

FINANCIAL SYSTEM CONTRIBUTION AND THE DEVELOPMENT OF NIGERIAN ECONOMY (2000-2023)

Idris Wisdom Ojima¹ & Odi Nwankwo²

Department of Banking and Finance, Prince Abubakar Audu University, Kogi State, Nigeria.

Corresponding email: ojimaidris9@gmail.com

ABSTRACT

This study access financial system contribution on development of Nigerian Economy. Ex-post facto research design was employed with a scope that spanned between 2000-2023. Various pre and post estimation tests were conducted. ARDL was used as the main estimation technique. The study found that in the long-run stock market capitalization has negative and insignificant effect on RGDP in Nigeria. The study also found that in the long-run credit to private sector has positive and insignificant effect on RGDP in Nigeria. The study concluded that financial system contribution affects development of Nigerian economy. The study therefore recommended that efforts should also be made to deepen market participation by encouraging the listing of more productive firms, especially from the real sector, to ensure that capital raised in the stock market is channeled into sectors that can drive economic growth. Policymakers and financial institutions should work on improving accessibility and affordability of credit, especially for micro, small, and medium enterprises (MSMEs).

Keywords: Financial System, Economy Development, Real Gross Domestic Product, Stock Market Capitalization and Credit to Private Sector

INTRODUCTION

The financial system is often regarded as the backbone of any modern economy, serving as a critical conduit for effective allocation of resources, the provision of credit, and the facilitation of investments that drive development. Globally, the relationship between financial system contributions and development of economy has been a subject of robust academic discourse, with scholars and policymakers emphasizing the importance of financial deepening, credit to the private sector, and stock market capitalization as critical indicators. Historically, advanced economies have relied on sophisticated financial systems to drive sustained development. The studies by Levine (2005) demonstrate that economies with well-developed financial markets and institutions tend to achieve higher growth rates due to efficient resource allocation and risk management. Similarly, King and Levine (1993) posit that stock market development and credit provision to the private sector positively influence long-term economic growth.

The significance of CPS as a proxy for financial system contribution cannot be overstated. Private sector credit serves as a critical driver of entrepreneurship, industrialization, and job creation. Empirical studies, such as those by Rajan and Zingales (1998), suggest a strong positive correlation between private sector credit and economic development, particularly in economies with robust financial institutions. Conversely, Arestis and Demetriades (1997) caution that excessive reliance on credit without corresponding investments in productive activities may lead to unsustainable debt levels and economic instability.

Stock market capitalization, another critical proxy, represents the value of listed equity in an economy and serves as an indicator of market size and liquidity. Scholars such as Levine and Zervos (1998) argue that stock market development complements banking systems by providing alternative financing options and reducing reliance on debt. However, others, including Allen and Gale (2000), critique the stock market's volatility and susceptibility to speculative bubbles, which may undermine its role as a reliable driver of development.

Empirical evidence paints a mixed picture of the financial system's impact on Nigeria's economic development. On one hand, studies such as Nwanna and Chinwuba (2022) highlight the positive contributions of financial deepening and private sector credit to GDP growth. Olokoyo et al. (2023) argue that the benefits of stock market capitalization are often undermined by low investor confidence and regulatory lapses.

Access to credit for the private sector remains severely constrained, SMEs which are the backbone of Nigeria's economy (Adeleke & Olanrewaju, 2022). The limited availability of affordable credit has stifled entrepreneurial growth, curtailed innovation, and slowed job creation. Additionally, the Nigerian stock market has struggled to serve as a reliable engine for capital mobilization and economic growth, despite its potential as a source of long-term financing (Olokoyo et al., 2023). Market capitalization remains volatile, and investor confidence is frequently undermined by weak regulatory oversight, corporate governance failures, and macroeconomic instability. These factors have limited the stock market's contribution to infrastructure development, industrialization, and employment generation (Eze & Agada, 2022).

While numerous studies focus on the relationship between financial system development and economic growth, fewer address the specific context of Nigeria, particularly the interplay between private sector credit, and stock market capitalization. Additionally, there is limited empirical evidence on the mediating factors such as governance, regulatory effectiveness, and institutional quality that may influence the financial system's contribution to Nigeria's economic development. It is against this backdrop this study examined financial system contribution and the development of Nigerian economy.

In evaluating the objectives of this study, the following questions are formulated to be answered by this study.

- i. Does stock market capitalization have significant effect on RGDP in Nigeria?
- ii. Does credit to private sector have significant effect on RGDP in Nigeria?

This study envisioned to investigate the effects of financial system contribution and the development of Nigerian economy. Other specific objectives are;

- i. To evaluate whether stock market capitalization have significant effect on RGDP in Nigeria.
- ii. To analyze whether credit to private sector have significant effect on RGDP in Nigeria.

