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Evaluation of Long Run Relationship between Financial Development and Economic Performance in Nigeria

Chioma Patricia MOGBO
Management Department, Texila American University, Guyana

Abstract

This study aimed to assess the long-term interconnections between Nigeria's economy and financial development indicators, adhering to standards, by analysing the existing relationships between these indicators and Nigeria's economic growth based on current data. Secondary data were obtained from the Central Bank of Nigeria's Statistical Bulletin and the World Bank's Financial Development Indicators Database covering the period from 1994 to 2023. The results of the Auto Regressive Distributed Lag Bound Test conducted on a long-term basis revealed that credit extended to the private sector and the number of active bank accounts per 100,000 adult population were important predictors of Nigeria's gross domestic product in the long run. Nonetheless, the lending-deposit spread, and asset quality ratio did not pass the significance test. Thus, the study determined that of the four explanatory variables analysed, only two—credits to the private sector and the number of bank accounts per 100,000 adults—are significantly relevant in forecasting Nigeria's gross domestic product in the long term, whereas lending-deposit spread, and asset quality ratio are not. Thus, the research advised that the Central Bank of Nigeria should increase the statutory maximum loan-to-deposit ratios for operating banks to facilitate more lending to clients, which, via expected multiplier effects, would accelerate economic growth.

Keywords: *Autoregressive Distributive Lag, Economic Performance, Financial Development, Long Run.*

Introduction

Financial intermediation theory posits that the financial sector significantly influences economic performance by enhancing the quality of financial services. This perspective proposed that the degree of financial development has a vital influence in economic progress. Levine's observations [1], [2] were predicated on the premise that financial development facilitates the simplification of information on potential investments and oversight, in addition to risk segmentation and management. It further augments the aggregation of saved capital within the economy and facilitates the trade of commodities and services. Consequently, the growth-enhancing effects of financial development are clearly focused on its capacity for saving mobilization and effective resource allocation.

Every economy comprises economic entities that have surplus cash over their necessary requirements. Conversely, several units need more funding than they already have. These units are designated as the surplus as well as the deficit economic units, respectively. The condition is termed financial disequilibrium. In such circumstances, financial development serves a crucial function by facilitating the aggregation of savings from several economic entities and directing these resources to individuals in need. Financial development furnishes the economic system with the allocation mechanism that aggregates the dispersed savings of society and then redistributes them among economic entities. Financial development facilitates resource

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****Corresponding Author: chiwils@yahoo.co.uk***

allocation and the conversion of financial treaties and instruments [3].

The correlation involving financial advancement and economic expansion has garnered increasing attention in recent years. The degree of financial growth in economies is prominently shown by the existing disparity between institutional savings and investments. Despite many decades of comprehensive research on the topic, the correlation between finance and growth remains ambiguous [4]. [5] characterized the link as intricate and noted that the outcomes differed based on country-specific variables, the empirical model used, and the financial development metrics utilized in the research. Another element that may explain the conflicting findings is the potential variability of financial development's influence on growth across various economic sectors. Ref. [6] observed that the total impact of financial development on growth is significantly intricate according to the selection of metrics used.

Consequently, it is essential to analyze the long-term link between financial development and Nigerian economic performance, using the four key metrics (depth, access, efficiency, and stability) identified by [7].

Literature Review

Concept of Financial Development

The core premise of financial development is that robust financial systems considerably affect GDP growth. Ref. [1] argues that financial institutions like banks, insurance, and capital markets are vital because they facilitate the allocation of resources, the management of risks, and the provision of key services to both people and enterprises. Investment and GDP growth are both boosted by a strong financial system because it facilitates the efficient transfer of funds between savers and borrowers.

Financial development may be described along several axes. Financial depth, the magnitude and extent of financial activity in relation to the whole economy, is an important consideration. Measurements like the private sector credit-to-GDP ratio are used for this purpose. According to [8], a higher ratio suggests that a larger part of economic resources is distributed via formal financial channels, which improves the overall efficiency of capital allocation.

