Chapter One

Introduction

1.1 Background to the Study

Through savings mobilization, promotion of information exchange, effective resource allocation, and the help of divergence and risk management, financial development increases the economy's resilience and spurs its growth, particularly in emerging and developing nations[1]. The function of financial institutions is critical, and they have an impact on economic growth, as numerous economists have explained in the literature. More so, in terms of the consequences of financial institutions, particularly the area of encouraging technological innovation through the intermediate function. However, according to Schumpeter, effective allocation of savings happens when entrepreneurs who can effectively develop novel goods are identified and funded[2]. Similarly, there was an explanation for the contribution of financial institutions to economic progress. According to this viewpoint, the majority of the world's developed economies have advanced financial institutions. This might be due to their financial system's sound practices, which eventually donate to the development of the economy.

The hypothesis that exists from this point of view stems from the key functions of financial institutions' effect on capital accumulation and innovation progress. This also acts as a stimulus for accelerating corporate transactions, which helps most economies expand faster[3]. Financial development can be defined as an enhancement in the major role of financial system that removes impediments posed by certain elements that have an adverse influence on the number of transactions carried out in the economy. The anticipation regarding the causal link between economic performance and financial growth is generally described by the model made by a scholar. The supply-leading and demand-following processes are presented as main effects of

financial prosperity, with the former driving the growth of the economy and the latter enhancing financial expansion[4].

The financial industry is stated to fiercely hunt for, pool, and distribute savings and inactive capital to micro, small and medium enterprises, households even government at large for investment projects and other objectives with a plan to make profits, and this form is the foundation for the growth of the economy development. In a more advanced financial structure, the cost of capital is typically lower owing to the accessibility of a wider range of financial tools and the financial intermediaries' efficient intermediation functions, as opposed to a less developed financial system. Exacerbating the financial sector is capable of helping organizations and enterprises diminish the dangers they face in their production operations. selection diversity is improved, and the economy is more protected from the effects of global economic shifts[5].

More so, monetary authorities have designed and executed various policies tailored toward soundness in an effort to intensify the financial system and fast-track the hop of economic growth in Nigeria over the years[6]. The financial system reforms in Nigeria, particularly the overview of the Structural Adjustment Programme in 1986, had an impact on the country's degree of financial deepening and the financial system's significance to economic development. Prosperity may be developed, and economic growth can be maintained, through financial inclusion. Financial deepening, according to the proponent, has an important role in boosting economic growth, lowering systemic risk, maintaining financial stability, and reducing poverty and dissimilarity. Financial deepening can also help to moderate the effect of global volatility and prevent it from spiraling into a deeper crisis, because the market has a stronger structure and is equipped with superior protective factors[7].

Advanced economies must strengthen their financial sectors in order to circulate the resources required to achieve a sustainable level of growth. To accomplish the deepening of the banking industry and have a substantial impact on economic growth and improvement, financial markets expansion through the establishment of a wide range of financial tools should be combined with financial reforms. The emergence and growth of financial markets result in increased of saving and investment, as well as improved capital accumulation effectiveness. The availability of liquid money lubricates the opportunities to support economic progress. The financial superstructure's intermediation operations have the power to promote economic efficiency, generate and grow liquidity, sensitize resources from surpluses economic agents and transfer them to deficit units, and enhance gross domestic product[8].

As a result, financial intermediaries primarily operate as service enterprises in the economy. Their primary economic function is to make money lending as simple as possible in order to stimulate investment in the economy. As a result, rising investments are necessary for a country's economic progress. Financial deepening serves as an essential middleman in increasing investment. When banks negotiate credits that they afterwards allow to be used, they can induce economic decline and hardship in specific areas. Banks can also facilitate efficient resource allocation in the economy by moving funds received to underserved industries and regions. Savings play a vital role in ensuring economic growth through investments. In underdeveloped countries, there hasn't been a significant growth in savings. As a result, a sophisticated financial system is critical at this time. A very well financial system speeds up the dissemination of information between the lender and the borrower, allowing both saving and investing entrepreneurs to diversifying their risks. As a result, the credit system will run more efficiently.

This can give rise to an effective economic structure, development of banking sector and increase investments in the economy[9].

In the instance of Nigeria, unlike the developed nations of the globe, Nigeria's bond between economic growth and financial development has not gotten the urgent attention it should. Therefore, it is crucial for a nation to release factors that promote growth and prosperity. Additionally, the financial system has a history of playing important roles in economic development and progress, which bodes well for the advancement of financial services-based technologies. The Nigerian financial system has made significant enhance over the years, but it has also faced a number of difficulties. The sector's development has been hampered by the problem of macroeconomic volatility. Underinvestment in the real estate and finance sectors as a result of frequent policy discrepancies has affected the effectiveness of monetary policy of the nation[10]. Consequently, the objective of this research is to objectively assess the rise of the financial sector and how it has affected Nigeria's economic expansion.

1.2 Statement of the Problem

First, Nigeria's financial sector has always been one of the most important areas for improvement in terms of the overall economic performance of the nation. The financial industry does accede to a few transactions, such as bills of payment, most of the time. The financial industry is nevertheless important in other, more difficult deals. However, this also applies to financial sector investments and commercial dealings that have an influence on economic growth. This implies that financial thickness has a crucial role in dictating economic growth. As a result, it also has the potential to increase the capital required to spark investment via savings and credit, which can increase the overall production of any economy. The Nigerian financial system has sought to develop as a result of the strategy and effective implementation of intervention goals

and rules in the country's banking industry, stock market, and economy. Nigeria's economy has been unstable for decades as a result of this. The nation, which also happens to have the largest economy in Africa, pays no or little to this subject matter.

Over the years, there has been a debate on the nexus between these two variables especially in developing such like Nigeria. The point of views on the role of financial expansion in economic growth process are contradictory. While some scholars were of opinion that, financial performance do strongly affect growth of economy other do not concur to this assertion. Those researchers who agreed to this notion, view financial intermediation. Many academics agree that financial development has a significant impact on the economy through boosting economic growth and the efficiency of capital accumulation, which in turn raises capital's marginal productivity. Additionally, it increases investment and savings rates, both of which have a propensity to quicken the pace of economic expansion in developing nations. As a result, financial intermediation helps to transfer money from the surplus to deficit sectors as well as mobilise savings, boost the economy, particularly in the private sector. The stability and sustainability of that economy's growth actually determines the ability of financial intermediaries to operate effectively. More specifically, businesses that rely on external sources decrease the rate of small- and medium-sized business distress, draw deposits from a variety of economic agents, and finance the investment as a private sector venture. All of these activities are a part of the role and function of financial intermediaries[11].

Results from other research, particularly in oil-exporting nations like Nigeria, reveal a weak or adverse association between the development of the financial system and economic expansion. According to their findings, the majority of oil-exporting nations rely so much on oil money that they have neglected to build a competitive finance sector that could boost economic activity in

the private sector. Some research revealed that regardless of the fact that the banks in these nations are very successful and well capitalised, they likely to have weak banking institutions and provide less credit to the private sector[12].

There are also questions on the nature of causal directional relationship between these two variables both in the short and long run. There are two postulated hypotheses according to the author which address the causality direction. First, according to him, the need for financial services is dependent on the growth of the real sector, which is driven by the commercialization and modernization of subsistence sectors. As a result, the establishment of contemporary financial firms, their financial assets and liabilities, and connected financial services is a reaction to the real economic growth for such services. The second theory is the supply leading hypothesis, which claims that the financial platform will enable and retain the leading sectors in the developmental process. Due to the real economic growth, a banking industry increase is fostered in this instance[13].

1.3 Research Question

The following research questions are answered in this research study.

i. What is the effect of financial depth on economic performance in Nigeria?

ii. To what extend does financial deepening causes economic performance in Nigeria?

iii. How does economic growth respond to shock in financial depth in Nigeria?

1.4 Objectives of the Study

The broad objective of the study examines the nexus that exists between financial development and the growth of the economy in Nigeria. The specific objectives as to:

i. investigate the effect of financial depth on economic performance in Nigeria;

ii. determine the direction of causality between financial depth and economic performance in Nigeria; and

iii. examine the response of economic performance to shocks in financial depth in Nigeria.

1.5 Hypotheses

The following null hypotheses are raised for this study:

$H_0$1: Financial deepening does not have a significance relationship with economic growth in Nigeria.

$H_0$2: Money market activities has no significant effect on economic growth in Nigeria.

$H_0$3: The two variables have no causal relationship in Nigeria.

1.6 Significance of the Study

There are two fundamental issues that this dissertation tries to deal with. First, is whether there is a positive (or negative) relationship between financial development and economic performance in Nigeria. In other words, the structural transformation of the financial system affects the aggregate macro economy and wish to analyse whether this impact is significant and positive (or negative). The study is also concerned with the temporal dimensions of the problem, so the short-run and long-run relationships will be carefully delineated. Secondly, the study wishes to investigate whether the causality runs from financial development to economic performance or

vice versa. There are existing controversies in the development literature as to whether financial development actually causes economic growth or whether the very process of economic performance forces a well-functioning financial system to evolve at a later stage.

In Nigeria today, the financial system is seen as vehicle for promoting economic performance. Financial institutions are said to identify the utmost resourceful investment ventures and network possessions from depositors into investors[14]. It also handles risks, checks borrowers, and runs the settlement system. As a result, sustained growth and growth require the establishment of an efficiently and lively financial sector[15]. This nexus has only been studied in theory in the previous studies. This research is crucial and unusual in that it empirically analyzes the nature of the link between such two factors, filling a vacuum in the research on the issue. The findings of the study would be helpful to the currency issuer since they will allow them to compare how well various finance industry strategies implemented in the country are working to expand and strengthen the financial system. The work will also assist the government in its efforts to make fiscal adjustments and provide more flexible funding options, so all parties will gain from it proportionately. Additionally, the study will continue to serve as a useful resource for any and all students and scholars doing research work on the same or related topics.

1.7 Scope of the study

The attempt in this study is to evaluate the financial development of Nigeria with particular reference to the link between financial development and economic growth between 1985 and 2020.

1.8 Limitation of the Study

The scope of the data employed and other issues that hampered the efficiency of the comprehensive research work investigation are the only limitations on this study. One of such limitation is inadequate finance which manifest in high transportation cost during the search for the research materials. Time also posed a limitation given the short duration of the research work. Data sourcing and collection was not easy and readily available due to non-documentation of data in a single document. The choice of important variables to indicate the degree of financial services produced in an economy, particularly in emerging nations like Nigeria, and how to quantify the breadth and effectiveness of banking services are other difficulties. The complexity of financial services provided by the financial institution makes it incredibly hard to build financial sector indices.

1.9 Operational Definition of Terms

Finance-growth nexus: This suggests that there is an occurrence between financial progress and the growth of the economy.

Financial development: That is, improvement in term of quantity, quality and as well efficiency.

Endnotes

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Chapter Two

Literature Review

2.1 Conceptual Review

2.1.1 Financial Development, Real Sector and Economic Growth

In both growth and financial studies, the importance of the nexus between financial development and economic growth has garnered a lot of awareness. To investigate the relationships between the two, authors combined endogenous growth theory and financial system economics. Theoretically, foundational research suggests that the financial sector can have a major impact on growth by improving the quality and quantity of financial services[1]. This study implies that financial development has a significant impact on the growth of the economy. According to a scholar, financial development vastly enhances the creation of externally imposed information about potential investments, investment monitoring, and corporate governance, allowing the financial system to work efficiently[2]. As a result, the capacity of financial development to harness profitable savings and distribute resources effectively has a growth-enhancing effect. Financial services also enhance productivity by encouraging technical advancements[3].

Additionally, it was found that most highly developed countries make considerable contributions to domestic investment and savings, which can quickly lead to improvements in both and, of course, will unquestionably help to the expansion of the economy when the financial sector is strong[4]. With this idea in mind, the majority of developing countries have changed their pipeline dues in various ways to improve the banking sector and the expansion of the economy. The development of the financial industry and its expansion require a robust institutionalization of regulations that can maintain order. The responses of the financial sector throughout time are

another factor in the system's shifting workings. There is a study from cross country, which found an evidence[5]. Another academic claimed that the enormous financial expansion causes long-term instability that, while improving growth, does so insufficiently over a long period of time[6]. Another researcher's postulation on financial expansion, it was stated, was that it fuels capital accumulation and productivity growth[7]. More specifically, one author pointed out that improving financial intermediaries has a good impact on overall productivity, which is reliant on economic expansion and financial expansion[8].

The implications of financial expansion on the growth, some researchers are gloomy and claim that progress in the finance industry does not always equate to faster productivity and may potentially skew the trajectory of sustainable growth. By causing financial turmoil, for example, financial integration harms growth. Yet again another scholar pointed out that the selection of measures has a substantial effect impact of financial improvement on growth. They discovered that whereas rises in the ratio of the broad money supply to GDP are economic expansion, improvements in credit to the individual sector and total local credit are economic expansion[9].

So, the absence of strong financial institutions may obstruct the transfer of resources and this may account for one or more reasons why the level of poverty is high within the continent of less developed countries. The reason is that economies with strong financial institutional framework have an upper hand and greater chances of development, while economies with weak or not strong financial institutions serve as a reproach to development. This simply means that the authorities need to focus more on making the financial institutions more stronger and reliable institutions in the continent of less developed regions to ensure their importance in nation building.

2.2 Theoretical Review

2.2.1 Theories of Financial Development

Schumpeter's groundbreaking work demonstrates that perhaps the financial industry significantly influences growth by offering enhanced bank firms in terms of both quantity and quality. This result indicates that the degree of financial development is a significant engine of economic growth. Additionally, according to two publications, financial deepening significantly enhances the generation of ex ante information about potential investments, analyzes investments, and engages in governance practices, all of which help the financial system operate effectively. Therefore, the capacity of capital formation to aggregate profitable investments and distribute resources effectively underpins its ability to have an augmenting effect on growth. Financial services also enhance output by encouraging technical advancement.

For decades, most countries have encouraged financial assistance by fueling governmental financial innovations. Financial development has shown to play a significant role in supporting economic growth through channeling capital, managing risks, appraising initiatives, and overseeing entrepreneurs. Significantly, top-tier plans may increase direct investment both domestically and internationally[10]. Financial deepening entails specializations in financial functions and organizations, as well as the establishment of structured local industries and markets with international markets and the regulation. As previously stated, an expansion in the actual size of the monetary system will create chances for various organizations, ranging from bill dealers to industrial banks and insurance businesses, to make money. Financial deepening, on the other hand, is described as the "condition of a dichotomization financial system that is mostly free of austerity" in another literature[12].

The Financial intermediation is also said to impact economic growth through some accumulative channels. This includes influence of finance on the buildup of physical and human capital on economic growth. Furthermore, the financial sector has the potential to influence economic growth through Total Real Output (TFP). It stresses finance-induced advances in resource allocation effectiveness, which leads to growth, in this perspective. Economic expansion, on the other hand, aids the development of the financial sector by allowing for the introduction of new financial tools and simple exposure to foreign capital.

The association between financial enhancement and economic growth is specifically strong for less advanced nations with wealthy individuals, thus according research findings. The extremely well organised financial system is supply-led, meaning that the rate of inflation and financial development both have their own, beneficial effects on the expansion of the economy. Financial thickness often promotes economic performance by quickening the frequency of wealth creation owing to this financial depth's operations and by enhancing economies' current and prospective capital utilization efficiency.

2.2.2 Stage of Development Theory

Huge Patrick's financial hypothesis development, which states that the causal direction between the expansion of the economy and finances changes with time, or that it varies over the course of development, is the theoretical framework that is most suitable for this investigation. Although it is still in the infantile stage of development, the provision will eventually result in a visible stimulus, and as long as the real remains in the economy, it will undoubtedly increase demand for financial services. This implies that investors' arrangements for obligations, assets, and economic growth for modern financial institutions' growth in the real economy. On the other hand, the financial market reacts to such requests. Thus, the sweeping, all-encompassing

processes of economic development, the evolution of financial systems will continue. However, the expansion of real output, the monetization of agriculture, and the commercialization of traditional substance sectors completely determine the amount of demand for financial services[13].

2.2.3 The Keynesian Approach

Higher real interest rates, according to Keynesian theory, boost the cost of borrowing, discouraging investment, growth, and saving. The important contribution of two writers, on the other hand, projected a steady growth effect from a positive real interest rate. Increases the rate of growth through raising the quantity and enhancing the pattern of real savings, strengthening the design and average output of investments, and offering entrepreneurial skills and financial supervision to the economy overall. This theory is based on the reality that investment vehicles aplenty in developing nations, but capital accumulation is hampered by the lack of appropriate investment cash[14].

2.2.4 The Neoclassical Approach

Simply put, a "Neoclassical growth model" is explained where government utilizes monetary policy to ensure that frugality does not result to jobless and terminate thrift by ensuring equity and loan capital available at cheaper rates and profitability rates. A well-managed system can create capital deepening. The Neoclassical model might be seen as depicting the technology of a well-run collectivistic culture that never has to deal with macroeconomic problems such as unemployment or inflation caused by a lack of sufficient demand. The Neoclassical output growth may be split into three independent components: labor growth, capital growth, and technological improvement growth. These three sources, in summary, are what add to an economy's overall growth and development, according to the Neoclassicists.

Neoclassical economists, on the other hand, have developed powerful theoretical counter arguments based on the same premises as the Liberalization hypothesis. The financial development literature is an exemplar of the neoclassical notion that markets will self-equilibrate if left to their own devices. However, uneven or inadequate knowledge allows for different risk selection, especially in times of macroeconomic volatility[15]. The preservation of regulatory markets may impede the effectiveness of the financial liberalization policy. Based on the assumption that the informal loan market is much more efficient than the structured money market due to the lack of constraints, neo-structuralist models show that policies that move resources to the latter reduce investment and growth rates. To recapitulate, the influence of interest rates or financial policy on the real sector is determined by the country's financial development phase and the economy's structure. High real interest rates may not be able to meet both the stable and growth goals simultaneously.