To address the research questions designed for this study, the following hypotheses was formulated and tested in null form;

H₀₁: Stock market capitalization does not have significant effect on RGDP in Nigeria.

H₀₂: Credit to private sector does not have significant effect on RGDP in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review

Concept of Financial System

According to Onoh (2020), the financial system is a complex mechanism that integrates financial institutions, such as banks, insurance companies, pension funds, and microfinance banks, with financial markets including the money and capital markets, and regulatory bodies. These components interact systematically to facilitate monetary transactions, manage risks, and provide liquidity. Onoh posits that a well-structured financial system enhances economic efficiency by lowering transaction costs and improving resource allocation.

Okonkwo and Adebayo (2022) define the financial system as a network of financial intermediaries and infrastructure that enhances savings mobilization, investment promotion, and economic transformation. Their definition underscores the developmental role of the financial system, particularly in emerging economies like Nigeria, where access to finance remains a significant constraint to entrepreneurship and industrial growth. In a similar vein, Eze and Nwankwo (2023) describe the financial system as an organized framework that channels funds from surplus units to deficit units, thereby facilitating economic development, price stability, and financial deepening.

In this study, the definition offered by Eze and Nwankwo (2023) is adopted. Their conceptualization of the financial system as an organized framework for fund mobilization and allocation is particularly relevant in analyzing the effectiveness of financial intermediation mechanisms in Nigeria and their impact on economic development.

Economic Development

Todaro and Smith (2020) conceptualize economic development as a multidimensional progression involving the enhancement of a nation's economic conditions, governance structures, and societal welfare. This comprehensive view recognizes development as encompassing both measurable economic expansion and qualitative improvements in living standards and institutional frameworks.

According to Adegbite and Azeez (2022), economic development in Nigeria implies sustained improvement in the quality of life of citizens through inclusive growth, infrastructural transformation, job creation, poverty reduction, and equitable distribution of income. They argue that development must go beyond GDP growth to address deep-seated structural problems such as inequality, unemployment, and institutional decay.

The definition by Adegbite and Azeez (2022) is adopted. Their conceptualization of economic development as sustained improvement in citizens' quality of life through inclusive growth and infrastructural transformation is particularly relevant for the Nigerian context, where poverty, unemployment, and inequality remain pervasive despite periods of economic growth.

Real Gross Domestic Products

Blanchard and Johnson (2022), defined real GDP is the inflation-adjusted value of all the goods and services that is produced in a nation, serving as a robust metric for tracking long-term economic trends and comparing productivity across periods. Similarly, Samuelson and Nordhaus (2020) describe real GDP as a tool that eliminates the effects of price changes by using constant base-year prices, allowing for more meaningful comparisons of output over time.

Okonkwo and Ekpenyong (2023) highlight that real GDP in Nigeria reflects the economy's ability to generate output across various sectors, such as agriculture, industry, and services, after adjusting for inflation. Their definition underscores the importance of disaggregating sectoral contributions to real GDP in order to identify growth drivers and structural weaknesses. Furthermore, real GDP is pivotal in evaluating the sustainability of public investments and private sector performance.

For the purpose of this study, the definition by Okonkwo and Ekpenyong (2023) is adopted. Their focus on sectoral contributions and inflation-adjusted output provides a nuanced understanding of real GDP that aligns with this study's objective of analyzing the structural drivers of economic performance in Nigeria.

Theoretical Review

Modern Portfolio Theory

This theory was developed by Harry Markowitz in 1952. Markowitz's work revolutionized investment analysis by introducing a formalized method for assembling a portfolio of assets that balances risk and return. His theory provided a mathematical framework for selecting a portfolio that maximizes expected return for a given level of risk (Markowitz, 1952).

Markowitz proposed that by investing in a combination of assets that do not perfectly correlate with each other, investors can reduce the overall volatility of their portfolios. The idea is that losses in some assets may be offset by gains in others, leading to a more stable portfolio return. The theory assumes that investors are rational and at the same time risk-averse, meaning they prefer less risk to more risk for the same level of expected return (Elton et al. 2014).

MPT relies on several key assumptions. It assumes that investors make decisions based on expected returns and standard deviation of returns (as a proxy for risk). Asset returns are assumed to follow a normal distribution. In relation to financial system contribution and economic development particularly within the Nigerian context Modern Portfolio Theory provides a valuable analytical lens for assessing how financial markets and institutions can facilitate efficient capital allocation. In Nigeria's developing financial system, the application of MPT encourages institutional and retail investors to adopt diversified investment strategies that mitigate risk and promote long-term financial stability.

One major critique is its reliance on historical data to predict future returns and risks, which may not hold in dynamic and less predictable markets like Nigeria. Additionally, the assumption that asset returns follow a normal distribution has been challenged by empirical evidence showing that extreme market events occur more frequently than the theory suggests (Mandelbrot & Hudson, 2004).