The availability of financial services to both consumers and corporations is another critical factor. Those on the margins of society are particularly vulnerable to the effects of limited possession of financial services on their level of economic involvement. One popular measure of financial access that reflects the level of population integration into the formal financial system is the number of bank accounts per person or per 100,000 adults [9]. More people and companies will be able to save, invest, and participate in productive activities if they have easier access to financial services, which would boost economic development.

Another important factor is financial efficiency, which is the degree to which financial institutions can distribute resources and control risks. The lending-deposit spread, which shows the gap between the interest rates that banks pay on deposits and those that they charge for loans, is one indicator that may be used to quantify this. Lower costs for borrowers and fair returns for savers are indicators of efficient intermediation when the spread is narrow. By reducing the dangers of over-borrowing and under-lending, well-functioning financial institutions promote economic expansion and stability.

Another essential part of financial growth is financial stability. Resilience is the capacity of a financial system to withstand shocks and keep investors' and depositors' faith in it. One way to determine this, is by looking at asset quality ratios, which shows what percentage of a bank's loans are non-performing. Financial stability is enhanced when asset quality ratios are high, which means that banks are doing a good job of controlling their credit risk [10]. Confidence among investors, which in turn promotes long-term investment, and steady economic development are all outcomes of a financially sound system.

Concept of Economic Growth

The term "economic growth" refers to the process by which a country, region, or community's economic prosperity and standard of living are enhanced in accordance with predetermined plans and objectives. Attainment of economic well-being goals is a common metric for gauging economic progress. Both long-term goals, like steady economic growth and progress, and short-term goals, like preventing the economy from collapsing due to unexpected occurrences, are valid. Economists use a variety of economic indicators to determine the extent to which an economy is meeting these goals. Economists can tell if the economy is doing better or worse by looking at economic indicators, which assess macro-economic factors. Policymakers may learn a lot about whether to interfere and the efficacy of their interventions by keeping tabs on these variables [11].

A few metrics, including literacy, life expectancy, and poverty rates, tend to rise in tandem with economic expansion. These could not be results of any one economic development program, but rather factors that contribute to overall economic expansion. It may not be immediately apparent that gains in health and education have led to increased economic activity, but there is strong evidence linking the two. Regardless, it's unrealistic to assume that specific economic development initiatives can solve all of society's issues simultaneously; doing so would be setting unrealistically high standards for their success. To prevent development policies from collapsing under the weight of too early load carrying, they should establish modest objectives and move slowly [12].

Theoretical Underpinning

An essential part of every economy's financial system is the ability to facilitate financial intermediation. Economic activity is defined as the process by which formal financial organizations efficiently borrow money from the economy's surplus of savings units at a price called an interest rate, and then spend that money on projects and investments that are best evaluated so that the money goes back to the savings sources.

Scholars such as [13], [14], and [15] popularized the idea that controlling interest rates would stimulate the economy's excess savings units to mobilize more money. The economy will experience growth because of multiplier effects brought about by improved lending and investment possibilities made possible by better funds mobilization.

Within the framework of financial development theory, which is another theoretical framework relevant to this study, [13] found a positive association between economic and financial development for a group of 35 nations. In cross-national research, [16] added to the body of data connecting better financial system functioning to quicker economic growth rates. Theoretical frameworks often imply that a flourishing financial sector is crucial to a thriving economy. Several studies have shown that economists disagree on the role of the financial sector in economic growth: for example, [14, 15, 17, 18] and [19, 20, 21], and [22]. Consequently, there is still no consensus on the direction of causality. Conversely, a substantial amount of theoretical and empirical research was used by Ref. [19]. Firms have less external funding limitations in established financial systems, according to the research. A few of the research cited above argue that the banking industry should be deregulated. They maintained that banks and other financial institutions do, in fact, mediate between savers and investors, and that this has a beneficial effect on both. Consequently, they promote expansion of the economy.

