

## Financial Deepening and Economic Growth Nexus in Nigeria

### Abstract

This study explored the relationship between financial deepening and economic growth in Nigeria over the period 1971 to 2020. The literature presents differing views on whether financial deepening has a positive effect on economic growth, prompting further empirical investigation. Annual data on key variables—such as lending interest rate, bank capital, bank liquid reserves, domestic credit, and stock traded—were obtained from the World Bank Indicators. The analysis employed an Ordinary Least Squares (OLS) regression model to assess the effects of these variables on Nigeria's GDP. The results indicated that bank liquid reserves had a positive and statistically significant impact on GDP at the 5% significance level, while domestic credit and stock traded were positive but not statistically significant. Based on these findings, the study recommends that the Central Bank of Nigeria (CBN) urgently reconsider its monetary policy rate and the volume of financial resources allocated to the private sector. Additionally, measures should be introduced to cushion the effects of disinvestment and to promote policies that enhance income, liquidity preferences, and savings behavior among citizens, all of which can contribute to a more resilient economy. Finally, financial institutions are encouraged to develop a wider range of financial instruments to attract investors and mobilize idle funds for productive investments.

**Keywords:** Credit, Economic Growth, Financial deepening. Investment, Liquidity, Savings.

### Introduction

Financial deepening is the increased provision of a wide varieties of financial services for all segments of the society. It helps in providing support to the structure of financial services within a nation; hence, a process

### Review Article

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**Received:** 16 March, 2026; **Accepted:** 24 March, 2026; **Published:** 29 March, 2026.

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of establishing and growing financial institutions is associated with it. As Samuel -Hope, Omankhanlen & Osuma [1] posit, expanding the financial sector allows financial intermediaries to carry out functionalities of deploying, aggregating and directing a country's savings into an investment which contributes to domestic progression.

The assertion that a financial institution has the potency of mobilising savings with the intention of purposeful investment within the economy is simply what financial deepening is all about. Furthermore, economic growth thrives from the allocation of funds and reserved savings that are utilised by the investors, government, individuals, agencies and public sector on outlays, investing and projects with returns in view. [2]. In this context, the 2022 Financing for Sustainable Development Report identifies a "great finance divide" – the inability of poorer countries to raise sufficient

resources and borrow affordably for investment. [3]. Deposit Money Banks with a greater proportion of capital sufficiency can more likely develop more advances and retain credit misfortunes whenever it occurs [4].

The Nigerian financial system has constantly been experiencing certain reforms. Regulations by the apex bank on the financial sector are placed to maintain intense liquidity for effectiveness in the financial market globally. From the challenges so far through the developments within the financial system like economic crises, financial setback, inventing technologies and system dilemma, the reforms gradually emit. Consequently, the need for the financial sector to be deepened for the purpose of growth, strength and integral globalization of the financial system activities.

In a way that relates to the whole world, the financial system has been acknowledged as playing a vital role in domestic advancement. It is a crucial part of resource mobilisation and allocation of monetary recompense, as well as resources for constructive management. Arestis [5] ascertain that financial deepening and economic growth exhibit a relationship which leads to the expansion of the banking and stock markets all over the world.

Okoli [6], also mentioned that Schumpeter in 1911 brought up the ideology of the relationship between financial deepening and economic growth. All along, financial deepening measures has been based on the banking sector and not much consideration on the effect in the development of the stock market.

In the Nigerian economy, there has been prospective growth performed via the stock market. Bringing up the contemporary economic crises and reforms with firm actions being implemented, causing recovery from recession within the economy as well as enhancing the sector. The daily economic decisions within the financial sector by the monetary authority on investments are affected directly or indirectly. Foreigners have retarded their decision in portfolio investment as a result of the unstable domestic exchange rate for the last seven years.

There has been a mixed effect from preceding studies regarding the relationship between financial

deepening and economic growth. Therefore, there is a need to look into the economy of Nigeria and find out if financial deepening relates to economic growth.