Financial Intermediation Theory

The theory was pioneered by Gurley and Shaw in 1960 through their seminal work *Money in a Theory of Finance*. Their framework challenged the classical notion of direct financing by arguing that financial intermediaries play a crucial and indispensable role in modern economies by reducing transaction costs, overcoming asymmetric information, and enhancing the efficiency of capital allocation (Gurley & Shaw, 1960).

The theory based his ideas that intermediaries act as brokers and transformers of financial claims. As brokers, they facilitate the flow of funds between savers and investors, thus reducing the need for direct interaction in financial markets. As transformers, they convert the characteristics of financial claims such as maturity, risk, and liquidity to suit the preferences of both savers and borrowers (Allen & Santomero, 2001).

The theory is built on several key assumptions. It assumes the presence of transaction and information costs that hinder direct financing between savers and investors. It presumes that financial intermediaries possess superior technology or expertise in evaluating and monitoring borrowers. The theory assumes that intermediaries help to diversify and manage risks more effectively than individual investors.

Despite its analytical strength, the Financial Intermediation Theory has been subject to critique and limitations. One of the major criticisms is its limited applicability in highly developed capital markets where financial disintermediation direct access to capital markets by firms is prevalent. In developing economies like Nigeria, the theory also falls short in addressing structural challenges such as poor credit infrastructure, regulatory weaknesses, and financial exclusion, especially among rural populations (Ajakaiye & Tella, 2020).

Adoption of Theory

This study employs the Financial Intermediation Theory as its foundational framework. The theory's relevance stems from its robust explanation of fund mobilization processes; wherein financial institutions facilitate the efficient transfer of resources from net savers to net borrowers - a fundamental mechanism linking financial systems to economic progress. By elucidating how effective intermediation enhances capital distribution efficiency, alleviates financing limitations, and fosters economic expansion, the theory provides appropriate theoretical support for this investigation.

Empirical Review

Okoro and Ume's (2024) longitudinal analysis examined the relationship between Nigeria's capital market performance and macroeconomic development over a 28-year period (1995-2022). Employing both descriptive statistics and inferential techniques, including regression modeling through SPSS. The analysis revealed statistically significant positive correlations between stock market capitalization metrics and GDP growth indicators. However, while market depth measures showed positive directional relationships with development indicators, these associations lacked statistical significance at conventional thresholds. Based on these findings, the study emphasized the capital market's crucial role in facilitating sustainable economic expansion and advocated for consistent regulatory frameworks to enhance investor confidence and capital inflows.

Okafor and Udo's (2024) longitudinal analysis (1990-2023) employing Ordinary Least Squares regression revealed distinct credit transmission mechanisms. While private sector credit demonstrated statistically significant growth-enhancing effects ($p < 0.05$), capital formation showed positive but non-significant correlations. The study advocates for stable monetary policies to optimize credit allocation efficiency in Nigeria's banking sector.

Using Generalized Method of Moments estimation on panel data (2000-2022), Ahmed and Yusuf (2023) established that stock market capitalization significantly drives economic expansion ($\beta = 0.42$, $p < 0.01$) across sampled African economies, though liquidity measures (turnover ratio) proved statistically insignificant. Their findings support regional capital market harmonization initiatives to amplify growth externalities.

Ali and Hassan's (2023) ARDL cointegration analysis (1995-2022) identified private credit as a significant development determinant, contrasting with neutral effects from fiscal spending and price stability measures. The Microfit-based results suggest prioritizing institutional reforms that enhance credit penetration to productive sectors.

Olalekan and Afolabi's (2022) econometric analysis of Nigerian stock market dynamics (1990-2020) employed OLS regression to identify distinct market indicator effects. Their results demonstrated statistically significant growth effects from market capitalization ($\beta = 0.32$, $p < 0.01$), while liquidity measures showed positive but non-significant coefficients. The researchers emphasized enhancing regulatory oversight and disclosure requirements to strengthen the market's developmental impact.

Obasi and Eze (2022) examined the relationship between financial intermediation and economic expansion in Nigeria using a Vector Error Correction Model (VECM) framework spanning 1986–2020. Their empirical analysis yielded three key findings: First, private sector credit exhibited a statistically significant positive relationship with GDP growth ($p < 0.05$). Second, interest rate fluctuations demonstrated significant negative effects on economic performance. Third, exchange rate variations showed an economically negligible impact. Based on these results, the researchers emphasized the growth-enhancing role of credit expansion while advocating for consistent monetary and fiscal policy measures to optimize financial sector contributions to economic development.