Empirical Review

Using the years 2000–2019 as a time frame, [23] investigated how financial development affected economic growth, with the quality of institutions mediating the relationship between the two variables. Findings from an analysis of twenty-nine (29) nations using the System-

GMM estimating approach indicated that financial development significantly impacts economic growth in a favorable way. Furthermore, it was shown that the favorable influence of financial development on economic growth is amplified in situations where the rule of law, stability in politics, and regulatory efficacy are extremely effective.

A three-regime TARDL model was created by Ref. [24] to account for the unequal effect of financial development on economic growth in the top ten nations with the most evolved financial systems. Trade openness, capital creation, and labor were included as possible factors of economic growth to the TARDL model by the research. There is threshold unequal co-integration between variables, as shown by the empirical results. Specifically, under the top regime, financial development has a positive impact on Singapore's economic growth but a negative one in Finland. Growth in the Australian and Singaporean economies is boosted by financial development during the middle regime. But under the current system, progress in the financial sector is stifling expansion in the American, Malaysian, and Singaporean economies. Canada, South Africa, Australia, Malaysia, Singapore, New Zealand, and Norway are among the countries whose economies have benefited from trade liberalization in the long term. Both the US and Malaysian economies benefited from capital creation, which boosts growth over the long term. Both Malaysia and Singapore relied on labor to support their economies over the long term.

The aftermath of financial development on sectoral performance was investigated by [25]. The research used a panel Granger-causality test and an improved DCCE. From 1980 to 2020, 22 developing markets were included in the panel data. Consistent with the established empirical results, static previous research using panel data may have drawn erroneous conclusions about the connection between financial development and economic growth. On the contrary, their research proved that improved financial infrastructure positively affects GDP growth, and the correlation is linear. Regarding all the financial development proxies used in the analysis, they also discovered a strong bidirectional causation between financial development and economic expansion.

In their analysis of the growth-development nexus in Nigeria's financial sector, [26] looked at the functions of financial inclusion. To address the endogeneity concerns surrounding the relationship between financial development and economic growth, they used panel data spanning from 1995 to 2020 and implemented a generalized method of moments (GMM) framework. Among its financial inclusion metrics are the percentage of GDP that is deposited, the number of bank branches per capita, and the prevalence of mobile banking services. The results showed that microcredit and mobile banking, two forms of financial inclusion, significantly contributed to GDP growth. Positive effects on productive investment, entrepreneurship, and GDP growth may be achieved, according to the research, by expanding access to financial services for disadvantaged groups.

The effects of financial development on agricultural production and, by extension, economic growth in Nigeria is the subject of [27] research. Using a panel data model and data collected from 1995 to 2022, this research looked at how access to credit and rural banking affected agricultural output. The distribution of loans to rural areas, agricultural output, and GDP growth are all factors to consider. The findings showed that agricultural output is greatly improved by financial development, especially when it comes to microcredit programs and rural banking efforts. The subsequent increase in food production, decrease in rural poverty, and stimulation of local economies all contributed to a general boost to economic development. Sustaining Nigeria's agricultural sector—a vital engine of economic development and poverty reduction—requires, according to the authors, enhancing access to rural regions' financial

services and boosting agricultural loan programs.

Focusing on Nigeria's agriculture and service sectors, [28] investigated the connection between financial development and sectoral growth. Using a panel Vector Autoregressive (VAR) model, the research analyses the relationships between financial development, agricultural production, service sector output, and economic growth from 1990 to 2022. Growth in gross domestic product, domestic credit to the service industry, and credit to the agriculture sector are all variables. According to the findings, the service sector is more affected by financial development than the agriculture sector. Financial growth has had a disproportionately little effect on Nigeria's agricultural sector owing to systemic problems including insufficient infrastructure and market access, in contrast to the country's rapidly expanding service sector. To make the most of financial development's growth-promoting potential, the authors argued that governments should craft sector-specific financial regulations to meet the special requirements of the food and service industries.