Even though the area of economic theory relates to economic growth, are been developed consistently with emerging economies, the inquiry on what drives the long-term economic growth and the magnitude to which economic growth is generated from several regions and nations remains logically unanswered.

#### Statement of the Research Problem

Conflicting findings on the subject of financial deepening and economic growth are unfolded in several literatures. From the available empirical studies on the internet, further discussion needs to be made on financial deepening and economic growth in Nigeria [7-9].

Over the years, financial and economic development experts have placed importance on and debated financial deepening and economic growth to a degree. The crises in Nigeria's economy have been disadvantageous, as most businesses find it difficult to grow and keep themselves afloat. Furthermore, the banks as well as other financial institutions in recent times are reluctant to give funds or release loans, which is affecting the economy. This suggests that past efforts to expand financial markets may have resulted in resource misallocations that would have otherwise been allocated to higher priority goals at earlier stages of growth. The progression nationally leads to more request of financial services and causes significant monetary expansion.

It was observed in Nigeria that funds are not accessed by entrepreneurs as a result of their inability to present collateral. Business ideas that would have thrived and created wealth, employment and eradication of poverty are frustrated [10].

The economic growth can be determined by the financial deepening, which invigorates investment via credits and savings, which propel the required capital necessary for productivity. Financial assets have been on the increase as a result of implementing effective programs and intervening in the banking and stock markets by financial intermediaries. Despite these, the country's economic growth is on a slow track. Hence,

this study intends to scrutinise the deepening effect of stock trade and financial inclusion on economic growth.

Several financial instruments and processes have been developed, while existing ones have been modified, and financial markets have been restructured to fit new demands and situations. These are intended to strengthen the financial system. Nevertheless, how have these factors influenced Nigeria's development? As a result, given the prior context, this work aims to determine the impact of financial deepening on Economic growth in Nigeria, considering the period 1971 -2020.

This study's objective is to examine the impact of financial deepening on economic growth in Nigeria.

## Literature Review

Conflicting perspectives on the relationship between financial depth and economic growth have arisen in recent years around the world. Financial structure theories, such as bank-based, market-based, financial service-based, and law and finance-based theories, have investigated the impact of financial deepening on economic growth. The requirement for a well-developed and effective financial system will promote growth if diverse economic agents in the market view their investment decisions as catalysts for economic growth and development in the economies in which they operate.

Financial deepening in development studies, according to conceptual clarity by Akhator and Marcus [11], refers to a greater availability of financial services with a broader range of options targeted toward the growth of all levels of society. This literature review focused on the definitions of two key concepts: financial deepening and entrepreneurial growth. After that, we moved on to theoretical inquiry and a review of empirical works in the field.

### Concept of economic growth

There is the need to understand the mechanism behind economic growth. It is the improvement or increment of the economy's value of production on goods and services within the period of time which can be measured as the rate of percentage increase in the real gross domestic product. Economic

growth is relevant having the components of capital accumulation, growth in the population and technology progress; hence it is the process whereby the wealth of a nation increases over time and improves the quality of lives standard.

The question of effectual economic growth is what economic theory focuses on. Besides, bulk of this experience took place when the Second World War ended. The main interest of the research-analyst was to resolve the mind burling issues on why certain nations are prosperous and poverty in others, also the economies of certain countries is skyrocketing, and what propels the growth of an economy.

### Concept of financial deepening

Deepening the financial system involves making it easier for system participants to participate in financial markets for saving and investment decisions, and markets can also deploy a tangible quantity of capital without commensurate moves in asset values [12]. Financial deepening attempt to explain the correct amount of expansion and transformation of traditional and non-traditional financial services [13].

According to Jalilian and Kirkpatrick [14] In emerging countries, there are some clear correlations between financial deepening and economic growth. Empirical study backs up the widely held belief that there is a link between financial deepening and growth, particularly in poorer emerging countries.