It was specifically mentioned that comprehensive bank deregulation during a period of high and fluctuating inflation is extremely dangerous[18]. It was also argued that, in order to avert a financial disaster, stability should come first, followed by liberalization. Furthermore, the premise that investment possibilities abounds and that these are underutilized resources eliminates any concern about the pricing impacts of a high-interest-rate policy. If businesses rely heavily on credit to finance short-term or working capital, rising interest rates may push them to increase prices, resulting in greater inflation rates. In Nigeria, there could be a paradox in that of high interest rate policy is projected to lower inflation by reducing aggregate demand while also drawing increasing international capital inflow to offset for lower domestic investment demand. Owing to this, it is essential to ascertain experimentally if high interest rates and corresponding

changes in foreign investment inflow, among many other factors, are in fact consistent with Nigeria's economic policy goals.

2.2.5 The Classical Approach

According to the classicalist, modern economies cannot function without the usage of money and other financial tools. However, it is the veil that is utilized to transport the commodities and services that it measures and that aids in the lubrication of its dynamic motion. Any further elucidation of the nexus is expected to be hampered by the difficulties of differentiating the effect of the monetary lubricant from the real factors behind the barrier in this continuous interaction. To isolate the monetary phenomenon from the underlying forces that regulate production, circulation, and wellbeing in the development process, a sound monetary theory must be developed. It will be accomplished by a comprehensive review of money's position as a bridge between the economic past, present, and future.

Monetary theory is a branch of economics that studies the numerous financial instruments that are employed as a measure of wealth. They are thus focused with short - term and medium-term assessment, as we understand that long-term shifts in an economy's behavior must be explained by more basic variables such as structural, demographic, organizational, and technological advances. A better monetary theory must also clarify a model of how and why the financial system performs in each broad organizational setup and how it interacts with its total economic system in describing phenomena such as variations in the level of outcome, employment, wages, prices, and the balance of payments, the mix proportions of national income, and the tenacity of interest rate and protection prices, to be more accurate and rational[16].

During first period, dubbed "the era of Keynesian supremacy," invested capital was given primacy and import substituting industrialization was advocated. In the second period, dubbed

"the era of Keynesian dominance," financial development was designated prerogatives and import–substituting rapid industrialization was advocated. The importance of saving in the growth process was emphasized, and economic development was mostly conceived in real terms, with financial repression being at the heart of financial sector policy. During the 'neo-classical revival,' extensive findings of the research showed that rapid investment increase does not always lead to a favorable economic outcome, and that investment-centered growth was gloomy[19].

Fiscal conservatism enhances financial growth of the economy in two ways: first, it reduces the extent to which public debt crowds out private sector investment; and second, it gives credence to the government's efforts to sustainability macroeconomic stability, which is a prerequisite for private investment. Without a doubt, the creation of a vigorous and fiscally prudent government involved in executing the rule of law is aided by unique initial conditions and fundamental country characteristics. The front-runner countries' financial architecture convergence is consistent with a theory that proposes a connection that occur between the growth and financial system design[20]. However, that nations who chose to climb macroeconomic performance have always rebounded to a more financial institution financial system. Savers must be assured that banks would not escape with their funds or become engaged in extremely hazardous operations in a weak economy. Moreover, it has been underlined that there is a growing acknowledgement of financial efficiency improvements as an endogenous catalyst for growth, resulting in the financial system's liberation from the repressive regime. Capital flows more freely from the core to the margin in this century of worldwide than in the previous resurrection of equity globalisation. They argue that, compared to a century ago, core countries invest more than just the overall foreign capital movement in one another less in the periphery. The necessity of a

developed national financial system for attracting money from overseas investors, as well as the drawbacks of immature systems in doing so, according to them[21].

2.2.6 Supply-Leading Hypothesis

We can say that financial reinforcing causes economic growth based on the supply dominant premise. Furthermore, the introduction and extension of financial markets leads to increased savings and investments, improving the efficiency and performance of wealth creation and usage. According to this hypothesis, well-structured financial firms can endorse total economic growth, start creating and increase liquidity, collect savings, sustain the accumulation of capital, transfer cash inflow from outdated sectors to much more contemporary growth persuading sectors, and thus improve a skilled businessperson reaction in up-to-date sectors of the economy.Conclusive proof that financial integration is critical for growth was discovered in a work, as explored by that other author in a theoretical assessment of the different analytical methodologies utilized in finance literature. They believe that in order to effectively foster growth and entrepreneur move, it is essential to persuade politicians to prioritize finance industry policies and pay more close monitoring to policy cause of economic innovation[22].

2.2.7 Demand Following Hypothesis

According to this hypothesis, the financial market serves as a feedback mechanism for the economy's expansion, which also generates financial products. In light of this, developing financial markets might be a waste of resources that could be put to much better use in the initial stages of growth. There would be an exorbitant need for additional financial services as the economy grows, leading to significant financial improvement. The financial industry will be stimulated as the real sector progresses due to the increased need for financial channels. In conclusion, the demand-following theory contends that financial amplifying is essentially a by-

product or an effect of economic expansion, a stance that has lately been resurrected Any movement in financial markets, as per this alternate view, is a byproduct of a rising economy[23].

2.2.8 The Development Hypothesis

According to this idea, the level of development of financial network has an impact on economic expansion. As a result, the lack of a well-developed financial system impedes economic development[30]. This theory fundamentally promotes itself as a required model for the conception of a company idea in a free market, according to a researcher. This suggests that an economy's financial inclusion appears to have an impact on investment[24].

The relationship between the role of financial intermediation and economic growth has come under discussion once again. These roles also contribute to the saving and investing processes, which are emphasized as being an efficient conduit for capital mobilization and allocation through which the supply of loans has been balanced with the demand for investments and, of course, with the transformation, distribution of risks, and time to maturity. Austerity measures to financial policy and activities in the money market have also been linked. According to Keynesian conventional theory and policy, the monetary system can transmit the effects of monetary policy to every sector of the economy. Consider the premise that in the existence of a skillful money market, interest rate elasticity certifies the efficient distribution of funds among competing purposes. Consequently, it is also believed that the liberalization of interest rates will be accompanied by a price for the financial system's competitiveness, which will stimulate the savings rate at a given level of income and, as a result, the supply of internal capital[25].

More specifically, Shaw hypothesized that an increase in financial intermediation between savers and investors will result in a rise in the average efficiency of investments by increasing the incentives for saving and investing in real or ideal circumstances. Furthermore, by

accommodating investors' liquidity preferences, this increases the real return to savers while also lowering the actual cost to investors. Therefore, this may also result in a reduction in risk through increased operational efficiency, diversify, and, of course, a reduction in the amount of information provided to savers and investors through division and specialisation[26]. Many hypotheses have proposed that the effectiveness of the financial sector may promote social advancement and economic expansion in this regard. In order to sustain the necessary financial market instruments, it was also necessary to have access to a huge universe of depositors, financial institutions, and financial instruments. Therefore, the liberalisation of lending rates and similar policies is one of the primary government strategies used to influence the financial sector in Nigeria. However, this does result in increased competition for both price-related and non-price-related variables. But financial progress is inevitably hampered by government regulations, which also probably slow down economic expansion[27].

2.2.9. Financial Liberalization

Schumpeter's supply-leading theory, which other academics have supported, holds that financial development is positively correlated with economic expansion. Thus, financial advancement has a direct correlation to economic growth, and increases in effective capital accumulation are also associated with increases in the savings and investment rates. The fact that the entrepreneurs have access to the supply-leading funds raises their anticipation and creates new opportunities allows them to broaden their range of ideas. This is another of the most important benefits of the supply-leading strategy. Having financial development responsive to developments in the real economy is another thing. The government must finance the economy in order to achieve full employment. Additionally, when government spending goes up, income and total demand go up

as well, driving up demand for money. This demonstrated the need of rapid economic expansion, which fuels demand in the financial sector[28].

Economists have long observed that as a country's per capita income rises, its financial assets develop faster than its country's income or national product. Advanced economies such as Europe, the United States, Japan, and others have been mentioned as good illustrations of this general finding since their financial assets have increased faster than their gross national products (GNP). The works of some author are very clear on this observation[29]. Several economists believe that as a country's wealth and income rise, so does its financial system, which becomes progressively rich in capital instruments, institutions, and markets. Due to this, financial expansion outpacing real output growth has become a typical occurrence in most industrialized economies. There are theoretical disputes about the importance of financial systems in economic growth; many economists believe it is little or inconsequential, whereas others believe it is crucial. The financial system, for instance, does not stimulate economic growth; rather, it reacts to changes in the real sector[30]. In contrast, some authors emphasized the positive role of financial systems in economic growth. Evidence demonstrates that financial development indicators are closely connected with economic growth. They also agree because a well financial system is necessary for long-term economic progress. Two important arguments have evolved from the financial intensification literature, which extends formal theoretical examination of the nexus between growth and financial widening to developing nations. One, that increasing real money balances is a good sign for economic growth, and two, that the level of financial expansion influences economic growth. Economists such as have conducted empirical research to support these claims on a worldwide scale[31].

2.2.10. Financial Repression

This explains as the government regulations, legislature, and other not market constrictions that prohibit an economy's financial intermediates from performing at their full potential. Interest rate ceilings, liquidity ratio requirements, capital adequacy requirements for banks, capital controls, constraints on entering the market into the banking industry, credit ceilings or limitations on credit granting directions, and government ownership or dominance of banks are all policies that lead to financial suppression. Economic growth is harmed by austerity, according to economists[32].

2.2.11 Impacts of Financial Repression

It is logically obvious that financial deepening hinders growth since it causes suboptimal capital allocation, considerable capital interbank lending costs, and reduced rates of interest to savers. The empirical fact on the effect of reducing financial repression, that is, financial deregulation, on growth validates this perspective, however there are a variety of mechanisms through which deregulation promotes growth. The negative relationship between financial expansion and growth does not automatically imply that nations should adopt noninterventionist methods of financial improvement and do away with rules and regulations. Due to the deregulation of their financial markets, many emerging nations are now in a mess, which is also made worse by external shocks to their economies. Despite this, financial liberalisation has long-term advantages even while it increases volatility in the near term. Furthermore, owing to uncertainty, all financial regulations by the government might not produce the optimal atmosphere for financial growth[33].

2.2.12 Financial Intermediation

Several economists penned this down that, financial intermediation is an avenue by which financial institutions bring both deficit spending and surplus spending together. Such that, the bringing together of this units is likely to result in the deepening of the financial system. This is to say that,it will generate more investment opportunity in the economy through the financial deepening approach. The finance system of an economy fast-tracks economic act. this implies that it promotes the movement of money to the one that maximise it that is, the area in the financial activity in which the funds provide the maximum return social according to an author's contribution. This position is supported by the opinions of several other academics, who said that financial integration encourages growth since it makes it possible to obtain a greater rate of interest on capital investments, which in turn makes it possible to adopt effective financial structures[34].

Growth and financial advancement are highly interdependent on per capita income, which affects the level of financial depth to some extent, whereas financial sector development can boost to long-term economic growth[35].

2.3 Overview of Nigerian Financial System

Nigeria's financial sector has made up of a variety of organizations, tools, and rules. Based, on the Central Bank of Nigeria, the financial sector represents a collection of financial consistency, organizations, and agents that interact with one another to promote economic growth and progress of a country in most economies throughout the world. Like most countries, the financial sector is crucial to the aggregation and distribution of deposits for useful purposes. Additionally, it enhances portfolio management, reduce the risks that companies and enterprises confront in their manufacturing operations, and protect the economy from outside upheavals.

Additionally, the structure rewards a tremendous degree of specialization and as well economies of scale and offers connections for various economic industries[36].

The formally and informally industries are two distinct of the Nigerian financial system. The internal moneylenders, frugality collectors, financial intermediaries, and all varieties of "Isusu connections" are included in the unorganized sector, which lacks a formalized administrative structure and a structured rate structure. Some academics contend that because of this sector's underdeveloped status in Nigeria and lack of integration with the formal banking institutions, it is difficult to determine its precise size and how it will affect the country's economy. Moreover, banks and other non-bank financial firms make up the private industry. Bank establishments are those that accept deposits.They serve as intermediaries between deficit units economic areas, moving funds to promote trade and capital expansion. They include financial firms, co-operative and business banks, development banks, central banks, and others. Evidence of non-banking firms include money markets, capital markets, insurance companies, retirement funds, and others. Despite not acceptance of deposits, a few of these organizations perform intermediation functions, such as moving funds from a particular sector where there is surplus to another where deficit is within the economy and where activities are abounded, such as capital and money market. The regulating bodies for the banking markets are the Federal Ministry of Finance, the Central Bank of Nigeria (CBN), which serves as the top organization in the financial markets, and the Securities and Exchange Commission (SEC), which serves as the top body in the capital market. Government-run institutions include the National Deposit Insurance Corporation (NDIC), the National Insurance Commission (NAICOM), and the National Pension Commission (PENCOM)[37].

Finance Industry Reform programme in Nigeria Periodic modifications have been made to the Nigerian financial system. The threats faced by fundamental developments like globalization, technical innovation, and the banking collapse have prompted the improvements to shift in reaction. The modifications improve the functioning of the market, avert financial crises, and uphold moral norms. The Banking Statutory instruments were put into effect in 1952, marking the start of Nigeria's financial reforms. So, when 1987 financial reforms were under way, the banking system was severely weakened. The modifications included a credit expansion cap, underwriting standards, exchange rate restrictions, bank rate controls, discretionary monetary conditions, and many other direct financial control tools. The banking system was similarly closed to newcomers. As a result, the reform package of this era included, among other things, the dismantling of interest rate regulation, deregulation, and the formation of a market-based autonomous foreign exchange market.

A few liberalization initiatives were suspended, then resumed. This exemplified Nigeria's inconsistent policy and implementation. In the middle of 2004, a new stage of banking reforms was put into effect. It was stated that the mid-1980s Structural Adjustment Program liberalisation measures were badly maintained, the banking industry was viewed as being weak and splintered, and financing for short-term excess returns was commonly used in place of profitable individual projects. The banking industry need consolidation and improved supervision to become bigger. The 2004 reforms included the following key elements: The required standard of bank capitalization should be raised from N2 billion to N25 billion, and banks must compliance by the end of December 2005. In order to maintain public sector deposits and take part in the Dutch Auction System, that also enables them to purchase foreign currency, only banks that satisfy these requirements are permitted.

1. Mergers and acquisitions of financial institutions to consolidate the industry.

2. Withdrawal of public cash from banks in stages.

3. Implementation of a risk-based, rule-based regulatory framework.

4. Adoption of a regulatory system that is zero-tolerance.

5. The return reporting process is automated.

6. Strict implementation of the systemic banking distress contingency planning framework, among other things.

A couple of marginalization took place after the 2004 financial changes were passed, bringing the total number of commercial banks in Nigeria down from 89 to 25. The banks generated $3 billion from local capital markets and $652 million in foreign investment into the Nigerian banking system to meet the increased capital criteria. This modification was made in order to enable Nigerian banks to fully involve in regional and global capital sector.

On the capital markets end, the markets are trending upward. The aggregate volume and value of transactions, as well as the overall number of transactions, have skyrocketed. With an annual growth rate of 37.3 percent, market capitalization has increased dramatically (from N2.1trillon in 2004 to N2.9trillion in 2005). The banking restructuring program, which lead to innovative listing (equities and bonds), supplemental shares, and price increase in the equities sector, drove these growth rates. Finally, the reforms had a significant impact on the financial system's growth. With major organizations and operators, various financial assets, and an expanded regulatory framework, the system evolved from a primitive one at its founding to a more advanced one in 2009.

2.4 The Nigerian Financial Sector Reforms: The Journey So Far

There were many economic problems that affected the African continent. Just a some of the problems were enormous budget deficits, enormous balance of transactions deficits, increasing low income, high unemployment, constrained financial markets, and declining terms of trade on the global market. Domestic policy failures and insufficient institutional capability have been considered to two primary causes of economic crises[38]. This only means one thing: the deployment of an adequate macroeconomic policy framework, as well as the presence of high-quality establishments, are required conditions for growth and economically efficient management anywhere around the world. In July 1986, the Structural Adjustment Program (SAP) was implemented in an attempt to correct the macroeconomic governance structure. The financial sector reform was one of SAP's components, with the goal of enhancing efficiency among other things. Reforms are based on the need to reposition and realign an established order so as to achieve a more effective state.

To improve its competitiveness and potential to play a critical role in financial investment, the financial sub-sector must be restructured. There is a need to broaden and realign the banking industry for growth in order to become incorporated into the worldwide financial architectural style and emerge a financial system that is consistent with regional cooperation necessities, savings mobilization, and good practice, according to anecdotal literature. The fundamental goal of the reforms was to ensure a stable and efficient financial sector. The Nigerian financial regulations, he added, were aimed to help the banking industry build the necessary sturdiness to aid the country's economic development by effectively fulfilling its financial intermediation job. He went on to say that one of the program's main goals was to secure the safety of "deposited"

money, as well as to prepare banks to perform active development functions in the Nigerian economy and to become key players in the sub-region, region, and worldwide financial markets[39].

The financial industry changes were part of the Structural Adjustment Programme (SAP), which began in 1986 and ended in 1992. The initiative was launched shortly after the IMF loan proposal with transitional arrangements was rejected, a choice that reflected a broad agreement. Deregulation of interest rates, exchange rates, and entry or exit into the banking business were among the most significant financial sector reforms undertaken. Numerous different indicators have included formation of the NDIC, the boosting of regulation and supervision organizations, an upwards evaluate of capital adequacy benchmarks, capital market liberalization, and the liquidation of some distressed banks whereas the Central Bank decided to take over management of others. Government shareholdings in certain banks were also sold to the private sector.