When it comes to Nigeria's economic progress, [29] looked at how innovation and financial development interact. This research uses a dynamic panel data analysis to examine the relationship between financial development, innovation, and GDP growth using data from 2010 to 2023. R&D spending, GDP growth, and domestic lending to the private sector are important determinants. According to the results, innovation is greatly boosted by financial development since it provides the capital for R&D, which in turn leads to economic growth. To make the most of financial development's effect on economic growth, the authors suggested that lawmakers push for innovation-friendly financial products and fund research and development projects.

In their study of the relationship between financial development and growth in Ghana from 1980 to 2016, [30] used a nonlinear ARDL method to analyze the unequal impacts of financial development on growth. The results showed that there is an asymmetric link in the long run, where both beneficial and detrimental shocks to financial development affected economic growth in different ways in the short and long runs. Accordingly, the kind of shocks experienced by the financial sector dictated the extent to which financial development contributed to economic growth.

The influence of financial development on different industries were assessed by Ref. [31]. This research filled these knowledge gaps by using panel data from 46 African nations covering the years 1980–2016. The growth of the financial sector did not significantly affect international commerce, according to evidence derived from pooled mean group estimates. This was true for both the long and short periods, even though the influence of sectoral value additions depended on the trade proxy. No matter what financial or trade metrics were used, the authors argued, this remains true. After accounting for transmission channels, however, a negative long-run substitution impact between trade and finance was discovered; this effect persisted regardless of the trade and finance indicator used.

The impact of financial development on economic growth in Nigeria was investigated by Ref. [32]. The research used data collected between 1986 and 2017. Data used in the research came from secondary sources, such as the Statistical Bulletin of the Central Bank of Nigeria, the World Bank, and the International Monetary Fund. The analysis was conducted using E-views 9 and the ARDL approach. Several tests were administered to the research, including tests for normality, stationarity, cointegration, ARDL estimation, and error correction. Credit to the business community did not significantly help the economic growth, according to the data. To stimulate the economy's productive sectors, the report suggested, among other things, that the monetary authorities implement measures that would force banks to reduce their lending rates.

Ref. [33] used yearly time series data from 1980 to 2014 to analyze how financial development affected economic growth in

Nigeria. To find the variables' time series characteristics, the research used unit root and co-integration tests. Multiple regression estimate was used since the research variables were level stationary. Interest rates, market capitalization, private sector bank loans, and bank deposits are some of the financial development metrics used, whereas real GDP is the growth metric. The results showed that every single one of the measured variables had a positive effect on GDP growth in Nigeria, except for the private sector credit ratio. The results, according to the authors, showed that improvements in banking and stock markets play a pivotal role in the expansion of real sector output. On the other hand, the negative outcome of private sector credit indicates that investors do not benefit from increased output, likely because of interest charges on loans.

Using panel cointegration estimates, [34] investigated the interplay between financial sector development indicators, economic volatility, and shocks in Sub-Saharan Africa. The research found that manufacturing had a minor influence on economic growth for most of the countries that were considered. But the research did find that changes in industry practices had a significant impact on the economy.

Ref. [35] looked at how Nigeria's manufacturing sector grew in relation to the country's financial progress. Utilizing the ordinary least square multiple regression approach, data from 1985 to 2014 was examined. The study's results demonstrated strong correlations between the broad money supply and Nigeria's GDP and the ratio of private sector credit to total credit and industrial production.

Over the course of 30 years, the ECM was used to examine a collection of annual data. Researchers in Nigeria discovered a positive correlation between the expansion of the country's financial industry and GDP growth. Research also showed that private sector lending and the depth of the banking sector did nothing to boost economic development in Nigeria.

The impact of Nigeria's financial growth on the country's economic performance was examined by Ref. [36]. The research employed the Johansen cointegration method and finally least squares estimator in conjunction with yearly data from 1970 to 2010. The authors found that efficiency in banking, credit to the industrial sector, and the non-oil trade balance all had insignificant coefficients. Our findings revealed a wide disparity between the real and financial sectors of the Nigerian economy. Therefore, the study's authors recommended that policymakers craft new measures to increase productivity that address the needs of the manufacturing sector. This ought to boost the potential for development of the communal economy.