Also, Nzotta and Okereke [2] ascertain that financial deepening is capacity of financial institutions in an economy effectually deploy savings for the purpose of investment. In spite of this, the performance of Nigerian financial deepening has gone wrong by failing to stimulate foreign investment or stop capital flight as a result of institutional arrangement of the financial system. The contributions of domestic savings and investments is required to stimulate financial development via monetization repercussion reforms as the sector is predominantly oligopolistic and uncompetitive due to a small number of banks reigning over a section of the market in total assets, total liabilities and total credit in the banking system.

### Theoretical Review

There are two key hypotheses that link finance and

economic growth in the academic literature. The first is Schumpeter's 1912 finance-led-growth theory/supply-leading hypothesis, while the second is the demand-following hypothesis. Scholars have generally accepted the supply leading hypothesis [15-17] is a proponent of the theory that finance is required for an economy to grow. According to the demand following hypothesis, financial sector development is determined by the economy's level of development. Invariably, it is the economy's growth and development that would move the country forward.

### **Endogenous growth theory**

It was first proposed that financial corporation's influence long-term economic growth through many mediums by [16,18] and served as a direct and indirect relationship. This is based on the belief that growth is linked to income distribution, financial, and technical advancements.

This theory states that external forces do not control economic growth but rather the endogenous. Endogenous growth significantly contributes to the economic growth via innovation, knowledge and investment in human capital and these are economic factors or internal factors that influence economic growth. Endogenous growth theory supports that economic growth first and foremost is the outcome of forces within rather than forces without where improvements in productivity is linked to quick innovation and investment in human capital across private and public sectors.

Intellectual advocates of endogenous growth came to light way back ten years ago of the last centurial. Their focal point was to get the explanation that would be accepted why world practice clashes with neoclassical theory. Endogenous economic growth theories place the importance of governmental policies in the encouragement of economic growth principally on infrastructural development and human capital.

The endogenous growth model holds on to human capital investment, innovation and knowledge which are remarkable factors of economic growth. Furthermore, the model anchors on constructive externalities outcome of technological economy that intensify growth.

A country with a higher startup level of human capital, encounters an increase rate of growth as human capital commands economies of scale, which leads to an increased level of growth of capital income. Hence, the kind of capital a nation invests in will determine her growth rate.

### **The neoclassical growth model**

The neoclassical growth model of Solow and Swan come up with a structure for economic growth in order to know the cause of long-term economic growth rate via the collection of components like physical capital and labour. In consonance to this model, it is pivotal to know when a change occurs technologically as much again than capital accumulation. The model presumes accumulated production function related in nature. The implication is that economies acclimatize to equal size of income, based on the selfsame savings rate, force of labour growth, and growth of productivity. This postulate, that in the long run per capita growth rate relies on the exogenous rate of technological progress. Increment in the savings rate will steer a short-term increment in per capital and per capita output. Although, there would be a come back to a stable level of growth at a high-rise per capita output. According to Ehikioya [19] The last two decades have seen surprising oil price fluctuations in the global oil markets. During this period and especially in 2008, the global economic growth rate experienced a slowdown partly due to global financial crises resulting from the volatility of macroeconomic indicators. For the oil-producing nations in sub-Saharan Africa economies known to be heavily dependent on oil export, this makes them more vulnerable to movements in oil prices at the global markets and the influence of other macroeconomic factors like the exchange rate.

There's no impact of savings on per capita output growth rate on the long run however, on level of per capita output, it has an impact. The measurement of these growths shows the relevance of change in technology as well as accumulation of capital in economic growth. A clear constrain in the Neoclassical model is its non-success to report the basis of technological progress nevertheless, the model recognizes technology as the pilot of economic growth, and progress the rate of technology presume to be given. Banks should endeavor to imbibe diversification of their investments

and engage in financial innovation in order to improve their performance so as to enable them to be competitive globally [20].

### **Empirical evidence**

Agbaje [21] examined a study with the use of time series data obtained from the Central Bank of Nigeria's Statistical Bulletin. A model was developed, and the variables were tested for stationarity using a unit root test, which showed that they were stationary at levels  $I(0)$  and first differences  $I(1)$ . The model was then analyzed using the Auto-Regressive Distributed Lag (ARDL) approach, along with the Error Correction Model (ECM).