2.4.3 Establishment of the Nigeria Deposit Insurance Corporation (NDIC)

Deposit insurance was principally developed to defend the banking system against a potential bank run (free and open demand for cash by savers), which may paralyze the financial intermediation mechanism, destabilize the payment platform, and have catastrophic macroeconomic consequences. Small depositors are also protected from damage in the case of bank bankruptcy by these systems (such as underlying formal and apparent informal deposit insurance plans), which provide the nation with a formal and reliable method for rectifying faltering bank conditions. The NDIC was founded in response to economic conditions under the Structural Adjustment Programme (SAP), particularly policies pertaining to bank stakeholders support, as well as the painful experience of past insolvency in Nigeria and the lessons learned from other nations with bank deposit insurance schemes. The NDIC was founded by Decree No. 22 of 1988 and is responsible for the following tasks.

(a) Insuring all deposit liabilities of authorized financial companies operating in Nigeria so that the Nigerian banking system can be trusted. Insider deposits (i.e. deposits made by employees) and counter-claims, in which a client uses one type of account to acquire assets another, are two deposit liabilities that are excluded.

(b) Assisting depositors in the event of impending or actual financial difficulties at banks, specifically where payment stoppage is feared and public trust in the banking system is harmed. One example of such assistance is (1) taking over the administration of a failing bank. (2) Recommendations for specific improvements in the insolvent bank's management (3) There is a merger with another bank.

(c) Assuring payments to depositors in the event of an insurance bank's or financial institution's impending or actual halt of payment, up to a maximum of N50, 000 of available and accessible deposit in the occurrence of collapse,

(d) Supporting monetary authorities in developing and implementing banking regulations to guarantee healthy banking practices and competitiveness amongst banks in the country. The corporation has had a considerable impact in two areas: the development of bank directors and top management employees, as well as support to insured banks with liquidity issues. NDIC has made major contributions to the Financial Institutions Research Centre's budget since its creation (FITC). Under the scheme, N2.3 billion in financial aid was offered. More importantly, the relevance of the NDIC was brought to the forefront in 1994 and 2006, a situation where almost half of the country's financial firms were engulfed in turmoil, and during the 2004-2005 bank recapitalization exercise[40].

2.4.2 The Banks and Other Financial Institutions Act (BOFIA)

The Financial Decree of 1969 and the CBN Act No. 24 of 1991, which had a significant negative impact on the Nigerian financial system, were both abolished by the Banks as well as anotherfinancial Act No. 25 of 1991.The decree and revisions greatly increased the powers of the CBN in relation to the management of macroeconomic policy and responsible economic systems in the economy, after a further reform of the CBN Act of 1991 in 1998 and 1999. The CBN was also given more authority in the planning and evaluation of monetary and financial policy as a result of the amendment.

2.4.3 Introduction of Prudential Guidelines

The CBN released prudential guidelines in November 1990 with the aim of maintaining a healthy, secure, and productive banking sector. It is intended to oblige as a guidance for banks in order to: (i) safeguard a more proactive stance in their credit portfolio categorization, provisioning for dormant facilities, credit portfolio transparency, and defaulting asset interest accrual. (ii) Ensure consistency in their approach in I above, as well as the accuracy of reported accounting data and operations. The failing of the market to not only represent, but more significantly, control a depository's risk exposure is the ultimate argument for cautious rules. As a result, the goals of prudential rules are to limit such risks. Prudence rules' goals are thus to secure depositors' interests as well as the financial system overall.

In the same spirit, it was also highlighted that the bank capital base was equally strengthened during the time under consideration; specifically, starting in 1992, this had an influence on the minimum requirement for commercial paid up capital, which doubled from N20 to N50 million. The minimum paid-up reserve requirement for commercial banks grew from N50 to N500 million as of December 31, 1998, as a result of the depreciation of the naira, the pressure of

inflation, and the exhaustion of capital funds by dormant loans. Older banks were reluctant and given a two-year deadline to strictly adhere to this, but newer, emerging banks were given little choice but to follow suit. As a result, in 2002, it was implemented that there had been an increase from N500 billion to N2 billion. In an effort to adjust to the internal situation, this amount was then strictly adhered to by being raised from N2 billion to N25 billion on July 6, 2004, with a pipeline to meet this demand by December 31, 2005.

2.4.3.1 Introduction of Universal Banking

The Central Bank of Nigeria implemented the universal banking policies in 2001, abolishing the previous classification of banks based on their business activities. This is a system that allows retail and wholesale bankers to engage on an equal footing. The line between general merchandise banking is blurred.

2.4.3.2 Establishment of More Discount Houses

There are three discount institutions which were granted licences in 1992 in an effort to encourage the growth of a second-hand market for public debt securities and lessen the government's reliance on the CBN to finance its deficit. The expectation was that the discount firms would enhance the primary and secondary marketplaces for government assets in order to providing funds between banking firms.

2.7.3 Removal of Credit Ceilings

Credit restrictions on banks deemed healthy by the CBN were relaxed in September 1992. If a bank met CBN rules on specific stated criteria in the previous three months, it was declared healthy. Cash reserve, liquidity ratio, regulation and supervision requirements, statutory minimum paid-up capital, capital adequacy ratio, and strong leadership were among the criteria

used. Using these criteria, around 80 banks were deemed healthy and were not subject to credit ceilings[59]. For selecting which banks are able to apply in the official international exchange market, the same standards were used.

2.5 The Nigerian Bank Consolidation Programme

To strengthen the Nigerian banking sector, the Central Bank of Nigeria's governor launched an initiative in 2004 or 2005. This was one of the CBN's thirteen goals. As a result of this change, weak banks replaced strong ones in the banking sector. In actuality, there were 89 banks before this development, but since the banks were dramatically reduced to 25, the majority of them are unable to fulfil the CNB's new requirement of at least N25 billion by the end of December 2005. However, the financial sector in Nigeria as a whole has seen significant changes. And this latest development led to the following:

a) Withdrawal of government funds from banks in stages;

b) Deployment of a risk-focused and rule-based regulatory system;

c) Adoption of a zero-tolerance regulatory framework, particularly in the field of data and information rendition/reporting.

d) Using the electronic Financial Analysis and Surveillance System, banks and other financial organizations can automate their resource rendition operations (e-FASS).

e) The formation of an Asset Management Company as a critical component of the distress resolution process.

f) Encouraging the enforcement of dormant laws, particularly those relating to the issuance of dud cheques and the statute relating to the Board of Banks' fiduciary duty in the event of a bank failure.

g) Closer cooperation with the Economic and Financial Crimes Commission (EFCC) in establishing the Financial Intelligence Unit (FIU) and enforcing anti-money laundering and other economic crime initiatives.

h) The mint's renovation and successful management. The chaotic approach in which financial sector changes have been executed in Nigeria60 has been one of the primary hallmarks of the reforms over the years. In Nigeria, different regimes mean different reform strategies and the abdication of old ones. This discontinuity causes a bumpy reformation, which obscures the evaluation and consequence of these reforms.

According to Fisher, access to financial services more financial resources being mobilised in the formal banking system, less restrictions on bank liquidity, and more money accessible to fund initiatives. This group includes; microfinance, credit unions, stock exchanges, insurers and banks institutions, and money lenders. The preceding examples demonstrate both positive and adverse effects of monetary aggregates.

2.5.1 Financial Deepening: A Positive Role

• Financial integration may increase the cost of concealment by enacting stronger laws that allow businesses to claim credit for creative activity.

• Financial inclusion may lower supervision and vetting costs, removing agency issues and increasing the rate of innovation.

• Financial expansion eliminates credit limits by enabling the use of contemporary technology in order to promote the growth of innovation enterprises.

• Financial market depth improves the efficiency of converting savings into investments and country economic prosperity.

• Financial deepening can help to mitigate national and worldwide financial and economic disasters.

• Financial deepening can boost official government initiatives by removing regulations lending, limiting interest rates, removing entry obstacles for foreign financial organizations, and privatizing the banking sector.

• Financial deepening strengthens price procedures while also boosting market competition, which raises deposit interest rates, resulting in higher savings rates and more funds available for investment.

• Financial depth and more competition may diminish relationship lending, allowing borrowers to finance their investments with a variety of options.

• Financial development has the potential to direct economic resources toward productive purposes.

• Financial development helps both company governance and uncovers valuable business prospects.

• The benefits of foreign direct investment are enhanced by financial development.

• Financial deepening decreases inequality by increasing the real income of the poor proportionately more than the rich.

• Financial deepening helps to reduce poverty in Nigeria by reducing risk and increasing investment opportunities for the initial capital sources. Finally, the financial sector diversifies its investments by employing an intermediary strategy.

• Through the merging of capital from several investors, public investment diminishes highly liquid, low-turn assets in favor of high-return options.

• Financial deepening delivers valid information while also lowering transaction costs for regular investors, resulting in improved investment returns.

• Financial diversification can promote regional capital generation.

• Financial deepening can help with resource allocation.

• Financial deepening might trigger the flow and accumulation of other relevant variables.

2.5.2 Financial Deepening: A Negative Role

Financial depth and more competition may limit relationship lending, destroying information capital and increasing asymmetric information. Increasing economic market rivalry may reduce profit margins and increase bank financial instability. Reduced profit margins may lead banks to cut corners when it comes to loan monitoring. As a result, if exorbitant risks are taken in the face of rising competition, financial inclusion may result in financial calamities.

High levels of risk-taking in financial markets may result in a large number of banking crisis, triggering a bank run and financial destabilization. Anticipation volatility and asset supposition can have serious negative effects for an economy.

2.6 Conceptual Issues

Financial deepening is an idea wherein financial institutions assist financial service providers in developing and delivering financial services at an affordable rate in order to enable business growth. The financial deepening actively draws savings and idle funds and distributes them to entrepreneurs, firms, individuals, and governments for investment projects and other purposes with the goal of generating returns, which is the foundation for economic development[41]. According to a research, financial deepening includes an increase in the money supply to GDP ratio.Financial deepening is quantified by connecting monetary and financial numbers such as

M1, M2, and M3 to the Gross Domestic Product, according to the study (GDP). The World Bank described it in 1989 as an increase in asset stock. This is a phenomenon including expertise in financial roles and entities through which structured home institutions and markets interact with overseas markets, according to an author[42].

Using different organizational structures, economic growth acts as a stimulus for economic development[64]. This aggressively mops out now and attracts the wellspring of savings and inactive funds, allocating them to entrepreneurs, enterprises, individuals, and the government's investments and also some other activities with the goal of profit yields. The financial system is critical in marshaling and assigning savings for effectivetenacities, as well as giving monetary supervisionassemblies and the groundwork for managing liquidity in the system. It also benefits firms and businesses decrease the perils they antagonize in their manufacturing processes, boost portfolio divergence, and defend the economy against the shocks of worldwide economic challenges[43].

Ever since era of the structural adjustment plan (SAP) in 1986, the financial companies have undertaken numerous policies aiming at financial inclusion and lowering the level of financial oppression in the country. These rules were designed to promote efficient financial engagement for the growth of small businesses. Although the Nigerian banking sector has undergone many reforms, it has yet to overcome the system's financial gaps. Nigeria's financial reforms began with the Banking Ordinance of 1952. In 1986, the financial sector was liberated, resulting in a policy change away from direct supervision and toward a market-based strategy, particularly in terms of financial management, risk management, and asset management. For so many years, the capital market has undergone numerous adjustments, particularly in regards to the capital needs of operators.

Financial changes were needed by the need for financial deepening and its consequences, which have been a recurring trend in the Nigerian financial system. Considering the problems in the financial system, reforms deemed imperative. Systemic crisis, internationalization, technological advance, and financial disaster, according to some schools of thought, are all examples of this insufficiency. Reforms are constantly aimed at strengthening the system, preventing systemic crises, bolstering market mechanisms and ethical standards, preventing fraud, and attracting investors[44].

2.6.1 The Concept of Financial Deepening

The accelerated accumulation of financial expansion can be referred to financial enhancement relative to non-financial affluence of output[14]. According to a more comprehensive definition, financial integration takes place once stock markets tools and stakeholders (banks, formal financial entities, and companies) collaborate to lower the costs of compliance, payment system, and details in required to carry out five main tasks, such as:

i. Promote the exchange of products and services.

ii. Gather and combine a lot of investors' savings.

iii. Gather and analyse data on the businesses and possible investment projects, directing public funds to some of the most beneficial purposes.

iv. Monitor your reserves, practice corporate governance, and

iv. Monitor your investments, practice corporate governance, and

Financial development is explained as an increase in the availability of financial prospects in the economy. It is anticipated that the independent factors' positive and substantial coefficients will cause the response variable to rise. This indicates that when turned into productivity and

stimulating market demand, cash equivalents, loans to the local sector, commercial-central bank assets, and commercial bank deposits function as an encouragement to the real GDP grow in the nation.

2.6.2 Financial Deepening and Economic Growth

RGDP or the explosive growth of a country's economy are both examples of economic growth. Economic growth can simply be defined as an upward shift in a country's manufacturing output of products and services that expands over time. A rise in the economy's supply of financial assets is referred to as financial deepening. Thus, the total of all investment portfolio measurements provides an approximation of the magnitude of financial inclusion. This implies that the indicator of economic broadening must take into account the broadest variety of investments, including broad money, the worth of share market shares, money market funds, etc. According to his study by state-owned banks, more people may have access to finance as a result of improved financial sector control and safety. By extending credit, the financial firm has the opportunity to increase savings and direct them toward the economy's deficit sector. High levels of financial intermediaries in the finance industry are necessary for this. Such a convergence of the deficit and surplus expenditure units is likely to trigger the financial sector to become even more deeply rooted[45].

2.6.3 Financial Deepening, Economic Performance and Development

Financial-deepening indicators because financial deepening (FD) entails a rise in the quantity of financial assets in the economy, it's critical to create some measurements of the full spectrum of financial assets, including money. This will entail locating these financial assets, calculating their values, and summarizing them. One broad measure of financial deepening is the total value of all financial assets; the other, as previously mentioned, is the growth rate of per capita real money

balances. Broad money (M1, M2) is included in the spectrum of financial assets, and the sum of these financial assets can simulate one of the broadest indicators of financial deepening. The access to data for some of these financial assets is a difficulty but combining them to constitute a broad measure of financial depth is not. Data on the value of shares and money market funds, in specific, may not be available due to Nigeria's limited and underdeveloped capital markets. Exception of wide money, getting regular annual data on all financial assets is equally challenging (M2). If information on these financial assets had already been accessible, the level of financial intermediaries, which is also a significant component of financial deepening, would have been the total of these financial asset measurements[46].

Other aspect to consider is that rapidly rising inflation rates owing to devaluing usually result in a drop in the purchase purchasing power of money, causing owners of that currency to lose out on actual goods and services. This is the primary reason rational economic agents choose to invest in gold, physical items, land, and foreign currency over local currency. Some other option is to hoard foreign money, which raises the need for a cost-benefit study of dollarization to assess how it impacts growth in the economy. If there are no transaction costs, an independent country would choose to use its own currency to avoid paying seigniorage to a foreign government (i.e., costs involved in exchanging domestic currency for, say, the US dollar). If transaction costs exist (which they frequently do in underdeveloped nations experiencing devaluation and severe inflation), foreign money would be utilized, which would entail paying seigniorage. Seigniorage, as a cost resulting from a high demand for foreign money, is projected to have a detrimental impact on growth and development. If the analysis of dollarization yields benefits, however, the influence of seigniorage on growth is projected to be favorable.

Several research were undertaken in the 1990s to look at the elements that influence long-term economic growth. Being one of the most important research projects. Huge fiscal deficits, poor infrastructure, and ethnicity variety or divisiveness are all bad aspects. All of these issues are amplified by spillover from neighbors. Other prominent economist has done other substantial long-run endogenous growth experiments. A few of these long-run variables have also been discovered for use[47].

2.6.4 Impact of Bank Credits on Inflation

Variations in inflation, exchange rate, interest rate and term structuring, and positions taken by active or passive banks are clearly affected by changes in the value of money over time. In an inflationary climate, financial tools and assets used by the banking sector are susceptible to changes in money value or buying power caused by inflation. While banks, as reputation-based institutions, build trust through the shares they hold, inflation can lead equities to liquefy. However, there are several reasons why credit market movements, specifically in bank lending markets, could be critical to the economy. For example, economic theory has a long history of studying the relationship between real and financial variables, and hence between credit developments and business cycle variations. Moreover, some studies have discovered empirical fact of a relationship between exorbitant credit expansion and the establishment of asset price discrepancies, which could eventually lead to macroeconomic instability. More broadly, changes in bank loans may reveal important details about the status of the economy, notably the strength of inflationary forces[48].

2.7 Review of Empirical Studies

2.7.1 Impact of Bank Credits on Economic Growth

Authorities and/or market control enforce reserve requirements on banks, thus an adverse shock limits lending capability. As a result, banks are compelled to strengthen lending rules in order to minimize credit volume and rebuild the Capital Asset Ratio. Non-price loan terms show credit availability and are used as lending guidelines. The amount of credit available decreases as loan conditions tightens. They look into the influence on consumer, mortgage, and commercial credit individually. Owing to credit restrictions, expenditure is directly impacted when access to credit declines. They calculate the impact of credit on the associated spending metric for each category of credit. A positive relationship between credit and consuming does not always imply that credit causes spending. Instead, it can be the result of reverse causality, where credit leads to expenditure. Even in the lack of credit restrictions, the parameters will flow together if families and businesses decide to loan to finance their purchases. The return loop from revenue through bank, company, and family accounting records is the last link.