Gap in Literature

From the empirical reviewed above, it shows that works have been carried out on financial system contribution and development. From the reviewed works above, it was discovered that studies such as Gomes and Pereira (2024), Mwangi and Njoroge (2024), Ahmed and Yusuf (2023), Mburu and Odhiambo (2023), Ali and Hassan (2023), Gomes and Moreira (2023), Mensah and Osei (2021), Kumar and Singh (2021), Mensah and Tetteh (2021), Mwangi and Omondi (2021), Mensah and Boateng (2021) and Ahmed and Musa (2021) were carried out in other countries of the world which all the findings cannot be generalized due to environmental differences. Studies such as Okoro and Ume (2024), Okafor and Udo (2024), Ali and Rehman (2024), Mwangi and Njoroge (2024), Olalekan and Afolabi (2022), Chukwu and Okeke (2022), Obasi and Eze (2022), Bello and Sani (2022), Ibrahim and Sani (2022) and Oladipo and Adeola (2022) all made use of old time-series data which does not reflect current happening. Furthermore, none of the reviewed

works combined the proxies used to measure the independent variables of this study to measure their joint impact on RGDP in Nigeria. This is the gaps this study would fill.

METHODOLOGY

This study made use of *ex post-facto* research design. The ex-post-facto design is employed to evaluate the relationships that exist between one or more variables without any form of manipulation. The data for this study were gotten from CBN Bulletin covering a period between (2000-2023). Various pre and post estimation test were carried out ranging from descriptive statistics, correlational matrix, stationarity test, normality test, Multicollinearity Test, heteroscedastic test and ARDL Model was used as the main estimation technique.

Model Specification

The model of financial system contribution and development of Nigerian economy is in line with the Financial Intermediation Theory reviewed in chapter two. Financial Intermediation Theory posited that financial intermediaries such as banks facilitate the flow of funds from savers to borrowers by reducing transaction costs, mitigating risks, and addressing information asymmetries.

The models summarised the effect of stock market development and credit to private sector on RGDP in Nigeria. The model was adopted and modified from studies such as Okoro and Ume (2024), Okafor and Udo (2024) and Olalekan and Afolabi (2022).

The structural form of the model is stated as equation 1 below;

$$Y = f(x) \dots\dots\dots (1)$$

Where Y is the dependent variables, *f* is the functional and X represents independent variables.

The model was further expressed in mathematical equation (i) below;

$$RGDP_t = f(SMC_t, CPS_t) \dots\dots\dots (ii)$$

To make the mathematical expression estimable, it is transformed as equation (iii) below:

$$RGDP_t = \beta_0 + \beta_1 SMC_t + \beta_2 CPS_t + \mu \dots\dots\dots (iii)$$

Where:

RGDP= Real Gross Domestic Product (Dependent Variable)

SMC= Stock Market Capitalization (Independent Variable)

CPS= Credit to Private Sector (Independent Variable)

β_0 = intercept

$\beta_1 - \beta_2$ = Coefficient

t = time

U_i = error terms

Techniques of Data Analysis

The study made use of ARDL model as the main estimation technique in order to examine the relationships among the variables. The advantages of the ARDL model to others include robustness in the face of small samples. E-views 12.0 econometric software was used for the analysis. Some preliminaries test necessary for annual time series data were conducted. These tests were carried out to ascertain the adoption of the various technique of analysis used in the study. This test includes both pre and post estimation test explained below;

Pre Estimation Test

Pre-estimation tests refer to the preliminary statistical procedures or diagnostics conducted before running the main estimation or analysis in a study. This includes;

Basic Descriptive Statistics: Basic Descriptive Statistics refer to the summary statistics that describe the main features of data in a panel dataset. They include Mean, Median, Standard Deviation, Minimum and Maximum.

Correlational Matrix: Correlational Analysis refers to the process of examining the relationship between two or more variables within a panel dataset. It shows whether they exist positive and significant relationship between the variables under study. Also, it shows the direction (positive) and magnitude (significance) between the variables under study. The outcome may be positive correlation, negative correlation or zero correlation.

Unit Root Test: Unit root test is conducted to ascertain the stationarity level of the variables under study. The rule of Unit Root Test is that, when it is $1(0)$ that is at level, OLS would be used to test the hypotheses, when it is at first difference $1(1)$, the study would use either VECM and when it has both $1(0)$ and $1(1)$, ARDL would be used.

Normality Test: A normality test in regression analysis is used to determine whether the residuals (errors) of the regression model are normally distributed.

Post Estimation Test

To establish whether the model is best, linear and unbiased (BLUE), the following post estimation test was conducted

ARDL: The Autoregressive Distributed Lag (ARDL) model is a technique used to analyze the short-run and long-run relationships between variables, particularly when dealing with time series data.

DATA ANALYSIS AND DISCUSSION OF FINDINGS

The data for this study were presented in two various forms. This includes the raw data as were sourced from CBN bulletin and the logged data.

Descriptive Statistics

Table 1: Descriptive Statistics

Variable	OBS	Mean	Std. Dev.	Max	Min
RGDP	24	4.791988	0.190860	5.017033	4.425828
SMC	24	3.956526	0.612171	4.876235	2.674218
CPS	24	3.890320	0.607160	4.723331	2.724582

Source: E-View 12.0 Output, 2025.