Financial deepening refers to the expansion and increased accessibility of financial services, as well as the development of financial markets within an economy. It is generally linked to economic growth. The results of the study revealed that, while credit to the private sector does not have a significant impact on Nigeria's economic growth, other indicators-such as money supply, stock market capitalization, financial savings, and bank liquid liabilities-have positive and significant effects on growth in both the short and long term. Based on these findings, the study recommends that monetary authorities design and implement policies aimed at strengthening and deepening the financial sector. It also suggests that financial institutions should make greater efforts to channel more resources toward the private sector in order to support real sector development.

Hillary [22] examined the impact of financial deepening on economic growth in Nigeria over the period 1980–2022. To achieve this objective, the study investigated how the market capitalization ratio to GDP, money multiplier to GDP, ratio of broad money supply to GDP, and ratio of total bank credit to the private sector influence economic growth in Nigeria. Data for the study were obtained from the Central Bank of Nigeria's 2024 Statistical Bulletin and analyzed using the Error Correction Model (ECM) approach. The findings revealed that the market capitalization ratio, money multiplier, and ratio of broad money supply to GDP all had a direct and significant impact on Nigeria's economic growth rate. Based on these results, the study recommends that government

policies should focus on enhancing the efficiency of the capital market, improving credit mobilization to the private sector, and ensuring adequate and well-managed money supply injections to sustain the pace of economic growth driven by financial deepening in the Nigerian economy.

Ogagaoghene [23] conducted a study on the relationship between Financial Deepening (FD) and Economic Growth (EG) in Nigeria. The main objective was to empirically assess the impact of financial deepening variables on economic growth using time series data covering the period from 2003 to 2023. Specifically, the study examined whether there were significant effects of key financial deepening indicators-such as credit to the private sector (CPS), broad money supply, interest rate, and stock market capitalization-on Nigeria's economic growth. The findings revealed that 74.6% of the variables examined had a positive impact on economic growth, which was measured by GDP, while only 25.4%-represented by the interest rate-had a negative effect. Using descriptive statistics and multiple regression analysis, the study confirmed that financial deepening has a positive and significant influence on economic growth in Nigeria. The results also lend support to the finance-driven (supply-leading) hypothesis, which suggests that financial sector development leads to economic growth.

Oji [24] examined the relationship between financial deepening and economic growth in Nigeria. The main objective of the study was to assess how financial deepening influences Nigeria's economic performance, while the specific objectives focused on analyzing the effects of interest rates, capital market development, national savings, credit to the private sector, and broad money supply on economic growth. The study used secondary data obtained from the Central Bank of Nigeria (CBN) publications covering the period from 1990 to 2023. Nigeria's Real Gross Domestic Product (RGDP) served as the dependent variable, while Broad Money Supply (M2), Credit to the Private Sector (CPS), National Savings (NS), Capital Market Capitalization (CAMP), and Interest Rate (INTR) were the independent variables. Data were analyzed using multiple regression techniques with the E-Views statistical software. Additionally, Cointegration, Augmented Dickey-Fuller (ADF) Unit

Root, and Granger Causality tests were conducted to examine both the short-run and long-run relationships among the variables. The coefficients of determination ( $R^2$ ), F-statistics, and beta coefficients ( $\beta$ ) were also used to evaluate the extent of influence of the independent variables on the dependent variable. The regression results indicated that Broad Money Supply and Credit to the Private Sector had positive effects on Nigeria's economic growth, while National Savings, Capital Market Capitalization, and Interest Rate showed weaker or less consistent relationships with Real GDP. The cointegration test confirmed the existence of a long-run relationship among the variables, and the stationarity test showed that all variables were stationary at level. Furthermore, the Granger Causality Test revealed a bidirectional relationship between the dependent and independent variables. The model summary showed that 99.0% of the variation in economic growth was explained by the financial deepening variables, with an F-statistic of 560.5031 and a probability value of 0.0000. Based on these findings, the study concluded that financial deepening has a significant relationship with Nigeria's economic growth. It therefore recommends that the government and financial sector stakeholders should design and implement policies that will further strengthen and deepen the financial system to support sustainable economic growth in Nigeria.