The eventual effect of a CAR shock on macroeconomic variables is bigger than the immediate effect when these debugging tools are taken into account. As bank loan reduces, the capital-to-asset ratio gradually improves. The denominator of the capital/asset ratio decreases as a result ofbank deleveraging, which raises the ratio. The stringent monetary and credit policies contained in stabilization packages have two effects on investment: they improve the real cost of bank loans, and they enhance the opportunity cost of retained earnings by rising interest rates. Both strategies boost the user cost of capital and cause investment to fall. In the real world (for example, through investment), credit limits do decrease efficient supply. Inflation expectations will ensue if these impacts are greater than the impacts of restrictive credit on demand. Higher

inflation may reduce demand for bank deposits, prompting banks to restrict credit supply and, as a result, spending drops. High inflation has a negative impact on economic performance by causing distortions, increasing rent seeking, and boosting risk premia. Therefore, central bank independence should benefit economic performance. Inflationary pressures mean less long-term financial activity. Brokers will lend less and allocate money less efficiently in high-inflation economies, and equities markets will be smaller and less liquid[49].

A paper approximated inflation models for Malaysia while taking bank lending into account[75]. The unrestricted error-correction model (UECM) was chosen because it is suitable for small sample analysis, such as the current study, which included annual data from 1973 to 1996. The findings of 'bounds' tests confirmed that inflation and its causes, specifically import price, money supply (M3), bank credit, and real income, have a long-run equilibrium relationship. Import prices and real-income variables are major contributors in the Malaysian inflation process, according to the calculated UECMs. Unlike prior research, monetary variables such as money supply and bank credit are found to be unimportant, but the occurrence of a co-moving connection suggests an indirect impact on inflation. The results have important consequences for fiscal policies aimed at reducing inflationary pressure, since they provide an option to monetary targeting (M3 and bank lending) with analogous direct inflationary consequences.

The premise that income distribution has an independent impact on domestic saving rates across nations is tested empirically, and specific mechanisms for income inequality to affect private saving rates are investigated. The outcomes of cross-sectional and panel regressions reveal that inequality has a comprehensive, favorable effect on private saving rates, which is dependent on financial market development and credit available to the private sector. The aforementioned relationship between house prices, monetary variables, and the vector

cointegration replacement parts could be used as an error correction model in a VAR model based on economic theory. According to the findings of the projected vector error correction model, a 1% rise in the consumer price index causes a 1.36 percent decline in bank credits in Ireland[50].

Additionally, a limits test and an unconstrained ECM was used to examine the short- and long-term impacts of bank lending on inflation in Iran, a nation with such a long history of interest-free banking systems. Irrespective of how much the residuals are stationary, integration, or cooperatively serially correlated, the method presented in this study may test the existence of long run connections. According to the findings, bank lending, import prices, real GNP, and black-market exchange rates are the key long-term predictors of inflation. Bank credit, meanwhile, has little immediate impact on price[51].

Employing quarterly data for the period, examine the impact of inflation on Ghana's financial progress (1990-2008). To address these concerns in the case of Ghana, the study used the Cointegration technique provided by the Granger Causality Testing process and the Conditional Least Squares approach. The two variables have a negative correlation, according to pair-wise correlation analysis. Regression analysis, on the other hand, generated contradictory results: the association between the two variables was proven to be positive in the short run, but no relationship was found at all in the long run. Moreover, whenever the ratio of private industry loan to GDP and the market cap ratio were utilized as measures for financial growth, a unidirectional causal connection was shown between inflation and financial sector development. Furthermore, it was suggested that the country take a more comprehensive model of financial sector legislation, as financial development does not produce inflation or inflationary pressures[52].

A further study used annual data set from 1964 to 1980 to look at the dynamic link between inflation and economic deepening in Ghana. Private Credit (scaled by GDP), which examines the amount to which banking institutions channel credit to private sector activity, is the most recommended financial intermediary development measure. The study looked at whether the direction of causality between the two varies in the short and long term. The research found a twofold negative association between the two in the short run, and a uni-directional negative influence of inflation on financial development in the long run using a combination of econometric methodologies. Private Credit/GDP had a far higher inflationary effect than M2/GDP, and Private Credit/GDP was largely responsible for the lowering effect of financial development on inflation.

An author focused on demonstrating the link between private sector lending, inflation, and economic growth. Slow growth is a challenge when borrowing to the economy is limited, while hyper-inflation is a problem when credit to the economy is excessive. It employs a Vector auto regressive model comprising a set of three equations, testing for the path of relationships among the variables by using VAR Granger causality block exogeneity Wald Tests, utilizing data from world development indices. Inflation has a strong positive and significant influence on growth, economic growth has a significant and positive effect on credit to the economy, and credit to the economy has a negative and significant effect on inflation, according to the findings. Inflation granger causes economic growth, economic growth granger creates private-sector credit, and private-sector credit granger generates inflation[53].

Notwithstanding the indicator employed, empirical studies generally show a strong and significant negative link between the inflation and financial development, although the direction of causality is still not clear. Also, a threshold level of inflation has been established on the link

between the two, where inflation affects financial development differently. Using different dataset and econometric techniques some authors established significantly negative effects of high inflation on financial sector development. In particular, focusing on entire banking sector and stock market, a panel data methodology employed on pooled data for Latin American countries from 1978-2003 and established a significantly negative relationship between inflation and banking sector development. They also found high inflation to depress stock market development in Latin America countries[54].

Using a panel methodology on time series data from 1960s to early 1990s involving both bank-based and market-based financial development indicators, two researchers reported that moderate inflation has a negative effect on financial development[74, 86]. They also indicated evidence of nonlinearities after a particular threshold of inflation. For instance, it was found that a discrete drop in financial performance for countries with inflation exceeding 15% (also see, Khan et al, 2001). The intuition is that the damage on financial development is done at rates of inflation lower than the proposed threshold. However, using a Generalized Method of Moment with a dynamic panel model of 11 Middle East and North African (MENA) Countries repression, in some instances, repression is a basic attempt to protect certain sectors from inflation. In other case, financial repression that is introduced to help the government finance its own activities is a cause of both inflation and resource misallocation.Using a large cross-country sample, evidence was found for the threshold effect of inflation of about 3-6% per annum depending on the specific measure of financial development[55].

2.7.2 Empirical Literature from Developing Countries

Using Nigerian time series data from 1990 to 2011, the impact of financial development on economic growth was explored empirically. The Suggested Error Correction Mechanism (ECM) was used to apply the co integration technique. This was accompanied by the Johansen co integration test, which started with the ADF unit root test. The vector error correction, examination, and recursive variance decomposition were the following steps, proceeded by over parameterizes and parsimonious ECM. Financial inclusion, which is a ratio of money supply to GDP, liquidity ratio, interest rate, and loans to the private sector were among the variables. Development of the financial sector. Nigeria's economic growth has increased as a result of the minimum capital base and liquidity ratio. The substantial ECM, which is adversely indicated, validates the long run link between the variables and implies a reasonable speed of adjustment, according to the Johansen co Integration test. Whereas the rise of the financial sector has boosted overall economic performance, the study found that credit to the private sector did not play a substantial effect. The research suggests, among many other things, that the private sector be developed substantially[56].

In the same line, a second study examining the same topic was conducted between 1970 and 2019 by another researcher. The data analysis method used was VECM. Trade openness, credit to businesses, and credit for individuals were found to have beneficial effects on economic growth, but these effects were found to be inversely correlated with each other[57].

The importance of financial institutions in economic growth has long been recognized[93]. The financial system is critical for the mobilization of savings for good uses, as well as the supply of monetary management framework, which acts as the foundation for controlling liquidity in the system. This was the study's conclusions on the importance of financial institutions to Nigeria's

economic development. It discusses Nigeria's financial reforms and how they have favorably benefited the financial sector. Their influence to Nigeria's economic progress was also emphasized. The study suggests that policymakers should focus on total financial system growth with lower transaction costs, rather than concentrating on any of the forms, because both have equal effects on the broader economy. Economic policy is critical to Nigeria's economic stimulus and transformation to a competitive market economy, according to the report[58].

Between 1986 and 2007, research focused on financial depth and economic development in Nigeria, with the fundamental finding being that a high degree of financial deepening is a required prerequisite for increasing economic growth. Because of the central role emphasis, a high degree of financing deepening is an essential prerequisite for an economy's increasing expansion. This is due to the financial system's critical role in mobilizing savings and allocating them to the development phase. Secondary data was used in the study. Sourced during a 22-year period. The study established a link between these factors and the financial deepening index using nine explanatory variables based on theoretical foundations. The study was conducted using a two-stage least squares analytical methodology. The research also included a trend analysis. At the conclusion of the investigation, it was determined that Nigeria's financial diversification index has been low throughout time. The nine explanatory factors were also shown to be beneficial and to have a statistical link with financial deepening. However, four of the factors showed a substantial link with financial deepening: lending rates, financial savings ratio, cheque/GDP ratio, and deposit money banks/GDP ratio. According to the findings, the financial sector has failed to maintain effective financial intermediation, particularly credit distribution and a high level of capitalization in their economy. To guarantee excellent risk

management, the periodic principles should be rebuilt. Corporate governance and the averting of systemic crises[59].

It was proposed that the statistical conditions that decide the choice of our model are satisfied by the theoretical modeling criterion for all variables employed in the regression. The study's co-integration estimates demonstrated that the study's chosen independent variables described the long-run association between financial development and economic growth throughout the time financial year under review. All of the variables employed in this research were statistically significant, according to the estimate long-run parsimonious Error correction Model (ECM). The analysis also demonstrates that lending rates did not match our theoretical expectations, yet have a considerable influence on GDP. In our analysis, commercial bank loan to the private sector had the anticipated a previous anticipation sign and had a favorable impact on financial development and economic growth. Our expectations were not met. MDGP has a detrimental impact on Nigeria's financial development and economic growth. The research also found that commercial bank loans to non-financial private firms did not adhere to expectations, but had a substantial impact on financial sector development and economic in Nigeria. The commercial bank deposit to gross domestic product (RDEP) ratio showed a positive trend and has a substantial influence on Nigeria's financial development and economic growth. The results of the study reveal that the overall model remained steady throughout the study period[60].

Based on another scholars, who examined how Pakistan's economic development is impacted by financial development and economic openness. Additionally, time series data from 1975 to 2018 was employed. The ARDL model was used for this study in order to forecast economic growth, financial development, and openness throughout the short- and long-terms. The results of the estimate showed that there is a positive and statistically significant relationship between

economic growth and financial development, as well as a similar relationship between openness and economic growth. To put developing economies on a framework for the sustainability of economic growth, measures that promote financial development and economic openness were also advocated[61].

The effects of financial development on economic growth were the subject of a study by Ustarz & Fanta. For this study's secondary data, which covered the years 1990 to 2018 and Svirydzenka, UNCTAD, and WDI were used as source. This study used GMM to analyse the information gathered. It was discovered that financial development does, in fact, have a favourable impact on the agriculture and service sectors, while positive effects on industrial growth must first reach a particular level of financial development. In light of this, sub-Saharan African governments must think it appropriate to continue advancing financial development in order to outpace industrialization[62].

In a similar vein, Cheng, Chien, and Lee (2021) looked at economic expansion, information and communication technology, and financial development. Indicators of global development, the world bank's financial development, and secondary data covering the years 2000 to 2015 were used in this study. Also used were dynamic GMM panel data. Our research revealed that the financial development was detrimental to economic growth, but with a greater degree of harm than in high-income countries. ICT dispersion can therefore boost economic growth in high-income countries, but its impact on middle- and low-income countries is highly equivocal[63].

An, Zou, and Kargbo conducted study on the effects of financial development on the growth of the economy. The research study made use of annual time series data from 1985 to 2015. In order to analyse the study, we also used the dynamic and static panel data models. The results showed that in low- and middle-income countries, development financing slows the growth of

per capita income. This has led to an increase in the growth of high-income countries throughout Sub-Saharan Africa. Loan availability also has a positive impact on the growth of low-income countries, but it also has a flirtatiously inverse effect on the growth of middle-income countries and the rest of the region of Sub-Saharan Africa[64].

Fakher, Panahi, Emami, Peykarjou, and Zeraatkish, experimentally investigated the relationship between energy, finance, the environment, and economic growth from 1997 to 2016. The entry of financial enhancement as a modifying characteristic of global output, global commerce as a driver of aggregate output, and energy usage as an input of production function, nevertheless, led to the development of the new enhanced developmental state[65].

The effects of financial development and economic growth were examined by Mammadov, I., and Ahmadov. The period covered by the data, which was monthly, was 2005 to 2019. VECM estimate is also used to analyse the study. The findings showed a two-way relationship between financial improvement and economic expansion in Azerbaijan[66].

Wang, Zhang, and Zhang looked at the nexus between financial progress and the growth of the economy. This led to the equal use of secondary data from 1980 to 2018. In order toanalyse our data, the panel fully modified least approach was used. The result's aftermath reveals a direct association between financial progress and the expansion of the economy. Additionally, there is clear indication of a causal connection between financial enhancement and the growth in the outcome[67].

Ehigiamusoe looked into the connections between tourism, financial progress, and economic expansion. For the investigation, the Granger causality test was used. The outcome demonstrated the long-term and short-term causal relationships between tourism and financial development and economic growth. In order to speed up the development of the financial system and the

tourism industry, the governments of African countries should give priority to these policies and programmes[68].

Zeraibi, Balsalobre-Lorente, and Murshed evaluated economic expansion, technological advancement, and financial development. A time series of data covering the years 1985 through 2016 was used. ARDL was used in the investigation. The results showed that increasing investments in technical development revitalised the financial sector and also provided a growth strategy that was beneficial to the environment. However, it is anticipated that the adoption of this pertinent legislation will undoubtedly boost regional Southeast Asia's economic growth and environmental welfare[69].

These intellectuals; Abeka, Andoh, Gatsi, and Kawor, investigated the connection between financial enhancement and economic growth in Sub-Saharan Africa. In this study, our time series, which spans from 1996 to 2017, were analysed using the GMM. It was discovered that there was a close connection between financial and telecommunications infrastructure. Accordingly, it is advised that sub-Saharan African countries upgrade and expand their telecommunications infrastructure because doing so strengthens the financial sector and contributes to the growth of the economy in general[70].

The findings revealed that each component of the financial depth index has a strong nexus and is statistically significant. This provides actual evidence that financial diversity has a positive influence on the profitability of selected Nigerian commercial banks. As a result, the impacts of each part of financial deepening to the performance of chosen commercial banks are considerable and statistically significant[71].

In Kenya, an author investigated the impact of financial inclusion on entrepreneurial growth. The financial intensification indicators were loans obtained by entrepreneurs/SMEs, interest rates that

were accessible, savings culture, and financial sector regulation. The data for this study came from both primary and secondary sources and was collected using a descriptive survey approach. A questionnaire was used to collect primary data, and descriptive documentary analysis was used to acquire secondary data. Just before actual analysis, the acquired data were coded with the help of the Statistical Package for Social Sciences (SPSS). The study's findings were then presented in tabular form, with the use of line charts and bar charts in specific. The main findings of the study revealed that between 2006 and 2016, the growth rate of loans obtained by entrepreneurs/SMEs remained stable. The four major factors (credit availability, interest rate affordable, savings culture, and financial sector supervision) all had a positive relationship with the expansion (growth) rate of entrepreneurs/SMEs. The study proposed that the allocation and allotment procedures be improved in order to avoid bad debts and waste of expenditures. According to the study, there is also a need to implement an appropriate and doable policy to ensure that loans developed to customers are distributed fairly across SMEs across the country to ensure that the benefits of economic and financial development are shared by a much larger population, among other suggestions. The report also advised that interest rates be realigned in accordance with existing legislative regulations to prevent financial lending organizations from exploiting entrepreneurs and small businesses. A study should be conducted, according to the scholar, to provide a model for determining the right loan rate that will assure the country's consistent positive entrepreneurial growth[72].

From 1985 to 2014, Nigeria was investigated for financial depth and economic growth. The study looked at the influence of stock exchange and bank strengthening factors such amount of money in circulation, market cap, individual sector credit, and financial savings on Nigeria's economic development. The research utilizes yearly time series data from the Central Bank of

Nigeria statistics bulletin from 1985 to 2014. The study used the ordinary least square (OLS) econometric approach. The study found that both financial institution and equity financial penetration proxies had a meaningful influence impact on the economic growth. According to the report, increased involvement in the stock market should indeed be encouraged, as should limits on overseas finance and stock market admission to guarantee that even more firms are mentioned[73].

The empirical analysis uses secondary data from 1970 to 2013 to analyze the connection between financial innovation and investment in Nigeria. The model was built using the Gregor-Hansen Endogenous structural break approach and the supply-leading concept. The Unit Root Test, Cointegration Test, and Granger Causality Test were used during the study. It revealed a one-way causation between financial deepening and investment. Financial deepening also has a significance influence on local investment, according to the study[113]. Premised upon those empirical results, the research recommends that credit and goodwill societies, collectives, rural saving organizations, and other non-traditional financial institutions be better integrated into the mainstream formal financial sector in order to enhance financial inclusion for investment. It also suggested supporting financial intermediation's operational expenses in order to decrease the interest rate differential. According to the research, if these procedures are taken carefully, they will help to foster financial deepening by reducing the barriers to loan mobilization and access for investment purposes[74].

The study used vector auto regressive regressions, Granger causality, and Johansen-Juselius cointegration tests to examine the dynamic link between financial integration and economic development in Jordan over the period 1992-2014. Employing quarterly time series data, the findings revealed that financial intensification had no significant statistical influence on

economic growth in the near run. Irrespective of the proxy for financial depth utilized, the cointegration analyses indicated a statistically significant long term equilibrium link between the two variables. Furthermore, as evaluated by the quantity of credit extended to the private sector, the Causality results revealed a bi-directional causation between financial sector development and economic penetration. When the amount of savings and the money supply (M2) were employed as proxies for financial deepening, however, a one-way causal link from economic growth to capital formation was discovered[75].