Table 1 shows the mean value of RGDP is (4.791988), maximum and minimum values of (5.017033) and (4.425828) implied that the RGDP had very good performance levels. The S.D of (0.190860) indicates that the RGDP indicator deviates from the mean by (0.190860).

Table 1 also showed the mean value of Stock Market Capitalizations (SMC) is (3.956526), maximum and minimum values of (4.876235) and (2.674218) implied that the Stock Market Capitalizations (SMC) had very good performance levels. The S.D of (0.612171) indicates that the Stock Market Capitalizations (SMC) deviates from the mean by (0.612171).

Table 1 also reveal the mean value of Credit to Private Sector (CPS) is (3.890320), maximum and minimum values of (4.723331) and (2.724582) implied that the Credit to Private Sector (CPS) had very good performance levels during the study period. The S.D of (0.607160) indicates that the Credit to Private Sector (CPS) indicator deviates from the mean by (0.607160).

Correlation Matrix

Table 2 Correlation Matrix

Covariance Analysis: Ordinary
 Date: 04/12/25 Time: 20:35
 Sample: 2000 2023
 Included observations: 24

Covariance t-Statistic Probability	RGRDP	SMC	CPS	FND
RGRDP	0.034910 ----- -----			
SMC	0.108096 17.36439 0.0000	0.359139 ----- -----		
CPS	0.109920 32.57268 0.0000	0.344894 18.17071 0.0000	0.353283 ----- -----	
FND	0.019814 9.511339 0.0000	0.059250 7.150496 0.0000	0.065070 11.49297 0.0000	0.013981 ----- -----

Source: E-VIEW 12.0 Output, 2025.

Stock Market Capitalization (SMC) vs Real Gross Domestic Product (RGDP)

Given that the correlation “R” is (0.108096) and the t-stat (17.36439) which is higher than 2.5 and with an associate p-value of (0.0000) it therefore concludes that stock market capitalization and real gross domestic product of Nigeria shows a positive and significant linear association. By this, we accept the null hypotheses and reject the alternate hypotheses.

Credit to Private Sector (CPS) vs Real Gross Domestic Product (RGDP)

Given that the correlation “R” is (0.109920) and the t-stat (32.57268) which is higher than 2.5 and with an associate p-value of (0.0000) it therefore concludes that credit to private sector and real gross domestic product of Nigeria shows a positive and significant linear association. By this, we accept the null hypotheses and reject the alternate hypotheses.

Stationarity Test

Table 3: Unit Root Results

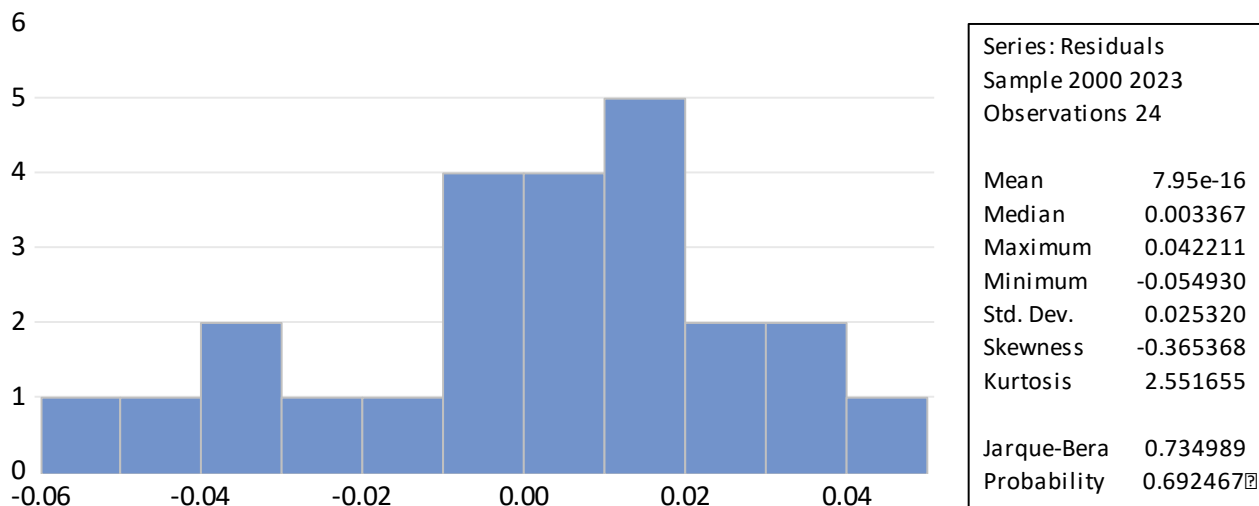
Variables	t-statistics	Critical Values @5%	Order of Integration	Prob.	Remarks
RGDP	(4.078552)	(2.998064)	I(0)	0.0048	Stationary
SMC	(3.977737)	(3.004861)	I(1)	0.0063	Stationary
CPS	(3.092341)	(3.004861)	I(1)	0.0420	Stationary

Source: E-view computation, 2025.