Material and Methods

Because data was gathered in intervals throughout time, the study used a time series longitudinal research design. The data utilized in this study came from reputable sources, such as the World Bank and the Nigerian Apex Statistical Bulletin, which have been publishing the most up-to-date and accurate statistics on the variables under investigation since 1994 and 2023, respectively. Secondary data of a time-series character was generally sourced from the organizations for this study.

Model Specification

Examining the impact of financial development on Nigeria's economic growth over the long term is the primary objective of this research. So, this research will use this model.

$$GDPt = f(PSC, BAPA, LDS, AQR) \quad (1)$$

Where:

GDP = Gross domestic product

PSC = Credits to the private sector as ratio of gross domestic product.

BAPA = Ratio of number of bank accounts per 100,000 adults

LDS = Lending-deposit spread

AQR = Asset quality ratio

Because GDP is in level form, while PSC BAPA, LDS, AQR are in ratios/percentage, the

growth rate of gross domestic product was employed to compare likes. As such, equation 1 is re-written as follows.

$$GDPR = f(PSC, BAPA, LDS, AQR) \quad (2)$$

Where;

GDPR = Rate of GDP growth (in percentage) while other terms remain as earlier defined.

For estimation purposes, equation 2 is re-written as;

$$GDPR = \beta 0 + \beta 1PSC + \beta 2BAPA + \beta 3LDS + \beta 4AQR + ei \ldots (3)$$

β_0 = Constant Parameters

β_1, β_2, β_3, β_4, = Estimation parameters

μ_1 = Error term

Method of Data Analysis

Stationarity (Unit Root) Test

All the research time-series variables were subjected to unit root tests to see whether the data were related with unit root qualities; this was done to prevent false predictions, which was one of the explicit aims of the study.

Autoregressive Distributive Lag (ARDL)

In a time, series setting, the ARDL is a statistical tool for investigating the long-term correlation between many variables. For time scopes less than 30 periods or where variables of multiple orders may be merged, it is a typical tool to utilize. A dynamic model including both short-run and long-run effects may have its parameters estimated using the ARDL test. It shines brightest when studying long-term correlations between variables that may only show short-term changes, as in cointegration connections. In general, an ARDL exam includes the following procedures:

Results and Discussions

Data Presentation Table

Table 1. Data on Gross Domestic Product (GDP), Financial Institutions Depth (private sector credit) (PSC), Financial Institutions Access (Bank accounts per 100,000 adults) (BPA), Financial Institutions Efficiency (lending-deposit spread) (LDS), and Financial Institutions Stability (asset quality ratios) (AQR) in Nigeria over the period of 1994 to 2023.

YEAR	GDP (₦'b)	PSC (₦'b)	BPA (%)	LDS (%)	AQR (%)
1994	0.26	8.11	2.28	6.73	87.63
1995	1.87	5.81	2.19	6.67	87.67
1996	4.05	5.84	2.17	7.12	87.31
1997	2.89	7.16	2.12	15.51	84.64
1998	2.5	7.32	1.88	11.31	85.44
1999	0.52	7.86	1.83	14.2	82.47
2000	5.52	7.51	1.79	8.15	83.07
2001	6.67	9.29	1.75	5.76	90
2002	14.6	8.09	2.34	14.62	89.96
2003	9.5	8.09	2.46	11	85.39
2004	10.44	7.84	2.58	8.61	75.07
2005	7.01	7.95	2.5	10.81	60.43
2006	6.73	7.54	2.27	10.44	89.24
2007	7.32	10.58	2.87	8.87	83.44
2008	7.2	19.77	3.29	6.84	84.57
2009	8.35	22.75	3.52	9.99	84.79
2010	9.54	18.96	3.66	20.05	84.66

