermore, the result showed that the minimum domestic credit to the private sector to GDP would stimulate inclusive growth at 18.22% and 13.49% in the short-run and long run respectively. Concerning money supply to GDP, it would stimulate inclusive growth at 17.84% in the long run. As to financial development index, it exhibits a maximum threshold of 0.697 that maintain inclusive growth in the long run. Institution negatively ($\beta = -0.927, t < 0.05$) impact inclusive growth in the short run but positively ($\beta = 8.499, t < 0.05$) influenced growth inclusiveness in the long run. The interaction of financial development and institutions had negative and insignificant impact on inclusive growth in short-run and long-run. This study concludes that lack of financial access and weak institutions hampered inclusive growth in Nigeria. As part of the inclusive growth process, the government must ensure credit facilitation, low credit rates, money availability, bureaucracy quality, political stability, and law and order.

Keywords: Domestic credit, money supply, lending rate, institutions, financial development index, inclusive growth, threshold effects.

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List of Acronyms

Abbreviation	Meaning
ADB:	Asian Development Bank
ADF:	Augmented Dickey-Fuller,
ARDL:	Autoregressive Distributed Lag Model
AMP:	Anand, Mishra and Peiris's
FMOLS:	Fully modified Ordinary Least Square
GDP:	Gross domestic product
IMF:	International Monetary Fund
ICRG:	International Country Risk Guide
KPSS:	Kwiatkowski Phillips Schmidt Shin
MENA:	Middle East and North Africa
PCA:	Principal component analysis
PP:	Phillip-Perron
R & D:	Research and Development
UK:	United Kingdom
US	United States of America
VECM:	Vector error correction model
WDI:	World Bank Development Indicators
DEVT.:	Development