As shown in table 3, the result shows that the variables under study are stationary at levels and 1st order of integration. Based on this, the study would adopt Auto Regressive Distributed Lag Model (ARDL) method as the main estimation technique to test the hypotheses of this study.

Normality Test

Table 4: Summary of Normality Test Result



Source: Survey; from E-view computation, 2025.

The Jarque-Bera test statistic of 0.735 ($p = 0.692$), as presented in Table 1, fails to reject the null hypothesis of non-normal distribution at conventional significance levels. This suggests the data follows a normal distribution. The negative skewness coefficient (-0.365) indicates potential asymmetric effects, where explanatory variables may exert negative directional influence on the outcome variable.

Summary of ARDL Estimates

Table 6 ARDL Estimation Result

Variable	Coefficient	Std. Error	T-Statistic	Prob.*
Short run Estimate				
LOG_SMC	0.259349	0.085030	3.050104	0.0554
LOG_CPS	-0.329465	0.081664	-4.034382	0.0274
C	0.303240	1.328802	0.228206	0.8342
Long run Estimate				
LOG_SMC	-1.237960	2.227563	-0.555746	0.6171
LOG_CPS	1.000380	1.701991	0.587770	0.5980

Source: Authors: Computations using E-views 12.0, (2025).

Test of Hypotheses

Table 6 which shows the summary of the ARDL Output was used as the main estimation technique to interpret the hypotheses of this study.

H₀₁: Stock market capitalization does not have significant effect on RGDP in Nigeria

The short-run estimates in Table 6 indicate a marginally insignificant positive association between stock market capitalization (SMC) and Nigeria's real GDP ($t = 3.050$, $p = 0.055$). Conversely, long-run results show a statistically insignificant negative relationship ($t = -0.556$, $p = 0.617$). Both findings fail to reject the null hypothesis at the 5% significance level, suggesting that SMC does not exhibit statistically significant effects on real output in either temporal dimension.

H₀₂: Credit to private sector does not have significant effect on RGDP in Nigeria

Table 6 reveals Credit to Private Sector (CPS) significantly negatively impacts Nigeria's real GDP short-term ($t=-4.034$, $p=0.027$) but shows insignificant positive long-term effects ($t=0.588$, $p=0.598$), rejecting the null hypothesis for short-run while accepting it for long-run at 5% significance."

Discussion of Findings

Objective One: To evaluate whether stock market capitalization have significant effect on RGDP in Nigeria

The study found that in the short-run stock market capitalization has positive and significant effect on RGDP in Nigeria. While in the long-run stock market capitalization has negative and insignificant effect on real gross domestic product in Nigeria. This implies that on the long-run, a unit increase in stock market capitalization would lead to decrease in RGDP in Nigeria.

The stock market plays a vital role in attracting both local and foreign investors to a country, serving as a key indicator of economic strength and investment potential. A highly capitalized stock market reflects a vibrant and robust financial system, which signals to investors that the market is liquid and capable of efficiently mobilizing and allocating capital. This perception boosts investor confidence, encouraging them to channel funds into various sectors of the economy. As a result, businesses gain easier access to financing for expansion and innovation, leading to increased economic productivity. Over time, this enhanced investment climate fosters sustainable economic growth and long-term national development. This finding is not in line with the a-prior expectations of this study. This finding is also not in line with the findings of Ahmed and Yusuf (2023) who found a significant relationship.

Objective Two: To analyze whether credit to private sector have significant effect on RGDP in Nigeria

The study also found that in the short-run credit to private sector has negative and significant effect on RGDP in Nigeria. While in the long-run credit to private sector has positive and insignificant effect on real gross domestic product in Nigeria. This implies that on the long-run, a unit increase in credit to private sector would lead to decrease in RGDP in Nigeria.

For meaningful and sustained expansion to occur within any firm, access to adequate credit facilities for the private sector is essential. Financial resources are the lifeblood of business growth, enabling firms to invest in new technologies, increase production capacity, hire more labor, and enter new markets. It is widely acknowledged that government alone cannot bear the sole responsibility of driving economic development. Instead, a collaborative effort involving both public and private sectors is necessary. In this regard, banks and other financial institutions play a pivotal role by providing credit to private enterprises, particularly for productive and growth-oriented activities. By extending loans and other financial support, banks empower businesses to thrive, which in turn stimulates job creation, increases income levels, and boosts overall economic output. Ultimately, a strong credit flow to the private sector contributes significantly to national economic prosperity and sustainable development. This finding is not consistent with the a-prior expectations

of this study. The findings does not align with the findings of Ali and Hassan (2023) who found a significant relationship.