2011	5.31	15.07	3.35	20.02	76.04
2012	4.21	18.31	3.33	16.17	74.4
2013	5.49	17.85	3.28	17.98	66.42
2014	6.22	18.59	3.13	15.85	65.87
2015	2.79	19.64	3.02	18.45	69.13
2016	-1.58	20.5	2.99	21.83	72.55
2017	0.82	19.55	2.99	22.82	70.74
2018	1.91	17.54	2.71	19.31	78.58
2019	2.27	17.63	2.71	20.9	75.71
2020	-1.92	18.82	2.61	19.97	72.93
2021	3.4	18.67	3.27	20.63	66.7
2022	8.72	18.52	3.93	21.29	60.47
2023	14.04	18.37	4.59	21.95	54.24

Source: World Bank and Central Bank of Nigeria

Unit Root Test (Augmented Dickey Fuller Test)

Table 2 shows the results of the stationarity tests. We set out to test the existing data for stationarity features so we could use them with confidence in our study.

Table 2. Results of Augmented Dickey- Fuller (ADF) Unit Root Test at First Difference

Variable	ADF test Statistic	Critical Values			Order of Integration	Prob.
		1%	5%	10%		
GDP	-5.007282	-3.689194	-2.971853	-2.625121	I(1)	0.0004
PSC	-5.01278 -3.699871 -2.976263 -2.627420 I(1) 0.0004					
BAPA	-2.795576	-3.689194	-2.971853	-2.625121	I(0)	0.0717
LDS	-5.350714	-3.699871	-2.976263	-2.627420	I(1)	0.0002
AQR	-6.255726	-3.689194	-2.971853	-2.625121	I(1)	0.0000

Source: *E-views Output*

First difference analysis revealed that the following variables remained constant: GDP, private sector credit, lending-deposit spread, and asset quality ratios. Bank account penetration as a percentage of the adult population, however, did not pass the stationary at first difference test. Therefore, the research variables may be analyzed using the ARFL bound test approach since fractional/mixed integration is common even at initial difference.

ARDL Long Run Form and Bounds Test

One diagnostic tool used to find out whether there is a long-run relationship between the model's variables is the Bounds test for the ARDL technique. Its primary use is in ARDL models, which make use of it when the model's variables have varied integration orders. The basic idea behind the Bounds test is cointegration, which is the long-term

relationship between variables that are not stationary. To find out whether there is such a long-run link among the ARDL model variables, the Bounds test is useful. Financial and economic analysts tend to favor long-term outcomes above short-term projections when making policy decisions.

Table 3. ARDL Long Run Form and Bounds Test

ARDL Long Run Form and Bounds Test				
Dependent Variable: D(GDP)				
Selected Model: ARDL(2)				
Case 2: Restricted Constant and No Trend				
Date: 08/24/24 Time: 13:08				
Sample: 1994 2023				
Included observations: 28				
Conditional Error Correction Regression				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-9.298074	7.669139	-1.212401	0.2388
GDP(-1)*	-0.827481	0.178366	-4.639229	0.0001
D(GDP(-1))	0.136317	0.167796	0.812399	0.4257
AQR	0.075346	0.069721	1.080678	0.2921
BAPA	6.608371	1.524696	4.334222	0.0003
LDS	-0.202631	0.135015	-1.500801	0.1483
PSC	-0.529885	0.163935	-3.232296	0.0040
* p-value incompatible with t-Bounds distribution.				
Levels Equation				
Case 2: Restricted Constant and No Trend				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-11.23660	9.454156	-1.188535	0.2479
F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	11.22935	10%	3.8	3.8
K	0	5%	4.6	4.6
		2.5%	5.39	5.39
		1%	6.44	6.44
		1%	7.35	7.35

Source: E-views output

The results are shown in the table above. With an f-statistic of 11.22935, which is higher than the asymptotic values at 10%, 5%, 2.5%, and 1%, the bound test basically indicates the existence of a long-run association between financial development and economy in Nigeria. In the long term, the findings suggest that private sector loans have a large negative impact on Nigeria's economic development, whereas the number of bank accounts per 100,000 individuals has a considerably beneficial effect.