Employing both quantitative and descriptive analyses, experimentally examine whether financial integration has had a substantial impact in poverty reduction efforts in Nigeria from 1990 to 2013. The study developed three models in which put at a disadvantage in rural, urban, and national areas were modelled against financial deepening indices. According to the findings, the coefficient of the wide money supply to GDP improves poverty in Nigeria. The research also revealed that the market valuation to GDP ratio and the foreign direct investment in stocks to GDP ratio had a favorable influence on reducing poverty in rural and urban areas, in both. Conversely, at all levels, the ratio of lending to the private sector and the amount of total financial planning to GDP had the inverse effect on poverty reduction. Despite enormous human and natural resources, Nigeria's poverty rate has remained alarmingly high, according to the descriptive research design. The research concluded that immediate financial sector changes are required to boost liquidity, lower interest rate spreads in order to attract depositors, and expand financial access towards the poor[115].

A study carried out research on 10 European countries, the researcher[116] opined that financial deepening will provide important role for particularly transferring funds that are created by banks to real sector, whether domestic credits created by banking sector, have any effect on

macro-economic variables such as inflation and economic growth. He carried out the research via panel data analysis, he considered annual data for 2006-2012. As a result of the panel data analysis: it was proved that domestic credits did not affect inflation but did affect economic growth[76].

An author, I.G Okafor, conducted a causality and impact analysis on financial deepening indicators and economic growth in Nigeria for a-33-year period covering 1981 – 2013. The study employed the Phillips-Peron test for unit root to ascertain the variables stationary or non-stationary state. Also using the VEC residual normality test and the Histogram-Normality test to determine of Data. The long run relationship Test was done with the Johansen cointegration test, Error Correction Model as well as the Granger causality test was also used. The results showed a long-run link between economic growth, broad money supply, and domestic credit, with a high rate of modification towards long-run equilibrium; additionally, while broad money has a favorable and non-significant effect on the economy, private sector credit has a deleterious and non-significant impact. The findings of the Causality test revealed that neither the broad money supply nor private sector credit are granger causal for growth in the economy and vice versa. According to the report, policies that favor the individual sector should indeed be enacted to make sure that businessmen also seem to have credit facilities, but even that credit is also available at a reasonable cost, i.e. at a low interest. To attain the economic aim of continuous prosperity and security, workable policies should be aligned[77].

A Case study of causal relationship between financial development and economic growth was made for Ghana. Using contemporary annual time series data methodologies and implementing the Granger causality test, Cointegration, and Vector Error Correction Model to four proxy of financial development (VECM). The actual findings revealed a one-way link between financial

sector development and economic, with the direction of causation dependent on the financial deepening proxy chosen. It was observed that the problem of whether finance leads or accompanies economic growth is dependent on the proxy of financial development. Whenever credit to the private sector (CPSY) was employed as a proxy for bank development, the study found that finance drives economic growth[78].

Whenever the ratio of broad money to GDP (M2+Y) is employed as a proxy for financial development, finance, on either hand, follows growth. The factual Co - integrating results showed that financial development and economic growth have a favorable long-run association. A bootstrapping rolling window estimate technique was used to assess the influence of capital structure on financial performance in Nigeria from 1961 to 2012. The experiments demonstrated when financial integration was a good predictor of economic growth, and even when economic growth was a good predictor of financial delving. The findings revealed the danger of drawing erroneous conclusions due to its frequent Granger causality analyses that failed to account for structural discontinuities or time variation in the link between financial deepening and economic growth[79].

Raymond OsiAlenoghena, for example, looked at the benefits of capital market and financial expansions to Nigerian economic development from 1981 to 2012120. The investigation included generating the error correction mechanisms model and analyzing the chaotic features of each series data variable using the Augmented Dickey Fuller (ADF) test. As proxies for capital market and financial expansion, a number of factors were used. Stock Market Capitalization (MCAP), Narrow Money Dispersion (NMD; including loans to the private sector), and Rate of interest (INT) all had a substantial influence on the country's economic growth throughout the research period. Additional liquidity metrics, such as the Financial Development (FID) and

Monetizing Ratio (MTR), were not important in predicting the trend in economic growth, although they did have extremely strong coefficient in the event. It was suggested that the government and other economic participants take steps to boost financial market liquidity in attempt to optimise the country's aggregate economic growth. According to the report, governmental goals should focus on expanding credit to the country's economic producing industries and monetizing the economy by providing financial services to underserved areas[80].

The influence of financial expansion on the growth of the economy in Nigeria was investigated using ordinary least squares (OLS) approaches, the Augmented DickeyFuller unit root test, Johansen cointegration test, error correction methodology, and the Granger causality test. The empirical findings showed that all of the data points used are integrated in the same order, I(1); there is an indication of a long-run nexus between the variables used; and the standardized cointegration coefficients discovered that financial integration has a deleterious long-term impact on economic growth. Consequently, financial development has a beneficial short-term influence on economic growth. According to the research, the finance-led growth theory is only applicable in the near term in Nigeria. The research also discovered proof of long-term and short-term stability in the link between real GDP and financial development in Nigeria, as well as evidence that the process of restoring equilibrium after a disruption is effectively delayed. The report also discovered that causation goes from the growth of the economy to financial expansion development, with no bi-directional causality connecting growth and finance, bolstering the demand-leading theory. The study concluded that, based on these results, the government should devise a mechanism to invigorate the micro finance sector in order to make loans affordable and accessible to micro businesses who are frequently denied credit by traditional money markets.

In the Kenyan banking industry, another author looked into the consequences of financial depth on economic growth. The study used quarterly data from 2000 to 2013 to accomplish this goal. Banking expansion financial deepening was measured using different indicators: Liquid Depreciation and amortization (LL) as a percentage of nominal GDP; Credit to the Private Sector (CPS) as a percentage of nominal GDP; Commercial Bank Assets as a percentage of commercial bank assets plus Central Bank Assets (CCBA); and Commercial Bank Deposits (CBD) as a percentage of nominal GDP. Real GDP was used to evaluate the predictor variable, economic growth. According to the findings, Kenya's banking industry plays a vital part in the country's economic development. Liquid liabilities, private sector credit, central bank assets, and commercial bank deposits all have positive and statistically significant effects on GDP, according to the empirical findings. The report suggested that existing rules be strengthened to encourage people to save even more money with commercial banks. According to the report, this should be done by boosting the rate of interest provided to clients on their deposits to encourage them to save as much as possible. The report also suggested that financial inclusion policies be strengthened by increasing access to the use of formal banking services while lowering bank transaction costs[81].

An assessment of the influence of financial inclusion on Nigerian economic growth from 1986 to 2011. The link between financial inclusion and economic development was investigated using the vector autoregressive (VAR) approach and its modifications, such as the impulse response function and var model. The results revealed that the series are cointegrated and that the variables have a long-term relationship. The VAR estimates disclosed, among many other things, that a one-year lag of growth in the economy, gross national saving as a ratio of GDP (lag 1), and exchange rate (lag 1) have significant positive influence on current economic growth, whereas

the impact of GCF (lag 1) on current growth in the economy is adverse and statistically significant. PSC/GDP (lag 2) and GNS/GDP (lag 2) were also revealed to be important predictors of M2/GDP experimentally. PSC/primary GDP's drivers include its year 1 and 2 lagged values, as well as GNS/GDP (lag 2), with both GNS/GDP (lag 2) and PSC/GDP (lag 2) having a negative influence. Finally, it is seen that M2/GDP (lag 1) and PSC/GDP (lag 2) have a considerably negative determining impact on the present level of GNS/GDP, whereas PSC/GDP (lag 1) and the prior value of GNS/GDP (lag 2) are also crucial determinants. The outcomes of the impulse response function and var model supported these conclusions even more. The report recommended that savings be encouraged in order to put more money in the hands of banks, who may then pass it on to investors looking for funding. According to the report, loan rates should be acceptable in order to encourage investors to finance for credible infrastructure investments[82].

Another discovery came from looking at the causal link between financial deepening and economic growth in Nigeria from 1990 to 2011. The data's stationarity qualities and order of integrating were verified using the Augmented Dickey-Fuller (ADF) and Phillip-Perron (PP) tests, respectively. At initial variance, the variables were found to be stationary. The long-run connection between the variables was tested using the Johansen technique of cointegration. The Granger-causation implies that there is unidirectional causality going from economic development to financial inclusion in Nigeria, as evidenced by the four (4) cointegrating correlations between the variables. Financial deepening has an influence on Nigerian economic growth, according to the research. As per the report, improving Nigeria's financial sector strengthens financial institutions and assures effective supply of finance to the private industry, allowing it to invest and entice more private sector involvement, resulting in increased output. According to the report, policymakers should establish policies that encourage financial and

capital market growth by eliminating barriers to growth and strengthening them for a sustainable and competitive banking system[83].

The Johansen cointegration test was used to investigate the dynamic causal link between financial depth, economic development, and poverty in Nigeria using yearly time data from 1960 to 2011. In a Vector Autoregressive (VAR) and Vector Error Correction Model (VECM) framework, the short - term and long causality between these variables was investigated using a simplified Hsaio-Granger causality. There was really no indication of a long-run equilibrium link between finance, economic growth, and poverty, according to the findings. As a result, the study concentrated on short-term causation. Furthermore, the findings revealed a short-run unidirectional causation from growth to poverty that was dependent on money. The study also discovered evidence of a causal link between poverty and financial depth that is dependent on growth. According to the study, a more balanced policy approach that considers other basic growth variables including institutions and physical and human capital investment might help enhance the finance–growth poverty dynamics[84].

2.8 Theoretical Framework

Development and growth have long been a hot topic in economics and related disciplines. Economic growth, on the other hand, is defined as an increase in a country's actual output of goods and services over time, or, more precisely, real output per capita (as measured by GNP/GDP). In a similar vein, he saw development as a step toward eliminating poverty, jobless, and economic disparities; nevertheless, a scholar recognized that the overall goal of the initiative must be to increase living standards and welfare. According to one author, the insufficiency of assets and the limited capacity to funding the requisite capital investment is the main economic constraint on the rate of development mostly in developing countries. This implies that

traditional pre-take-off communities were unable to boost wealth creation in enhancing production in relation to economic growth owing to insufficiency of funds. Nevertheless, "the mere generation of money cannot speed economic progress since the fundamental pre-conditions for it are missing". Entrepreneurial abilities, as well as the motivation and aptitude to leverage resources, are prerequisites[85].

The groundbreaking work of two researchers on the link between financial and economic growth happened to fall around the time while most developing nations won political freedom. Following secession, developing country governments focused on development strategies, notably development planning aimed at accomplishing a better rate of sustained development and, eventually, economic development. Because development is often regarded an outgrowth of modernization and hence capital formation, the development projects first concentrated on the supply of required infrastructure in order to ensure the smooth industrial take-off in the different nations. Financial sector development boosts economic growth by improving societal productive capacity of investment and/or rising levels of savings allocated to investment in some models[86].

Others have taken the stance of modeling financial development as an organic product of the growth process, with the co-evolution of real and financial operations taken into account. A significant amount of study has been committed to establishing the connection between financial development and actual economic activity throughout the last decade[146]. Proof of a high positive association between capital formation and long-term progress has been identified at the practical level[3]. However, it has long been recognized that financial development is a multidimensional process that occurs over time, from the upsurge and advancement of bank-intermediate debt funding to the realisation of the stock market and the rising use of shares as an additional instrument for companies to raise funds[38,42]. Some scholars believe that financial development is

an excellent determinant of subsequent economic growth, wealth generation, and technological advancement. According to one theory, the expansion of the financial system generates growth by providing motivations for savers to raise their savings rate, enterprises to spend more, and manufacturers to perform harder[87].

From the other hand, there is what is frequently known to as the casino theory, which disregards the financial system as a driver for economic progress. Its advocates argue that the monetary system could have a regressive influence on development by impeding earnings growth and sharing, hence this should be controlled or nationalized. They regard the banking system as a respectable place for the private industry to profit.Notwithstanding, while empirical study has yet to come to agreement on the causal connection between economic and financial development, Patrick's "customer" and "resource" anomalies suggest that the causal link between financial and economic growth could have been in either direction. He believes that at the early stages of development, banking industry development may speed to a "take off stage," after which supply-leading events would give place to customer phenomena as economic expansion progresses. He demonstrates that, depending on the economy's level of path to the desired, the two phenomena can emerge in much the same economy at the same time. The resource phenomena, on the other hand, appears to be more widespread among emerging markets that follow in the footsteps of their previous colonial rulers[88].

It's also worth noting that, with a few exclusions, banking advancement have been slow in developing nations; but even so, it was ascertained that, while finance is important for development, the most basic and casual connections are mostly not through a wide range of financial entities and tools as in the application of suitable policies. Patrick's requirement and resource hypotheses are important since the mere presence of financial institutions and services

does not ensure economic development because ineffective policies can hinder the relationship between macroeconomic development.

Even doubters are being persuaded by an increasing corpus of theory and practice study that the development of financial markets and institutions is crucial to economic growth, instead of a diversion or a passively reaction to growth. The majority of theoretical reasoning and empirical data, according to Levine, supports a positive, first-order link between financial development and economic expansion. There's really fact that financial expansion predicts future rates of economic growth, wealth generation, and technological advancement.

Solow's model, in which the major determinants of development are macroeconomic factors, is generally the launching point for understanding about growth in the economy. Only exogenous technical change can maintain persistent rise in production per head in this paradigm. However, the Romer-Lucas paradigm of endogenous growth, in which the primary drivers of output growth may be endogenous factors, has sparked renewed interest in growth theory during the previous two decades. Due to "endogenous factors inside the economy, notably human capital as well as the level of knowledge, production per head can expand over time in this model. The relevance of financial markets in the development process is emphasized in a third tradition in the literature that stems from Goldsmith's work. While there is considerable controversy about whether financial development generates economic growth or vice versa, financial markets support growth by allowing effective inter - temporal resource allocation[89].

2.9 Summary of Gap in the Literature

However, it is glaringly obvious from the aforementioned literature analysis that there are still some questions about money and economic expansion. As a result, very little is known about the overall impact of the real financial sector's interactions on growth. In this regard, empirical

studies remained mute regarding the impact of uneven sectoral growth. As a result, supply leading theory stresses that improving the financial industry accelerates the rate of growth. Of course, the main theme of this dissertation is that the degree to which finance assists growth actually depends heavily on the concurrent growth of real and financial system. This study explicitly contends that a quickly growing financial sector causes underutilization of resources, destruction of investment rates, increased macroeconomic instability, and other factors that result in output and overall growth. The financial and real estate industries should resist expanding at a consistent rate in order to have a favourable impact on the expansion of the economy. Additionally, when one sector's growth outpaces another, the overall output will suffer. In order to encourage overall reduction in maintaining growth rate, the real sector must grow sufficiently for demand to eat up all the financial resources that were provided by this quickly growing financial industry. This study aims to critically examine this connection in Nigeria by highlighting the country's newfound interest in fostering financial development as a key driver of progress.

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Chapter Three

Methodology

3.1 Introduction

This examines the connection between economic expansion and financial development. Additionally, it looks at the best approach to take for the study, describes the where, the data source, and model specification.

3.2 Model Specification

The method employed study while discussing the relationship between financial development and economic performance in Nigeria is based on the endogenous theoretical framework. It follows the finding of two researchers[1] where financial development is said to spurs economic performance. To accomplish its goals, the study adopts the model put forth by some authors with a minor modification, in which the log of Gross Domestic Product (GDP) serves as a proxy for economic performance and the financial sector's development is represented by domestic bank credit to the private sector divided by GDP. Many aspects of Nigeria's financial sector intermediate development are evaluated using the GDP component[2]. Also, the performance of the Nigeria economy with relations to the microeconomic environment can be linked to three control variables. The choice of these control variables is influenced by some earlier empirical studies on this subject of interest. The model is stated as follows:

$$Log(GDP) = f\left(\frac{BCPS}{GDP}, \frac{M2}{GDP}, \frac{LL}{GDP}, \frac{BD}{GDP}, OPN, GEXP, GFCF\right) \text{ ---------- (i)}$$

Where

Log (GDP) = logarithm of Gross Domestic Product as proxy for economic performance

$\frac{BCPS}{GDP}$ = Ratio of Bank credit to the private sector to Gross Domestic Product,

$\frac{M2}{GDP}$ = Money supply (MS) as proxied by M2 divided by Gross Domestic Product,

$\frac{LL}{GDP}$ = Liquid Liabilities divided by Gross Domestic Product,

$\frac{BD}{GDP}$ = Bank deposits divided by Gross Domestic Product,

OPN = the ratio of total trade (exports plus imports) to Gross Domestic Product,

$GFCF$ = Gross fixed capital formation (% of GDP)

The mathematical (exact) form of equation (I) above is expressed as

$$Log(GDP) = \beta_0 + \beta_1\left(\frac{BCPS}{GDP}\right) + \beta_2\left(\frac{M2}{GDP}\right) + \beta_3\left(\frac{LL}{GDP}\right) + \beta_4\left(\frac{BD}{GDP}\right) + \beta_5(OPN) + \beta_6(GEXP) + \beta_7(GFCF)$$----- (ii)

Economic relationships are inexact, therefore recasting equation (II) in an econometric model we have

$$Log(GDP) = \beta_0 + \beta_1\left(\frac{BCPS}{GDP}\right) + \beta_2\left(\frac{M2}{GDP}\right) + \beta_3\left(\frac{LL}{GDP}\right) + \beta_4\left(\frac{BD}{GDP}\right) + \beta_5(OPN) + \beta_6(GEXP) + \beta_7(GFCF) + \boldsymbol{\mu}$$ - (iii)

β_0 = is the constant

$\beta_1$to β_7 are the coefficient of variables.