CONCLUSION AND RECOMMENDATIONS

The findings revealed that in the long run, stock market capitalization exerts a negative and insignificant effect on RGDP, suggesting that despite the expansion of the stock market, it has not translated into meaningful economic growth. This may be attributed to market inefficiencies, low investor confidence, or limited participation by productive sectors.

Furthermore, the study found that credit to the private sector has a positive but statistically insignificant effect on RGDP. This implies that while credit flows to private enterprises have the potential to enhance productivity and economic activity, the impact has not been strong enough to influence long-term economic development significantly.

The study therefore concluded that financial system contribution affect development of Nigerian economy.

- i. Efforts should also be made to deepen market participation by encouraging the listing of more productive firms, especially from the real sector, to ensure that capital raised in the stock market is channeled into sectors that can drive economic growth.
- ii. Policymakers and financial institutions should work on improving accessibility and affordability of credit, especially for micro, small, and medium enterprises (MSMEs).

REFERENCES

- Acha, I. A., & Nwankwo, O. (2021). Financial sector development and economic growth in Nigeria: An empirical assessment. *Journal of Finance and Economic Research*, 7(2), 49–66.
- Adebiyi, M. A., & Dauda, R. O. (2023). Financial development and economic growth in Nigeria: Re-examining the role of credit to the private sector. *Journal of African Financial Studies*, 15(2), 77–94.
- Adegbite, A., Ogundipe, O., & Adedeji, B. (2021). Financial deepening and economic growth in Nigeria: A re-examination. *Journal of Economic Policy Research*, 18(2), 145–162.
- Adegbite, O. O., & Azeez, B. A. (2022). Rethinking economic development in Nigeria: From growth to inclusive transformation. *Nigerian Journal of Economic Policy*, 29(1), 33–47.
- Adeleke, S., & Olanrewaju, F. (2022). Financial sector performance and private sector growth in Nigeria. *African Development Review*, 34(3), 220–237.
- Afolabi, T. S., & Ibrahim, A. O. (2023). Stock market development and economic performance in Nigeria: Evidence from market capitalization and GDP dynamics. *Nigerian Journal of Finance and Economic Development*, 14(2), 45–61.
- Alege, P. O., & Ogundipe, A. A. (2016). Financial liberalization and economic growth in Nigeria: A bound testing approach. *CBN Journal of Applied Statistics*, 7(1), 25–45.
- Allen, F., & Gale, D. (2000). *Comparing financial systems*. MIT Press.
- Barajas, A., Čihák, M., Mitra, S., Sahay, R., Kyobe, A., Mooi, Y. N., & Yousefi, S. R. (2022). Rethinking financial deepening: Stability and growth in emerging markets. *IMF Working Paper WP/22/45*.
- Beck, T. (2020). Finance, growth, and inequality: A global perspective. *World Bank Economic Review*, 34(4), 567–584.