Although the Asset Quality Ratio (AQR) has a positive coefficient of 0.07346, its t-value has an associated probability of 0.2921, which is not significant at the 0.05 level, according to the

findings of the long term ARDL in the table above. With a t-value of 4.334222 and a probability value of 0.0003, the number of bank accounts per 100,000 adults has a positive coefficient of 6.608371, which is statistically significant at the 0.05 level. Plus, even if the lending-deposit spread is negatively correlated (-0.202631), the long-term t-value of -1.500801 with an associated probability of 0.1483 is not statistically significant (0.05 level). Lastly, the long-term coefficient for private sector loan as a percentage of GDP is -0.529885. In the long term, its corresponding t-value (with a probability of 0.0040) is statistically significant at the 0.05 level.

Discussion of Findings

The following are addressed in light of the findings;

Depth of Financial Institutions: There was a strong correlation between the depth of Nigeria's financial institutions and the country's economic development, as measured by the ratio of private sector loans to GDP. Even though the coefficient is signed negatively in the long term ARDL analysis (Table 3), it might be because bank credits in Nigeria are too expensive. It is undeniable that bank credits have a multiplier impact on the economy. There are hefty fees associated with most of these loans since they come from commercial banks and have very short repayment terms. Nevertheless, it is anticipated that this indicator would shift in favor of the economy after the Central Bank resolves the lending-deposit spread.

Access to Financial Services: The number of bank accounts per 100,000 individuals is a good proxy for financial access, which has a positive and statistically significant effect on Nigeria's GDP. Network (branch) expansion is the key to the growth of banking and other financial services. When a bank opens more branches, customers are more likely to deposit funds, which in turn creates opportunities for related companies to make money, such as commissions and credits. Here, more extensive branch networks are associated with growing enterprises, which boost economic development via making financial product services more accessible.

Efficiency of Financial Institutions: The lending-deposit spread is a measure of the efficiency of financial institutions. The above table shows that there is not statistically significant long-run link between Nigeria's GDP and lending-deposit spread. In Nigeria, the spread is typically high—with an overall cost of credit reaching 27% p.a.—due to the appropriately priced bank deposits (extremely low interest on savings and time deposits), which frequently serve as a significant disincentive for savers. This is indicated by the negatively signed coefficient of -0.20631. This discourages people from putting their money into banks, which slows down investment, growth, and deposit mobilization.

Stability of Financial Institutions: There is a weak correlation between Nigeria's GDP and the stability of financial institutions as measured by the asset quality ratio, even if the correlation is positive. This finding lends credence to the idea that Nigeria's banking system reorganized and consolidated between 2004 and 2005. According to [37], asset quality ratios of Nigerian banks saw a precipitous decline starting from the year 2000. A major problem for Nigeria's banking system has been the lack of strength in repaying loans and recovering debt. Assets with performance or quality risk must be subject to strict laws that guarantee compliance with credit obligations. The investment base and economic acceleration of a country are both impacted by the state of its risk assets. These tendencies corroborate the claims made by [3], who noted that reliable financial institutions provide a steady supply of credit to the economy and inspire trust among investors.

Conclusion

According to the study's findings, among the factors that contribute to the prediction of Nigeria's GDP in the long term are the following: the number of bank accounts and

credits to the private sector, as well as the asset quality ratio and the lending-deposit spread.

Recommendations

Based on the conclusions drawn from the analysis, the following recommendations are made:

1. The loan deposit ratio that operating banks are required to set by the Central Bank of Nigeria should be raised. Operating banks would be able to boost private sector investment project financing as a result. The disbursed credits and investments will hasten Nigeria's economic development thanks to the associated multiplier effects.
2. Loan recovery attempts should be stepped up by Nigerian banks. Customers will be discouraged from wasting borrowed cash on useless endeavours, which will lead to a decrease in productive investments in the economy.
3. For improved financial intermediation, Nigerian banks should take a harder stance in deposit mobilisation by developing better products tailored to certain sectors.
4. Current financial institutions' network/branch expansion criteria should be lowered by the Central Bank of Nigeria. Other financial service providers, such as point-of-sale (POS) operators, would also benefit from this as they must be able to access the services of the operating banks' local offices to improve the quality of service they give to their customers.

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