$\boldsymbol{\mu}$ = error term

Model (iii) can as well be presented as

$$y = \beta_0 + \beta_1(bc)_t + \beta_2(m2)_t + \beta_3(ll)_t + \beta_4(bd)_t + \beta_5(op)_t + \beta_6(gx)_t + \beta_7(gf)_t + \boldsymbol{\mu_t}$$ ------

------(iv)

Where

y = Log (GDP), bc = $\frac{BCPS}{GDP}$, $m2 = \frac{M2}{GDP}$, $ll = \frac{LL}{GDP}$, $bd = \frac{BD}{GDP}$, $op = OPN$, $gf = GFCF, gx = GEXP$

In analysing the nature of relationships amongst these variables of interest, the autoregressive distributed lag (ARDL) procedure as developed will be used[3]. The method is simple as it does not require pre-testing of variables included in the model for unit roots unlike other techniques. Though, the method will breakdown if the unit roots of the variable is of I(2) series. The ARDL is applicable irrespective of whether the regressors in the model are purely I(0), or purely I(1). Also, the test is relatively more efficient in small sample data sizes. The Autoregressive Distributed Lag (ARDL) model can be expressed as follows:

$$y_t = \beta_{01} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \beta_{11}y_{t-1} + \beta_{21}bc_{t-1} + \beta_{31}m2_{t-1} + \beta_{41}ll_{t-1} + \beta_{51}bd_{t-1} + \beta_{61}op_{t-1} + \beta_{71}gx_{t-1} + \beta_{81}gf_{t-1} + \mu_{1t} \ldots\ldots\ldots\ldots\ldots\ldots (v)$$

$$\Delta bc_t = \beta_{02} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \beta_{12}y_{t-1} + \beta_{22}bc_{t-1} + \beta_{32}m2_{t-1} + \beta_{42}ll_{t-1} + \beta_{52}bd_{t-1} + \beta_{62}op_{t-1} + \beta_{72}gx_{t-1} + \beta_{82}gf_{t-1} + \mu_{2t} \ldots\ldots\ldots\ldots\ldots\ldots (vi)$$

$$\Delta m2_t = \beta_{03} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \beta_{13}y_{t-1} + \beta_{23}bc_{t-1} + \beta_{33}m2_{t-1} + \beta_{43}ll_{t-1} + \beta_{53}bd_{t-1} + \beta_{63}op_{t-1} + \beta_{73}gx_{t-1} + \beta_{83}gf_{t-1} + \mu_{3t} \ldots\ldots\ldots\ldots\ldots\ldots (vii)$$

$$\Delta ll_t = \beta_{04} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \beta_{14}y_{t-1} + \beta_{24}bc_{t-1} + \beta_{34}m2_{t-1} + \beta_{44}ll_{t-1} + \beta_{54}bd_{t-1} + \beta_{64}op_{t-1} + \beta_{74}gx_{t-1} + \beta_{84}gf_{t-1} + \mu_{4t} \ldots\ldots\ldots\ldots\ldots\ldots (viii)$$

$$\Delta bd_t = \beta_{05} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \beta_{15}y_{t-1} + \beta_{25}bc_{t-1} + \beta_{35}m2_{t-1} + \beta_{45}ll_{t-1} + \beta_{55}bd_{t-1} + \beta_{65}op_{t-1} + \beta_{75}gx_{t-1} + \beta_{85}gf_{t-1} + \mu_{5t} \ldots\ldots\ldots\ldots\ldots\ldots (ix)$$

Note, β_1 to β_8 are coefficients β_0 denotes constant, Δ means difference operators in the model and p implies optimal lag length and also**μ**'s are white noise error terms. Thus,

H_0: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = \beta_7 = \beta_8 = 0$ juxtapose with

H_1: $\beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq \beta_5 \neq \beta_6 \neq \beta_7 \neq \beta_8 \neq 0$ are examined by past studies[4].

3.3 Granger-Causality Test

According to earlier studies, the study defines the following model for the evaluation in order to assess the short- and long-term causal relationships between financial development and economic achievement:

$$y_t = \beta_{01} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \lambda_1 ECM_{t-1} + \mu_{1t} \ldots\ldots\ldots\ldots\ldots\ldots (x)$$

$$\Delta bc_t = \beta_{02} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \lambda_2 ECM_{t-1} + \mu_{2t} \ldots\ldots\ldots\ldots\ldots\ldots (xi)$$

$$\Delta m2_t = \beta_{03} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \lambda_3 ECM_{t-1} + \mu_{3t} \ldots\ldots\ldots\ldots\ldots\ldots (xii)$$

$$\Delta ll_t = \beta_{04} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \lambda_4 ECM_{t-1} + \mu_{4t} \ldots\ldots\ldots\ldots\ldots\ldots (xiii)$$

$$\Delta bd_t = \beta_{05} + \sum_{i-1}^{p} \alpha_{1i}\,\Delta y_{t-i} + \sum_{i-1}^{q} \alpha_{2i}\,\Delta(bc_{t-i}) + \sum_{i-1}^{q} \alpha_{3i}\,\Delta(m2_{t-i}) + \sum_{i-1}^{q} \alpha_{4i}\,\Delta(ll_{t-i}) + \sum_{i-1}^{q} \alpha_{5i}\,\Delta(bd_{t-i}) + \sum_{i-1}^{q} \alpha_{6i}\,\Delta(op_{t-i}) + \sum_{i-1}^{q} \alpha_{7i}\,\Delta(gx_{t-i}) + \sum_{i-1}^{q} \alpha_{8i}\,\Delta(gf_{t-i}) + \lambda_5 ECM_{t-1} + \mu_{5t} \ldots\ldots\ldots\ldots\ldots\ldots (xiv)$$

Where: the definitions from the preceding specification are still present for each variable. ECMt-1, the error-correction term for the interval soon before t, was derived from the long-run equilibrium equation. An ECMt-1 coefficient that is inverse and significant indicates that any

short-term disequilibrium between the dependent and explanatory variables will return to the long-run equilibrium relationship ($\boldsymbol{\lambda}_1$). These additional elements, like the error-correction term, may be beneficial to the examination of the long-term nexus. The direction of causation between the regressors can be determined using the coefficient of the one lagged error correction component of the long-run effects.

There seems to be a case for causality in one or more directions when there is proof of a long-term link between the variables, in this example between financial development and economic progress. Until the lagged error-correction factor from each equation is subjected to a statistically significant test, we are unable to determine the direction of the long-run causality between the variables (at-test). A combined test of statistically significant (an F-test) of the predictors in each of the equations will also be used to assess the directions of the short-run causal links between the variables.

3.4 Technique of Data Analysis

The study adopted ARDL, owing to the fact that, the variables used have difference order of integration, that is some variables stationary at level while other stationary at first difference. This method was used simply because is better than traditional approach. Therefore, the dynamic ECM was derived the model through simple linear transformation. With no loss of long-run knowledge thus, the joint hypothesis both all coefficients and levels in ECM equation are zero was tested using the Wald test.

According to the decision rule, cointegration occurs if the Upper Bound is lower than the value computed using the F-statistic. In that case, cointegration is not present, but only if the computed F-statistic is smaller than that of the lower bound. And the cointegration is doubtful if lies between the lower and upper boundaries.

3.5 Unit root Test

Using time series data spanning from 1985 to 2020, this study uses Augmented Dickey-Fuller and Philips Peron to test for unit root test in order to prove our stationarity nature of the variables. Therefore, this test is crucial, especially when analysing time series data. It must be carried out in order to prevent erroneous estimates.

3.6 Sources of data

Annual time series data from 1985 to 2020 were used in this study. Gross domestic product, board money supply, domestic bank credit to the private sector, liquid liabilities, bank deposits, imports, exports, gross fixed capital formation, and general government final consumption expenditure are the variables used in this study. These variables were obtained from the National Bureau of Statistics, the Central Bank of Nigeria, and the World Development Indicator (2019).

3.7 Measurement of Variables

The following is a brief explanation of the metrics used for the study variables: y is the gross domestic product log (GDP). It displays the nation's growth rate. The growth of the real GDP is utilized as a stand-in for economic growth, as is customary. GDP is calculated in real terms to remove the inflationary distortion on the price of items manufactured. bc refers for the domestic credit offered by Nigeria's banking industry. On a gross basis, it comprises all credits to the different industrial sectors. M2 = M2/GDP: One of the four possible indices of the growth of financial industry intermediaries is this ratio.

Endnotes

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Chapter Four

Results and Discussion of Findings

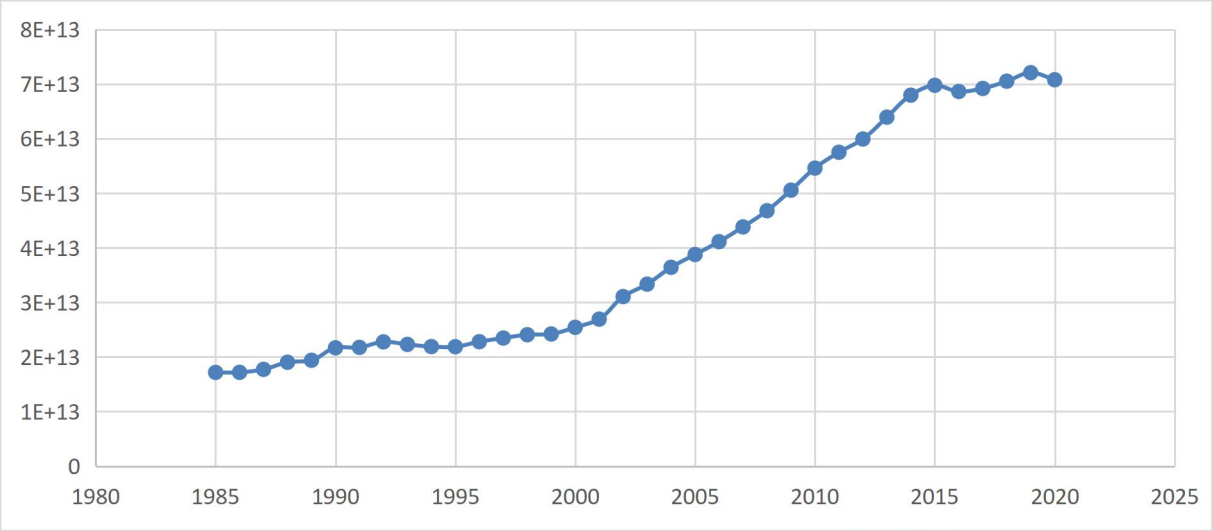
4.1 Preliminary Analysis

4.1.1 Trend Analysis

Under this section, the graph of the variables, as used in the analysis of the objectives, are presented. It traces the trend of the variables over the study period. Starting from Gross Domestic Product, it can be observed from Figure 4.1 that there has been an increase however, three patterns can be seen; one, from 1985 to 2001, 2002 to 2015 and 2016 to 2020. The first part depicts that the rate of increase was relatively low compared to the second phase which exhibited a rapidly increasing outcome nonetheless, the rate at which real GDP increased fluctuated in the last phase with a declining tendency in 2020.

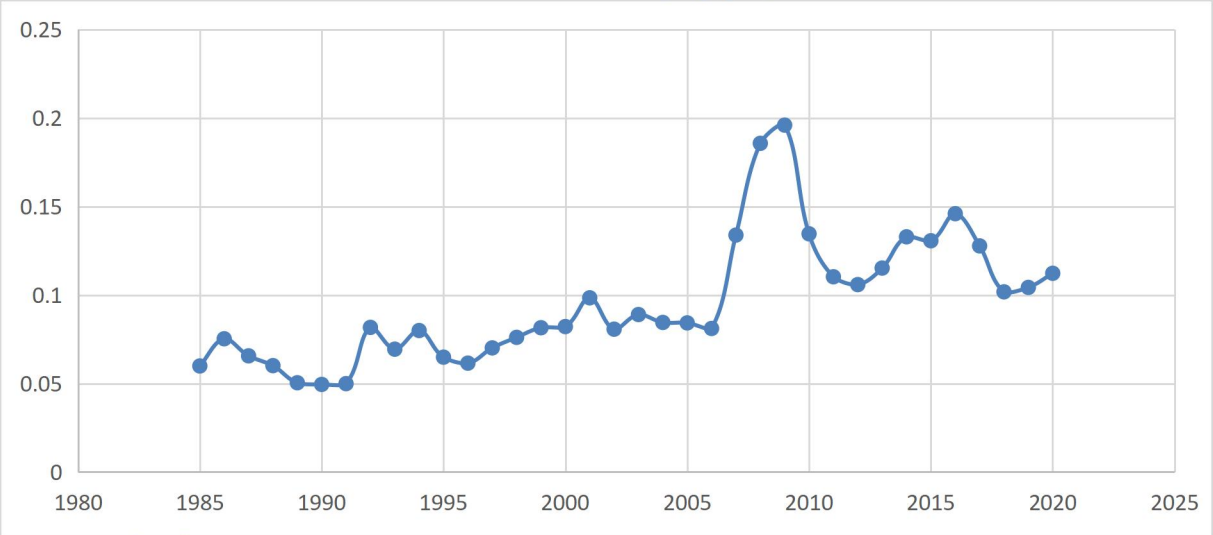
Figure 4.2, which shows the graph of domestic bank credit to the private sector as a ratio of GDP, reveals that the ratio fluctuated incrementally over the study period. It experienced the least share of GDP in the early 1990s and increased to a global peak in 2009, the share of domestic bank credit to the private sector to GDP nose-dived in 2010 through 2012 before it picked again in 2013. From 2014 to 2020, there has been an unstable increase in the share of domestic bank credit to the private sector to GDP in Nigeria.

Figure 4.1: Graph of Real GDP from 1985 to 2020



Source: Author, 2021

Figure 4.2: Graph of Domestic bank credit to the private sector to GDP from 1985 to 2020

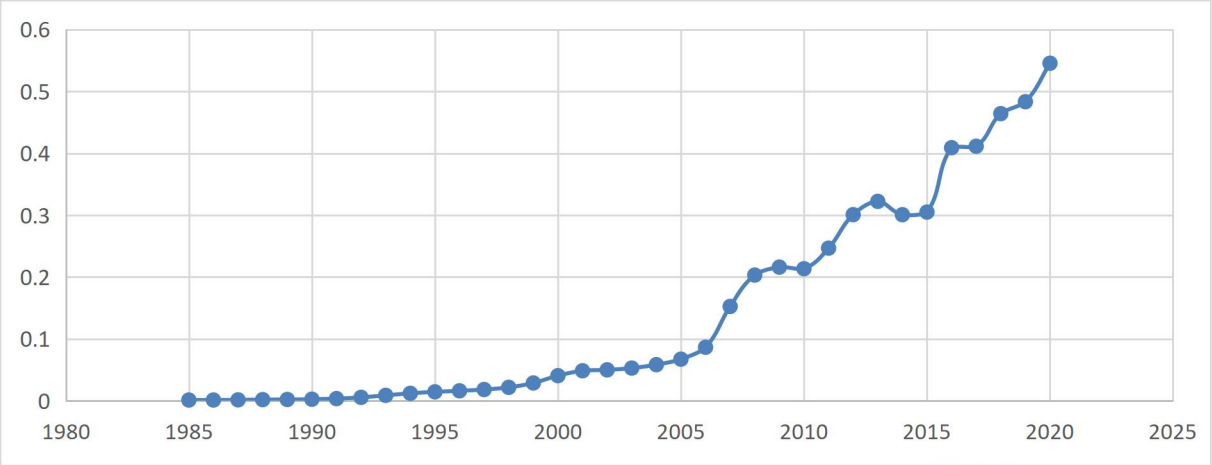


Source: Author, 2021

As touching Money supply to Gross Domestic Product ratio, undisputedly, Figure 4.3 clearly shows that there has been an increase over the study period however, the increase was steady between 1985 and 1999 howbeit, from 2000, the rate at which the ratio changed increased up to 2005 before the rate at which it increased explored and the tendency of further increase is very clear.

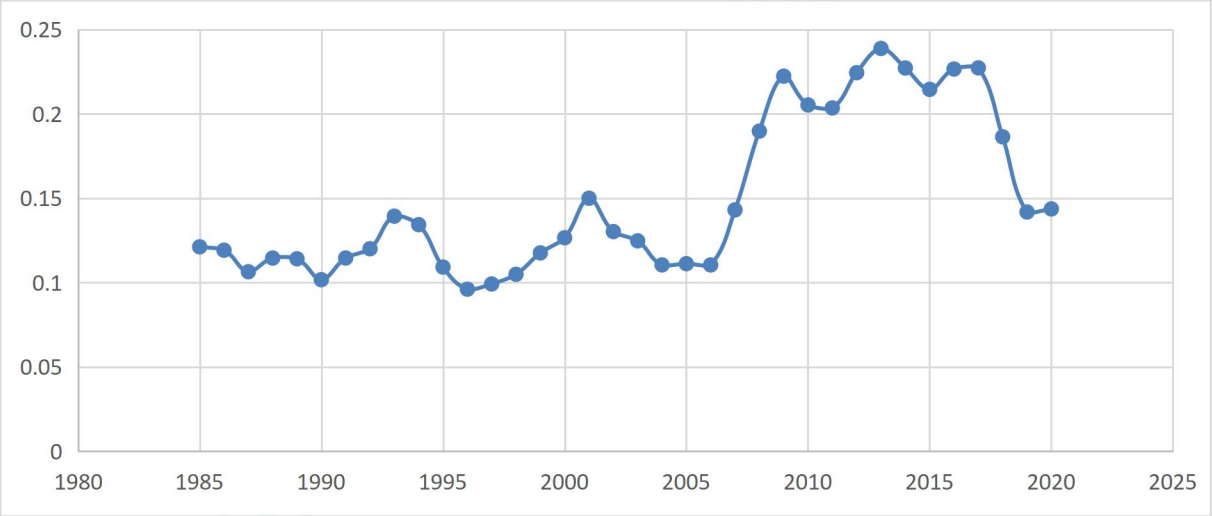
The study also presented the Liquid Liabilities as a percentage of gross domestic product. It can be observed that the value of Liquid Liabilities between 1985 and 2006 was stable however, from 2007 there was a sharp increase which became stable at a higher rate between 2009 and 2017 before it began to fall in 2018.