Nwosu [25] examined the relationship between financial deepening and economic growth in Nigeria. Following the 2007/2008 Global Financial Crisis, there has been renewed interest in understanding the effects of financial development-particularly financial deepening-on the financial system and the broader economy. Given that financial inclusion remains a key focus of the Central Bank of Nigeria's (CBN) financial sector policies, this study set out to explore the connection between financial deepening, financial fragility, and economic growth in the Nigerian context. Using quarterly data covering the period from the first quarter of 2007 to the fourth quarter of 2018, the researchers applied a non-linear co-integrating Auto-Regressive Distributed Lag (ARDL) model to analyze the relationships among the variables. The results revealed a positive relationship between financial deepening and economic growth, but a non-linear relationship between financial system fragility

and growth. Based on these findings, the study recommended that the CBN should identify and monitor high-risk sectors, encouraging banks to limit excessive lending to them. It also suggested collaboration with the Securities and Exchange Commission (SEC) to develop sector-specific, product-backed securities that can improve access to funding and strengthen financial stability.

Nwaolisa & Cyril [26] examined the effect financial deepening has on the economy of Nigeria from 1990 through 2016. The OLS was used to analyze the data obtained from the bulletin of NBS and CBN. They found that market capitalisation, private sector credit and money supply had a favorable impact on Nigeria's financial development. As a result, recommendations were made in which practitioners attempted to reduce liquidity barriers in stock markets, lift limits in foreign markets, and ease market access while also reducing the prevalence of unproductive credits as a result of which private-sector loans are maximized in real-world industries. It was also suggested that policies including increased flows of investible funds and enhanced banks capacity in providing credits would boost the private sector's and Nigeria's broad money supply's impacts.

Ncanywa [27] examined the impact of financial sector development on economic growth in sub-Saharan Africa using a co-integration approach. The study employed a panel Auto-Regressive Distributed Lag (ARDL) model to analyze the relationship between financial development and economic growth across selected countries in the region. The findings revealed that both short-run and long-run relationships exist between financial development and economic growth. In the long run, bank credit to the private sector and liquid liabilities were found to have a positive impact on economic growth, while gross domestic savings showed a negative effect. From a practical and policy perspective, the study emphasized that financial stability-both globally and domestically-plays a crucial role in job creation and productivity improvement. It therefore recommended that greater efforts be made to develop and maintain a sound and efficient financial sector system to support sustained economic growth in sub-Saharan Africa.

Mesagan [28] did a research, taking Nigeria as a case

study from the period 1981 through 2015 to see the performance of financial sector and manufacturing. The manufacturing output, manufacturing capacity utilization and manufacturing value added as stand-in for manufacturing performance were look at. Other variables engaged were domestic credit assigned to private sector, money supply representing an amount of GDP and liquidity ratio was employed as stand-in for financial development. Their discovery were credit to the private sector and money supply had positive but not significant impact on capacity utilization and output, but had a negative impact in the short run on value added of the manufacturing sector. In the long run, there was little enhancement where both money supply and credit to private sector exercise positively and impactful on manufactured output.

Ademola [12] carried out a study on the performance of manufacturing firms. The data were sourced from National Bureau of Statistics and Central Bank considering the period 1970 to 2016. They found out that broad money supplied was significant and had direct impact on manufacturing firms while credit to private sector had no consequence impact on manufacturing firm and market capitalization was significant also had impact on manufacturing firms in the long run and no consequential effect in the short run.

Eke had another perception by using the panel data analysis. His focus was on thirteen African countries to know whether human capital development had any significance between entrepreneurship and financial deepening from the year 1995 to 2014. The findings showed that human capital had no long run causal effect on entrepreneurship and financial deepening suggesting human capital had low quality for entrepreneurial development.