- Beck, T., Demirgüç-Kunt, A., & Levine, R. (2020). Financial development and economic growth: Views and agenda. *Journal of Economic Literature*, 58(3), 688–729.
- Beck, T., Demirgüç-Kunt, A., & Levine, R. (2020). Financial institutions and markets across countries and over time: The updated financial development database. *World Bank Economic Review*, 34(3), 554–570.
- Beck, T., Levine, R., & Loayza, N. (2000). Financial intermediation and growth: Causality and causes. *Journal of Monetary Economics*, 46(1), 31–77.
- Bodie, Z., Kane, A., & Marcus, A. J. (2020). *Investments* (11th ed.). McGraw-Hill Education.
- Central Bank of Nigeria (CBN). (2023). *Financial stability report*. CBN Publications.
- Chukwuma, I., & Uche, C. (2023). Regulatory reforms and financial sector development in Nigeria. *International Journal of Financial Studies*, 11(3), 289–306.
- Demetriades, P., & Hussein, K. (1996). Does financial development cause economic growth? Time-series evidence from 16 countries. *Journal of Development Economics*, 51(2), 387–411.
- Eboh, E. C. (2021). Economic development in Nigeria: Concepts, measurement, and policy issues. *Journal of Development and Policy Review*, 19(2), 12–28.
- Ewah, S. O., Esang, A. E., & Bassey, J. U. (2022). Appraisal of capital market efficiency in Nigeria: The role of market capitalization. *African Journal of Business and Economic Research*, 17(1), 89–104.
- Eze, D. O., & Okonkwo, U. I. (2022). Private sector credit and economic performance in Nigeria: An empirical investigation. *Nigerian Journal of Economic Policy*, 29(1), 41–58.
- Eze, O. R., & Nwankwo, O. G. (2023). The dynamics of financial system development and economic growth in Nigeria. *Journal of African Financial Studies*, 15(2), 45–59.
- Ibrahim, M., & Alhassan, A. (2023). Credit access and SME performance in Nigeria: An empirical analysis. *Journal of Development Finance*, 12(4), 133–150.
- Iwedi, M., & Igbaniho, S. T. (2022). Financial deepening and economic performance in Nigeria: A disaggregated approach. *Nigerian Journal of Economic Policy*, 29(1), 92–108.
- King, R. G., & Levine, R. (1993). Finance, entrepreneurship, and growth: Theory and evidence. *Journal of Monetary Economics*, 32(3), 513–542.
- Levine, R. (2022). Finance and growth: Theory and evidence. *Journal of Economic Literature*, 60(1), 5–45.
- Levine, R., & Zervos, S. (1998). Stock markets, banks, and economic growth. *American Economic Review*, 88(3), 537–558.
- Mishkin, F. S. (2021). *The economics of money, banking and financial markets* (12th ed.). Pearson.
- Mishkin, F. S., & Eakins, S. G. (2021). *Financial markets and institutions* (9th ed.). Pearson Education.
- Nwanna, I. O., & Chinwuba, M. (2022). Financial system reforms and economic growth in Nigeria. *African Economic Research Consortium*.
- Nwanna, I. O., & Nnamani, D. O. (2023). Financial depth and economic transformation in Nigeria: A sectoral analysis. *African Journal of Economics and Sustainable Development*, 11(1), 101–117.
- Nwani, C. E., & Anidiobu, B. C. (2023). Credit access and SME performance in Nigeria: The mediating role of financial literacy. *Journal of Development Economics and Finance*, 18(1), 33–49.
- Nwosu, I. E., & Uzonwanne, M. C. (2020). Beyond GDP: Evaluating Nigeria's development using human development indicators. *African Journal of Social and Economic Development*, 15(3), 55–70.
- Okonkwo, O. A., & Agu, C. N. (2023). An econometric analysis of financial deepening and economic growth in Nigeria. *West African Journal of Monetary and Economic Integration*, 13(2), 21–40.
- Okonkwo, O. G., & Okpara, G. C. (2021). Stock market capitalization and macroeconomic indicators in Nigeria: A time series analysis. *West African Journal of Monetary and Economic Integration*, 11(2), 58–74.

- Okonkwo, U. I., & Adebayo, K. T. (2022). Financial systems and economic transformation: A Nigerian perspective. *Nigerian Journal of Economic Policy*, 29(1), 65–79.
- Olayungbo, D. O., & Quadri, A. (2021). Domestic credit to private sector and economic growth in Nigeria: A dynamic ARDL approach. *African Journal of Banking and Finance*, 13(4), 123–139.
- Olokoyo, F. O., Akinrinade, S., & Owolabi, O. (2023). Stock market development and economic growth: A Nigerian perspective. *Journal of Financial Studies*, 18(2), 245–261.
- Olokoyo, F. O., & Ogunleye, T. S. (2023). Dualism in Nigeria's financial system: Implications for policy and inclusion. *African Journal of Development Finance*, 11(1), 23–41.
- Ologunde, A. O., Elumilade, D. O., & Asaolu, T. O. (2023). Stock market capitalization and the Nigerian economy: Implications for development policy. *Journal of African Capital Markets*, 6(1), 22–39.
- Onoh, J. K. (2020). *The Nigerian financial system: Structure and development*. Enugu: Astec Publishers.
- Onyema, B., & Uche, C. (2022). Governance and regulatory challenges in Nigeria's financial sector. *African Journal of Governance and Policy*, 19(1), 89–110.
- Sanusi, L. S. (2021). Financial system reform and monetary policy effectiveness in Nigeria. *Central Bank of Nigeria Economic and Financial Review*, 59(4), 1–15.
- Sahay, R., Čihák, M., Barajas, A., Mitra, S., Kyobe, A., Mooi, Y. N., & Yousefi, S. R. (2022). Rethinking financial deepening: Stability and growth in emerging markets. *International Monetary Fund Working Paper WP/22/45*.
- Sen, A. (1999). *Development as freedom*. Oxford University Press.
- Stiglitz, J. (2012). *The price of inequality*. W. W. Norton & Company.
- Todaro, M. P., & Smith, S. C. (2020). *Economic development* (13th ed.). Pearson.
- Uchenna, E. O., & Adewale, T. A. (2022). Financial inclusion and financial depth in Nigeria: Complementary or substitute strategies? *International Journal of Development Economics*, 6(3), 55–72.
- Udom, G. B., & Olayemi, A. M. (2022). Financial intermediation and credit to the private sector in Nigeria: Challenges and prospects. *West African Review of Finance and Development*, 8(1), 65–82.
- United Nations Development Programme (UNDP). (2023). *Human development report 2023: Breaking the gridlock*. UNDP.
- World Bank. (2022). *World development indicators 2022*. World Bank Publications.