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Financial Deepening and Economic Development of Nigeria: An Empirical Investigation

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Abstract

This empirical study examined financial deepening and economic development in Nigeria between 1986 and 2007. The central focus is that a high level of financial deepening is a necessary condition for accelerating growth in an economy. This is because of the central role of the financial system in mobilizing savings and allocating same for the development process. The study made use of secondary data, sourced for a period of 22 years. We specified nine explanatory variables for the study based on theoretical underpinnings. We sought to establish a relationship between these variables and financial deepening index. The two stages least squares analytical framework was used in the analysis. A trend analysis was also done in the study. At the end of the study, we found that financial deepening index is low in Nigeria over the years. We also found that the nine explanatory variables, as a whole were useful and had a statistical relationship with financial deepening. But four of the variables; lending rates, financial savings ratio, cheques/GDP ratio and the deposit money banks/GDP ratio had a significant relationship with financial deepening. We concluded that: the financial system has not sustained an effective financial intermediation, especially credit allocation and a high level of monetization of the economy. Thus the regulatory framework should be restructured to ensure good risk management, corporate governance and stemming systemic crisis in the system.

Keywords: Financial Structure, Corporate Governance, Financial Reforms, Financial Savings, Financial Market, Gross Domestic Product, Financial Deepening

JEL Classification: G14, G15

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