John & Ibenta studied the relationship between financial deepening and entrepreneurial development in Nigeria. Secondary data from CBN across 1986 through 2016 were collected. Their conclusion was the corresponding money supply to GDP had a positive but insignificant relationship with entrepreneurial development; also, the credit to private sector to GDP shows a positive but insignificant relationship with entrepreneurial development; and the deposit money

banks to GDP reveal a significant negative relationship with entrepreneurial development.

Looking through studies done from the out sketch of Nigeria, In Indonesia, Soedarmono [29] surveyed the manufacturing industries and sampled 41,862 of them from 2004 to 2013. His conclusion was firms within the provinces had a better performance as a result of deeper financial infrastructure.

Wujung [30] did some analysis on the effect of financial development on private entrepreneurship in Cameroon. A secondary data from World Development Indicators data base were obtained. The result revealed a positive and significant relationship in addition to financial development influences private entrepreneurship.

Alrabadi [31] Used vector auto regressive regressions, Granger causality, and Johansen-Juselius co integration. The researchers investigated the dynamic link between financial deepening and economic growth in Jordan from 1992 to 2014. Using quarterly data, the findings show that financial deepening has no statistically significant impact on economic growth and demonstrated a statistically significant long term equilibrium link between the two variables, independent of the financial deepening proxy utilized. Furthermore, when the latter is assessed by the quantity of credit extended to the private sector, the Granger causality test reveals a bi-directional causation between economic growth and financial deepening. However, when using the quantity of deposits and the money supply (M2) as proxies for financial deepening, a one-way causal relationship between economic growth and financial deepening is observed.

## Methodology

The study used an ex-post-facto research design to investigate the impact of financial inclusion and economic development for the period 1971 to 2020. The data was captured from world bank development indicator.

The dependent and independent variables that are included in the model must be determined before the model can be specified. Victor and Samuel (2013) as enumerated in their work conveyed it as  $Y_t = f \{F_t, Z_t\}$ ------(1)



Financial Inclusion				
Bank Capital	Independent	BCAR	Bank capital to assets is the ratio of bank capital and reserves to total assets.	World Bank (2021)
Bank Liquid Reserve	Independent	BLR	Ratio of bank liquid reserves to bank assets is the ratio of domestic currency holdings and deposits with the monetary authorities to claims on other governments, nonfinancial public enterprises, the private sector, and other banking institutions.	World Bank (2021)
Domestic Credit	Independent	DCRED	Measured as financial resources provided to the private sector by other depository corporations	World Bank (2021)
Gross Domestic Product per capita	Independent	GDPC	Annual percentage growth rate of GDP per capita based on constant local currency	World Bank (2021)
Lending Interest rate	Independent	LIR	Lending rate is the bank rate that usually meets the short- and medium-term financing needs of the private sector.	World Bank (2021)
Stock	Independent	STOCK	Stocks traded, total value is the total number of shares traded, both domestic and foreign, multiplied by their respective matching prices.	World Bank (2021)

**Table 2.** Results

**Source:** Researcher’s Compilation (2022)

From the table 2 above, the result displayed the mean, range, median, minimum, maximum and the normality of variables used. The GDP is 4.453086, with a minimum of -1.61687 and maximum of 8.036925. This implies on the average, the annual gross domestic production for the period investigated is 4.45 which appears to be low. The bank liquid reserve (BLR) has a mean of 27.80546. The maximum is 55.1684 and minimum is 5.83362. This means that there is high liquidity reserved in banks. The bank capital (BCAR) records 9.7132 averagely. The variable of Domestic Credit (DCRED) shows a mean value of 13.27015. It has a maximum of 19.60353and a minimum of 10.17951. The implication is that the domestic credit is averagely 13. Lending Interest rate (LIR) reveled a mean of 16.7911. This implies the Lending rate is high. The Stocks traded (STOCK) shows a mean

value of 1.6373. It has a maximum of 6.298354 and a minimum of 0.373074. This implies that the Stocks traded has an average price of 1.63730.