Figure 4.3: Graph of Money supply to GDP from 1985 to 2020



Source: Author, 2021

Figure 4.4: Graph of Liquid Liabilities to GDP from 1985 to 2020

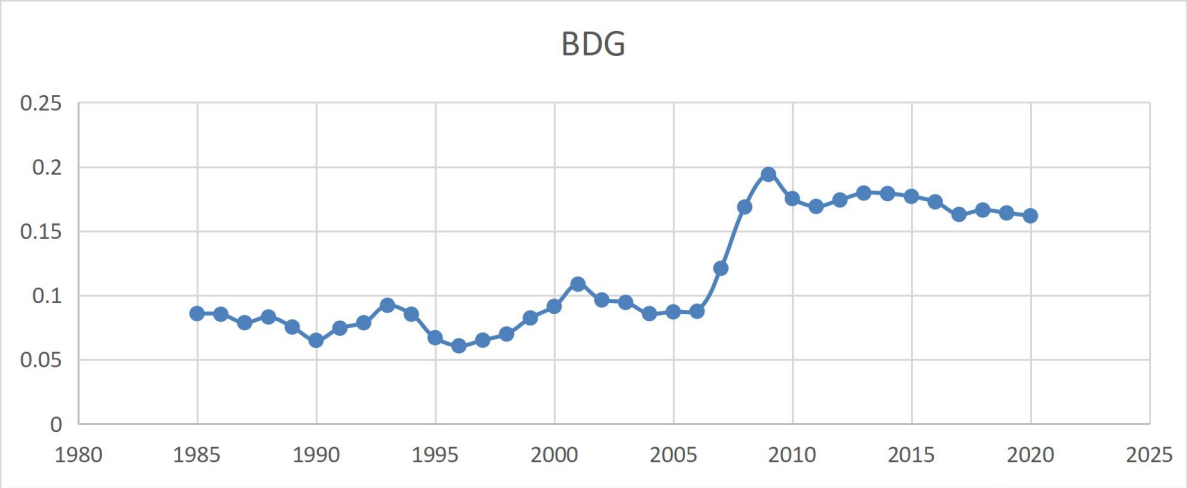


Source: Author, 2021

In another vein, the graph of Bank deposits divided by Gross Domestic Product, as displayed in Figure 4.5 shows that the value of this variable fluctuated between 1985 and 2005. There was a shape increase in 2007 which slightly fell and became stable afterwards from 2010 to 2020.

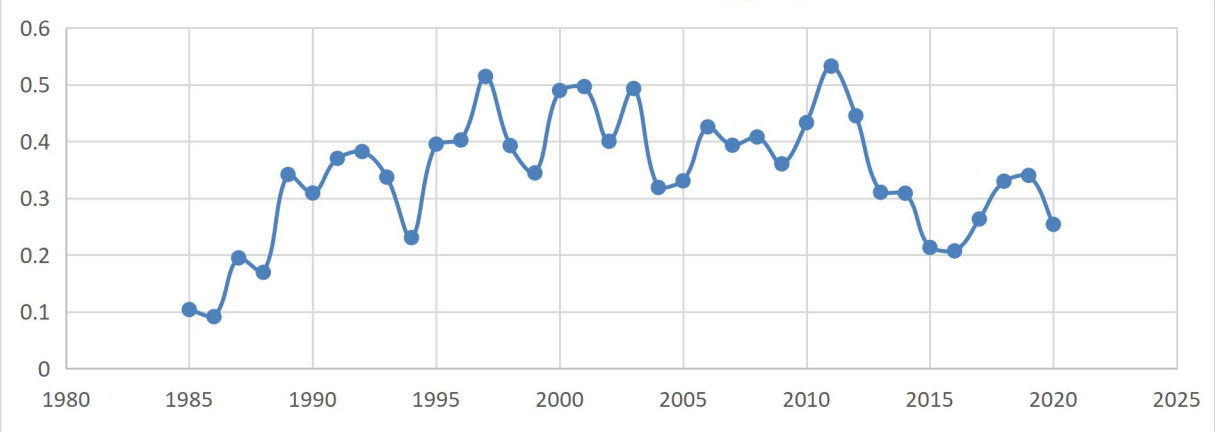
Trade to Gross Domestic Product, is seen to be fluctuating over the period of study. The rate at which this variable changed was lower in the late 1980s however, this rate increased more between 1995 and 2010 to reach a peak in 2011 before it dropped with a further dropping tendency. This is seen in Figure 4.6.

Figure 4.5: Graph of Bank deposits to GDP from 1985 to 2020



Source: Author, 2021

Figure 4.6: Graph of Trade to GDP from 1985 to 2020

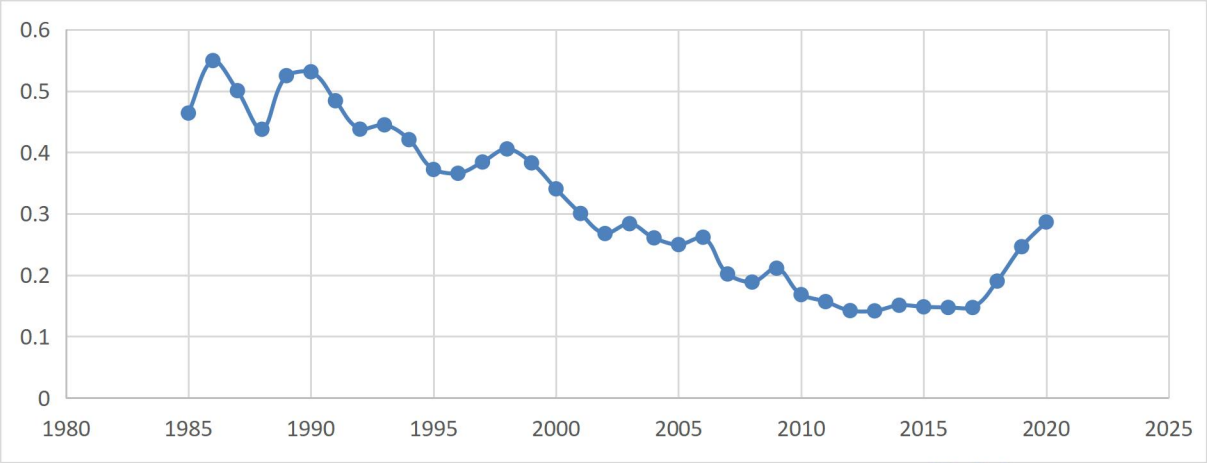


Source: Author, 2021

Clearly, as noticed in Figure 4.7, Gross fixed capital formation as percentage of GDP, fell almost throughout the period under analysis (from 1985 to 2017) howbeit from 2018, Gross fixed capital formation as percentage of GDP began to expand with an increasing tendency.

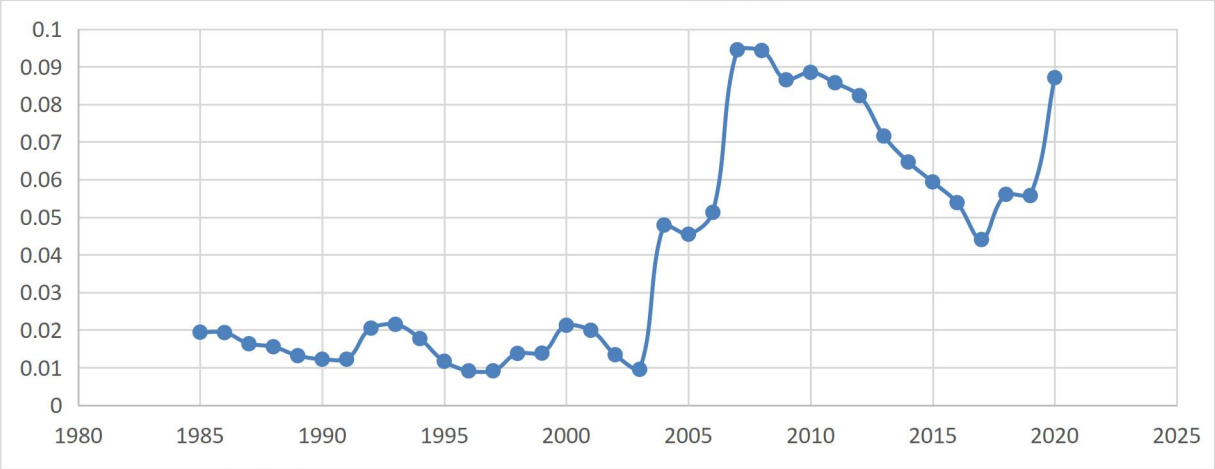
In Figure 4.8, the graph of general government expenditure as percent of GDP shows that the variable is unstable for the period under review. Between 1985 and 1991, the variable declined which rose in 1992 but further declined in 1994. This experienced an unstable movement until 2004 when there was a sharp rise until 2007 before it began to dwindle gradually till 2017. In 2018, the variable started to rise and still has a rising tendency even till 2020.

Figure 4.7: Graph of Gross fixed capital formation to GDP from 1985 to 2020



Source: Author, 2021

Figure 4.8: Graph of General government final consumption expenditure to GDP from 1985 to 2020



Source: Author, 2021

4.1.2 Descriptive Analysis

Here, the basic descriptive statistics are considered such as mean, maximum, minimum, standard deviation, skewness, Kurtosis and Jarque-Bera were considered. From the analysis of the variables, LRGDP, OPN, GFCFG and GGFCEG are seen not to be far from their mean value and has a relatively normal distribution. However, for DBG, MSG, LLG, BDG, although not far from their mean value, they are seen not to be normally distributed.

Table 4.1: Result of the Descriptive Statistics of Variables

	LRGDP	DBG	MSG	LLG	BDG	OPN	GFCFG	GGFCEG
Mean	31.178	0.404	0.142	0.149	0.116	0.343	0.311	0.040
Median	31.103	0.083	0.052	0.128	0.092	0.343	0.285	0.021
Maximum	31.909	11.228	0.546	0.239	0.194	0.532	0.549	0.094
Minimum	30.474	0.049	0.001	0.096	0.061	0.091	0.141	0.009
Std. Dev.	0.508	1.856	0.167	0.047	0.045	0.109	0.131	0.030
Skewness	0.188	5.744	0.976	0.738	0.447	-0.432	0.245	0.560
Kurtosis	1.476	34.004	2.615	1.942	1.462	2.771	1.744	1.793
Jarque-Bera	3.694	1639.814	5.938	4.949	4.746	1.197	2.725	4.066
Probability	0.158	0.000	0.051	0.084	0.093	0.550	0.256	0.131
Observations	36	36	36	36	36	36	36	36

Sources: EViews, 2021

4.1.3 Correlation Analysis

The result of the correlational analysis (Table 4.2) presents that DBG's correlation with other variables in the study is very low with a positive correlation with MSG, BDG and GGFCEG while a negative correlation is observed for LLG, OPN and GFCFG. MSG has a high correlation with all the variables except for OPN which reveals very low and negligible correlation. The same was observed for LLG and BDG which have high correlation with other variables but very low and negligible correlation with OPN. Therefore, it is instructive to take note that the possibility of multicollinearity might be experienced in the analysis combining the variables.

Table 4.2: Result of the Correlation Analysis of the Variables

	LRGDP	DBG	MSG	LLG	BDG	OPN	GFCFG	GGFCEG
LRGDP	1							
DBG	0.254	1						
MSG	0.922	0.425	1					
LLG	0.799	-0.005	0.734	1				
BDG	0.901	0.191	0.870	0.934	1			
OPN	0.126	-0.137	-0.076	-0.011	-0.002	1		
GFCFG	-0.917	-0.047	-0.743	-0.794	-0.829	-0.285	1	
GGFCEG	0.818	0.282	0.720	0.725	0.851	0.106	-0.779	1

Source: EViews, 2021

4.2 Pre-Estimation Test

4.2.1 Unit Root Test

The Augmented Dickey-Fuller unit root test was conducted and the result is presented in Table 4.3. The results shows that all the included variable, which were estimated using the intercept only model, are integrated of order one (I(1)) except for OPN which is integrated at level (I(0)).

Table 4.3: Result of Unit Root Test

	At Levels		First Difference		
Variable	ADF Test Statistics	Critical Test Statistics	ADF Test Statistics	Critical Test Statistics	Conclusion
LRGDP	-0.907	-2.619	-3.629	-2.951**	I(1)
DBG	-1.754	-2.619	-5.51	-3.654***	I(1)
MSG	-2.042	-2.619	-3.877	3.646***	I(1)
LLG	-1.882	-2.619	-3.912	3.646***	I(1)
BDG	-1.29	-2.619	-4.31	-3.654***	I(1)
OPN	-3.378	-2.948**	-	-	I(0)
GFCFG	-1.647	-2.614	-4.579	-3.639***	I(1)
GGFCEG	-1.038	-2.613	-5.877	-3.639***	I(1)

Source: Author, 2021

4.3 Effect of Financial depth on economic performance in Nigeria

Given that the integration occurs in a distinct order at the level and first difference, the ARDL model was chosen to estimate our analysis, as shown in Table 4.4. The results showed that the factors utilised in this study have long-term associations with one another. In light of the fact that the F-statistics larger upper bound is set at 1%.

Table 4.4: Result of Bounds approach to Co-Integration Test

F-Bounds Test				
Null Hypothesis: No levels relationship				
Test Statistic	Value	Significant Level	I(0)	I(1)
F-statistic	10.09824	10%	2.45	3.52
K	4.00	5%	2.86	4.01
		2.5%	3.25	4.49
		1%	3.74	5.06

Source: EViews, 2021

We established by conducting the Bounds test technique so as to determine the long run and short of the model as presented in the Table 4.4. from the long run result, it is seen that all variables are significant in explaining economic performance at 1% level of significance except for LDBG. Specifically, a 1% increase in DBG brings about 0.2% decrease in economic performance and a as MSG increases by 1%, there is an increase of 0.15% in the level of economic performance. It is observed also that a 1% increase in LLG produces a reduction in economic performance by more than 1% to the tune of 1.78% whereas, an increase of 1% in BDG results into an increase of more than 2% increase in economic performance standing at 2.13%.

As for the short run model, the diagnostics test reveals that the included variables explain economic performance to the tune of 89.9% while considering the degree of freedom (in the Adjusted R-Squared) reveals that the variables explain economic performance to the tune of 81.5%. it is seen that these included variables are jointly significant in explaining variation in economic performance at 1% level of significance as observed in the F-Statistics and its probability. The Durbin-Watson statistics of 2.01 shows evidence that the model is free from first order serial correlation. Further, the post-estimation results show that the residual is normally distributed, there is no presence of the second order of serial correlation, there is homoskedasticity and the model is stable as seen in the CUSUM and CUSUM squared graphs (Figure 4.9). The results for the short rum model depict that only 46.5% errors in the past year were corrected in the present year with 1% level of significance.

Table 4.5: Results of Long and Short Run Models of Effect of money market activities on economic performance

Long Run Model				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LDBG	-0.200	0.150	-1.370	0.190
LMSG	0.150	0.030	5.610	0.000
LLLG	-1.780	0.320	-5.550	0.000
LBDG	2.129	0.230	9.244	0.000
Short Run Model				
C	15.174	1.860	8.156	0.000
D(LDBG)	0.089	0.026	3.407	0.005
D(LDBG(-1))	0.192	0.035	5.535	0.000
D(LDBG(-2))	0.100	0.032	3.113	0.008
D(LMSG)	0.031	0.031	0.975	0.347
D(LMSG(-1))	-0.087	0.036	-2.417	0.031
D(LMSG(-2))	-0.117	0.039	-2.983	0.011
D(LLLG)	-0.344	0.075	-4.585	0.000
D(LLLG(-1))	0.814	0.091	8.9146	0.000
D(LLLG(-2))	0.487	0.134	3.645	0.003
D(LBDG)	0.180	0.071	2.540	0.025
D(LBDG(-1))	-0.905	0.114	-7.931	0.000
D(LBDG(-2))	-0.595	0.146	-4.084	0.001
D(LBDG(-3))	-0.070	0.039	-1.787	0.097
CointEq(-1)*	-0.465	0.057	-8.126	0.000
R-squared	0.899			
Adjusted R-squared	0.815			
S.E. of regression	0.017			
Durbin-Watson sta2.008				
Log likelihood	95.991			
F-statistic	10.768			
Prob(F-statistic)	0.000			

Source: EViews, 2021

Averagely, in the short run, economic performance is seen to be at 15.17% however, no economic performance of past periods seen not to be important for the current year. Further, capital and government efficiency as well as trade openness are seen not to be important for economic performance. As DBG increases by 1% two years ago as well as last year and the current year, economic performance increased by 0.09%, 0.19% and 0.1%, respectively which are seen to be significant at 1% level. Also, when MSG increases by 1% the last two years as well as last year, economic performance decreased by 0.12% and 0.09%, respectively which are seen to be significant at 1% level. However, as MSG increased by 1% in the current year, economic performance increased by 0.03% although there is no evidence of statistical significance.

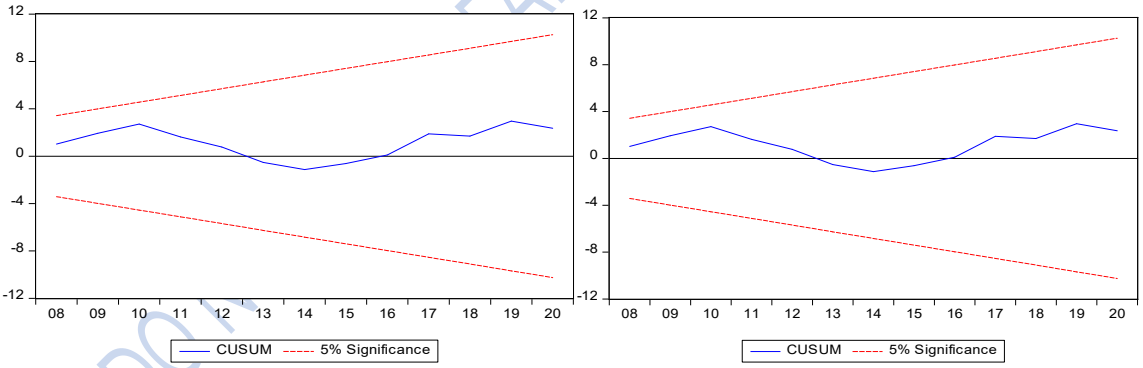
Two years ago, and last year, a 1% increase in LLG made economic performance to increase by 0.81% and 0.49%, respectively, seen to be significant at 1% level while in the current year, a 1% increase in LLG reduced economic performance by 0.34% yet significant at 1% level of significance. For the last three years till the current year, it is observed that BDG has a negative effect on economic performance. Specifically, as BDG increased by 1% three years ago and until the last year, economic performance reduced by -0.070, -0.905, and -0.595, respectively. It is only the current period that exhibited a positive effect of BDG on economic performance such that economic performance changed by 0.180% given 1% increase in BDG. The results of the effect of BDG on economic performance are observed to be statistically significant at 1% level.