Covariance Analysis: Ordinary						
Balanced sample (listwise missing value deletion)						
Correlation						
t-Statistic						
Probability	GDP	BCAR	BLR	DCRED	LIR	STOCK
GDP	1					
	----					
	----					
BCAR	-0.03046	1				
	-0.10107	----				
	0.9213	----				
BLR	-0.61442	-0.02539	1			
	-2.58283	-0.08424	----			
	0.0255	0.9344	----			
DCRED	0.367436	0.104707	-0.61842	1		
	1.310304	0.349194	-2.61001	----		
	0.2168	0.7335	0.0243	----		
LIR	0.15431	-0.61184	-0.3302	0.306153	1	
	0.517991	-2.56547	-1.16023	1.066611	----	
	0.6147	0.0263	0.2705	0.309	----	
STOCK	0.478813	0.606995	-0.38002	0.416243	-0.19055	1
	1.808875	2.533234	-1.3626	1.518304	-0.64377	----
	0.0979	0.0278	0.2003	0.1571	0.5329	----

**Table 3.** Correlation Analysis

**Source:** Researcher’s Compilation (2022)

The correlation table above examines the association that exists between dependent and independent variables. The correlation coefficient between two variables is more than 0.8, multicollinearity is a concern. Multicollinearity is a statistical phenomenon that happens when two or more independent variables within a stated model are shown to have a high level of correlation.

From a glance on the table, it is clear that multicollinearity doesn’t surf ice in the analysis. Furthermore, domestic credit (DCRED), Stock traded (STOCK) and Lending Interest rate (LIR) has a weak positive relationship with GDP while Bank liquid reserve (BLR) has a moderate negative relationship and Bank

capital (BCAR) has a weak negative relationship with GDP. Furthermore, only BLR is significant while all others are insignificant.

Variance Inflation Factors			
Sample: 1 50			
Included observations: 13			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
BLR*GDPC	1.95E-05	1.364418	1.233227
BCAR	0.010610	16.43138	2.691212
DCRED	0.014025	35.42712	1.527963
LIR	0.170843	663.2168	2.073140
STOCK	0.055160	4.351733	2.322088
C	50.20898	689.1612	NA

**Table 4.** Multicollinearity Test

**Source:** Researcher’s Compilation (2022)

The results above for the test of variance inflation factor established the nonexistence of the challenge of collinearity among the variables used for regression. The centred variance inflation factor is all clustered around the value of 3.00 indicating the non-appearance of multicollinearity.

Dependent Variable: GDP				
Method: Least Squares				
Sample (adjusted): 37 49				
Included observations: 13 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
BLR*GDPC	0.034637	0.004416	7.844213	0.0001
BCAR	-0.326924	0.103006	-3.173827	0.0156
DCRED	0.269608	0.118426	2.276588	0.0569
LIR	-0.241714	0.413332	-0.584794	0.5770
STOCK	0.518328	0.234861	2.206953	0.0631
C	6.493923	7.085830	0.916466	0.3899
R-squared	0.939374			
Adjusted R-squared	0.896069			
F-statistic	21.69227	Durbin-Watson stat	1.514473	
Prob(F-statistic)	0.000396			

**Table 5.** Regression Analysis

**Source:** Researcher’s Compilation (2022)

The table above shows the relationship between financial inclusion (financial deepening) and Economic growth of Nigeria. It is clear that DCRED and BLR\*GDPC are positive and significant on GDP at 5% level of significant. Explicitly, BCAR is negative

but significant to GDP. LIR is negative and insignificant while STOCK is positive but insignificant. Therefore, a unit change in DCRED (Domestic Credit) brings about 0.2696 increment in GDP (Economic growth) in Nigeria. Also, a unit change in BLR\*GDPC will lead to 0.034 increment on GDP (Economic growth) in Nigeria. However, a unit change in BCAR (Bank Capital) will cause a decrement in GDP as well as a unit rise in LIR (lending interest rate) will lead to 0.2417 depreciation in GDP (Economic growth) in Nigeria. In addition, STOCK (Stock traded) ratio to GDP with the coefficient of 0.5183 propound that a percentage increase in STOCK will result to 0.5183 percent increase to GDP in Nigeria.