Table 4.6: Post-Estimation Test for the Short Run Models of Effect of money market activities on economic performance

Test	Value	Conclusion
Normality	0.378	Error Term is Normally
	(0.828)	Distributed
Serial Correlation	1.931	No Serial Correlation
	(0.191)	
Heteroskedasticity	0.997	Homoskedasticity
	(0.514)	
Stability	CUSUM	Model is Stable
	CUSUMSQUARED	Model is Stable

Source: Author, 2021

Figure 4.9: Graph of CUSM and CUSUM Squared Tests



Source: EViews, 2021

4.4 Economic Performance and the Direction of Causality between Financial Development

The second objective is to carry out a causality test showing how financial depth causes economic performance. This was done using the Todda-Yamamoto causality test since the variables are a combination of I(0) and I(1) variables. The results are presented in Table 4.6 which depicts that only DBG and OPN causes LRGDP at 1% and 10% levels of significance, respectively although all the variables jointly cause economic performance (RGDP) at 5% level of significance. In the same vein, there was no variable causing DBG except for RGDP yet all included variables cause DBG at 10% level of significance however, all variables jointly cause DBG at 1% level of significance. As for MSG, there was no variable that caused it, also, there is no evidence of joint causality in the variables on MSG.

It has been seen that RGDP at 10% level of significance, MSG at 1% significance level and BDG at 10% significance level causes LLG likewise, all variables, jointly cause LLG at 1% significance level. The variables that cause BDG as observed in the result include; RGDP, MSG and OPN at 1%, 1% and 5% significance levels, respectively.

Summarily, a Bi-directional relationship was observed between RGDP and BDG, whereas, a Uni-directional relationship was observed for RGDP and OPN, LLG and RGDP, LLG and MSG, LLG and BDG, BDG and RGDP, BDG and MSG, BDG and OPN (see Table 4.7).

Table 4.7: Results of Causality test between financial development and economic performance

Dependent variable: LRGDP			
Excluded	Chi-sq	df	Prob.
LDBG	12.15138	2	0.0023
LMSG	2.423094	2	0.2977
LLLG	0.488468	2	0.7833
LBDG	1.865898	2	0.3934
LOPN	4.758154	2	0.0926
LGFCFG	0.500654	2	0.7785
LGGFCEG	1.839112	2	0.3987
All	27.05480	14	0.0189
Dependent variable: LDBG			
Excluded	Chi-sq	df	Prob.
LRGDP	4.786920	2	0.0913
LMSG	2.217061	2	0.3300
LLLG	0.095771	2	0.9532
LBDG	0.886268	2	0.6420
LOPN	0.538310	2	0.7640
LGFCFG	2.396894	2	0.3017
LGGFCEG	0.106709	2	0.9480
All	35.48331	14	0.0012
Dependent variable: LMSG			
Excluded	Chi-sq	df	Prob.
LRGDP	2.331866	2	0.3116
LDBG	0.260660	2	0.8778
LLLG	0.133918	2	0.9352
LBDG	0.250531	2	0.8823
LOPN	1.158861	2	0.5602
LGFCFG	4.157728	2	0.1251
LGGFCEG	0.980812	2	0.6124
All	12.33029	14	0.5798
Dependent variable: LLLG			
Excluded	Chi-sq	df	Prob.
LRGDP	5.027494	2	0.0810
LDBG	0.585381	2	0.7463
LMSG	11.82882	2	0.0027
LBDG	5.925523	2	0.0517
LOPN	4.267210	2	0.1184
LGFCFG	2.515194	2	0.2843
LGGFCEG	0.665621	2	0.7169

All	33.58999	14	0.0024
Dependent variable: LBDG			
Excluded	Chi-sq	df	Prob.
LRGDP	9.895560	2	0.0071
LDBG	0.522292	2	0.7702
LMSG	11.52726	2	0.0031
LLLG	0.523281	2	0.7698
LOPN	6.161812	2	0.0459
LGFCFG	3.521150	2	0.1719
LGGFCEG	0.623575	2	0.7321
All	40.78716	14	0.0002

Source: EViews, 2021

Table 4.8: Result of Lag Length selection Criteria

Endogenous variables: LRGDP LDBG LMSG LLLG LBDG LOPN LGFCFG LGGFCEG

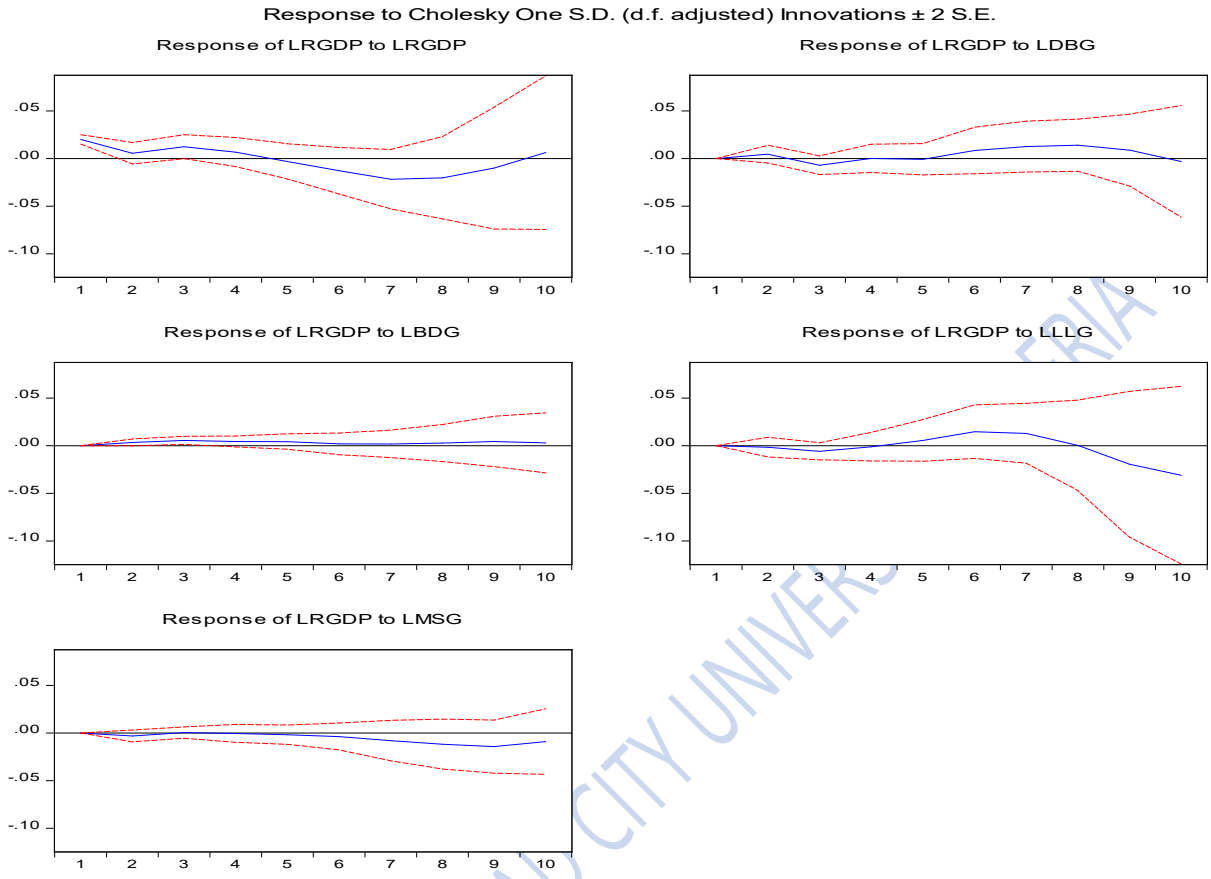
Lag	LogL	LR	FPE	AIC	SC	HQ
0	32.526	NA	3.26e-11	-1.44	-1.08	-1.32
1	279.903	363.79*	7.48e-16	-12.23	-8.997*	-11.13
2	362.643	82.74	4.93e-16*	-13.33*	-7.23	-11.25*

4.5 The Response of Economic Performance to Shocks in Financial Depth in Nigeria

To achieve this objective, the optimal lag length was selected using the AIC which stood at 2 as seen in Table 4.8. It is with this optimal lag length of 2 that the VAR model based on the Todda-Yamamoto framework was estimated for analysis.

Focusing on the response of Economic performance (as proxy by aggregate output in RGDP) to shocks in the depth of the financial sector, results reveal that economic performance seems to be converging in response to shocks in DBG, BDG and MSG while for shocks in LLG, economic performance diverged. These results are seen in the graphs presented in Figure 4.9.

Figure 4.9: Result of Impulse-Response function



Source: EViews, 2021

Turning to the changedisintegration of the response of economic performance to shock in financial depth, it is seen that in the short run (between the first and third period), economic performance explains more of its variation while the proxies for financial depth explains little or nothing in the variation of economic performance. Specifically, in the first period, economic performance explains itself 100%, in the second period, 87.6% of variation was explained by economic performance itself, while Money Supply and Bank Deposit explain about 4.1% and 4.56% in the variation of economic performance. Also, Domestic Bank Credit was only able to explain 1.5% variation in economic performance however, Liquid Liabilities did not explain anything in the variation of economic performance. It is noted that 73.3% variation in economic performance was explained in the third month by itself whereas, Domestic Bank Credit, Money Supply, Liquidity Liabilities and Bank Deposit were able to explain variation in economic performance to the tune of 3.4%, 7.5%, 0.33% and 8.9%, respectively.

In the medium term (between the fourth to seventh period), the power to explain variation in economic performance drop for economic performance however, Domestic Bank Credit's power to explain variations in economic performance grew steadily, Money Supply as well as Bank Deposit show an unstable explanatory power to explain variations in economic performance while Liquidity Liabilities explained more of the variations in economic performance.

Looking at the long run period, covering between the 8th period to the 10th period, Money Supply explains economic performance constantly by 30.7%. Economic performance followed closely in explaining variation in itself as Liquid Liabilities gained strength to explain variation in economic performance as well as Bank Deposit. Thus, over time, Bank Credit has shown to less explain variation in economic performance.

Table 4.9: Result of Variance Decomposition of LRGDP

Period	S.E.	LRGDP	LDBG	LMSG	LLLG	LBDG
1	0.02	100.00	0.00	0.00	0.00	0.00
2	0.02	87.60	1.46	4.10	0.00	4.56
3	0.03	73.26	3.43	7.50	0.33	8.91
4	0.03	69.88	3.29	6.72	0.43	8.61
5	0.03	62.40	3.00	6.19	5.10	7.64
6	0.04	52.01	5.85	9.37	14.38	7.82
7	0.05	51.24	6.73	13.98	14.30	5.17
8	0.06	46.63	5.67	21.73	9.87	4.68
9	0.07	34.44	4.02	30.71	11.89	8.66
10	0.08	26.49	4.44	30.71	19.71	10.30

Source: EViews, 2021

Therefore, it can be said that in the short run, variations in economic performance can only be explained by itself while in the medium term, variations in economic performance still explains itself but at a reduced rate (compared with the short run) alongside Liquidity Liabilities and Bank Deposit. Nonetheless, in the long run, Money Supply explains more of variations in economic performance followed by economic performance itself, Liquidity Liabilities and Bank Deposit.

From the analysis of this study, the following hypothesis were accepted:

1. The null hypothesis was rejected in objective one to accept the alternative stated as;

H_1: financial deepening has a significance relationship with economic growth in Nigeria.

2. The null hypothesis was rejected in objective two to accept the alternative stated as;

H_1: Economic growth in Nigeria are significantly impacted by the money market's activities.

3. The null hypothesis was rejected in objective three to accept the alternative stated as;

H_1: The two variables have a causal relationship in Nigeria.

Chapter Five

Conclusion

The chapter provides a summary, a conclusion, and recommendations for additional research. It also outlines the areas in which the study adds to our understanding while also highlighting those that need more research.

5.1 Summary

The role of financial institutions and its effect on economic growth has been widely discussed in the economic literature. Early economists identified the importance of financial institutions in area of facilitating technological innovation through their intermediary role. Financial institutions serve as vehicle that facilitates business transactions which contribute to growth of most economies[11]. Financial development is considered as an improvement of its main functions which reduces barriers set by some factors that have an inversenexus on the number of transactions conducted in the economy. Financial enhancement can be expatiated as the active pursuit of the pooling of savings and inactive money and the distribution of said financing to individuals, enterprises, families, and the government for capital investments as well as other reasons with a perspective to yields that serve as the foundation for industrial prosperity. When juxtapose to a less advanced financial framework, a deeper financial system often has lower funding costs because a wider variety of financial tools are available and financial intermediaries make useful intermediation tasks. Increasing the depth of the financial industry may reduce the chances that companies and businesses encounter in their production methods, promote diversification benefits, and protect the domestic economy from the impact of global economic developments.

It means that financial deepening plays imperative role in influential the growth of an economy. It has the tendency of broaden its resource base, raises the capital needed to stimulate investment through savings and credit, and can boost the overall productivity of any economy. This led to the asking of the following questions: what is the effect of financial depth on economic performance in Nigeria? To what extend does financial deepening causes economic performance in Nigeria? How does economic growth respond to shock in financial depth in Nigeria? Therefore, the study investigated the relationship existing between financial depth and economic performance in Nigeria. Specific the study; investigated the effect of financial depth on economic performance in Nigeria; determined the direction of causality between financial depth and economic performance in Nigeria and examined the response of economic performance to shocks in financial depth in Nigeria. This study employed annual time-series data for the period 1986 to 2018 and used ARDL, Toda-Yamamoto causality test and VAR to achieve the objectives drawn in this study.

Results reveal that; first, in the long run it is seen that all variables are significant in explaining economic performance at 1% level of significance except for LDBG. Specifically, a 1% increase in DBG brings about 0.2% decrease in economic performance and a as MSG increases by 1%, there is an increase of 0.15% in the level of economic performance. It is observed also that a 1% increase in LLG produces a reduction in economic performance by more than 1% to the tune of 1.78% whereas, an increase of 1% in BDG results into an increase of more than 2% increase in economic performance standing at 2.13%.

As for the short run model, as DBG increases by 1% two years ago as well as last year and the current year, economic performance increased by 0.09%, 0.19% and 0.1%, respectively which are seen to be significant at 1% level. Also, when MSG increases by 1% the last two years as

well as last year, economic performance decreased by 0.12% and 0.09%, respectively which are seen to be significant at 1% level. However, as MSG increased by 1% in the current year, economic performance increased by 0.03% although there is no evidence of statistical significance.

Two years ago, and last year, a 1% increase in LLG made economic performance to increase by 0.81% and 0.49%, respectively, seen to be significant at 1% level while in the current year, a 1% increase in LLG reduced economic performance by 0.34% yet significant at 1% level of significance. For the last three years till the current year, it is observed that BDG has a negative effect on economic performance. Specifically, as BDG increased by 1% three years ago and until the last year, economic performance reduced by -0.070, -0.905, and -0.595, respectively. It is only the current period that exhibited a positive effect of BDG on economic performance such that economic performance changed by 0.180% given 1% increase in BDG. The results of the effect of BDG on economic performance are observed to be statistically significant at 1% level.

Secondly, A Bi-directional relationship was observed between RGDP and BDG, whereas, a Uni-directional relationship was observed for RGDP and OPN, LLG and RGDP, LLG and MSG, LLG and BDG, BDG and RGDP, BDG and MSG, BDG and OPN.

Third, Economic performance seems to be converging in response to shocks in DBG, BDG and MSG while for shocks in LLG, economic performance diverged. It can be said that in the short run, variations in economic performance can only be explained by itself while in the medium term, variations in economic performance still explains itself but at a reduced rate (compared with the short run) alongside Liquidity Liabilities and Bank Deposit. Nonetheless, in the long run, Money Supply explains more of variations in economic performance followed by economic performance itself, Liquidity Liabilities and Bank Deposit.

5.2 Conclusion

The study hereby concludes thus:

i. Financial depth has a significant effect on economic performance in Nigeria;

ii. Between financial depth and economic performance, there is bi-directional causality and also,

iii. Economic performance responds to shocks in financial depth in Nigeria.

5.3 Recommendations

From the conclusion of this study, we hereby make the following recommendations:

i. Monetary authority should look into how to combine money supply, bank deposits and liquid liabilities for effective economic performance;

ii. Banks can help economic performance in Nigeria by developing instruments to increase bank deposits; and

iii. Monetary authority should encourage money deposit banks to increase the credit given for investment so as to increase economic performance.

5.4 Contribution to Knowledge

The research work will add to the existing by virtue of the incorporation of recent events in the nexus between financial excavating and economic performance. It speficially provided empirical signal of the effect of proxy variables of financial deepening on economic performance as well as providing proof to the response of economic performance to shocks in financial deepening in Nigeria.

5.5 Suggested Areas for Further Study

For further study, future authors can delve into the analysis of structural breaks in financial deepening and how it has affected economic performance. Also, an index for economic performance can be generated to capture some other forms of performance in the economy asides output performance that was studied in this study.

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