In the estimate above, the coefficient of determination (R-squared) is very high. The regressors explain about 93% of the total variation of the regress meaning the regression line has a good fit. Also, the adjusted R-square is 0.89606 which is about 89.6% variation in the regress and explained by the regressors. Changes in the GDP were allotted in juncture to financial inclusion; This is statistically significant deduced by the f-statistic of 21.692 and p-value of 0.000. moreover, the computed Durbin Watson is 1.514473, this implies that there is no autocorrelation between the proxies of financial deepening and GDP.

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.650020	Prob. F(5,7)	0.6716
Obs*R-squared	4.122038	Prob. Chi-Square(5)	0.5320
Scaled explained SS	0.527618	Prob. Chi-Square(5)	0.9911

**Table 6.** Heteroskedasticity Test

**Source:** Researcher’s Compilation (2022)

The test of heteroskedasticity revealed a probability value of 0.6716>0.05. This couldn’t retain the null hypothesis of availability of heteroskedastic residuals therefore; we do not reject the alternate of homoskedastic residuals signifying unbiasedness within the variance(s).

**Test of Hypothesis**

The null hypothesis suggests that there is no significant relationship between financial deepening and Economic growth in Nigeria.

The resultant effect generated from the ordinary least square regression showed that DCRED having the t-value of 2.276588 and a p-value of 0.0569 greater than the critical t-value of 1.96 at 5% level of significance and BLR\*GDPC reflecting t-value of 7.844213 with a p-value of 0.0001 which is more than t-value of 1.96 at 5% level of significance; as a result of this, we do not accept the null hypothesis which states that there is no significant relationship between financial deepening and Economic growth in Nigeria rather we accept the alternate hypothesis stating there's a significant relationship between financial deepening and Economic growth in Nigeria. This further implies that financial deepening has a role to play towards the economic growth of Nigeria hence; the government and monetary authority should explore this area to bring out the very best for her citizens. The OLS result provides the affirmation that domestic credit and BLR\*GDPC are positive and significant on Economic growth. This is in line with studies carried out by Mesagan [28] and contrary to Ademola [12].

### Conclusion and Recommendations

The impact of financial deepening on Economic growth in Nigeria is examined by this study. From the study results, we observed that the Lending Interest rate is high; the CBN can lower its monetary policy rate to encourage investors and individuals to have access to funds; the essence of bring down the lending rate will yet strengthen the MSMEs businesses operating within the economy. Furthermore, more of domestic

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credit should be encourage as part of financial inclusion within the country to enable production on the increase which will cut across the Local, State and Federal government this will stimulate the economy.

The apex bank should with a sense of urgency reconsider the monetary policy rate providing measures that will cushion the effect of disinvestment as well as income policy targets which can aid the masses economic decision and liquidity preference and savings attitude. In addition, government should use monetary policy in promoting effective growth within the country. In a bid to intensify the contribution from financial deepening to the economy, there is the need to review government policy on credit, interest rate and financial stabilization.

Financial institutions especially the banks should convert the idle deposits in the banks to fund productive investment.

The banking system should encourage borrowing by lending more to private sector and minimize rigid pressure on collateral requirements.

Finally, the various financial institutions should create more financial instruments for investors to choose from.

### Acknowledgements

We would like to appreciate The Covenant University Centre for Research, Innovation and Discovery (CUCRID) for their support in carrying out this study.

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**Citation:** David, Eytayo Omokore, Omankhanlen A.E, Ajayi O, Akinjare V.A. "Financial Deepening and Economic Growth Nexus in Nigeria." *J Glob Entrep Manage* (2026): 135. DOI: [10.59462/3068-174X.4.1.135](https://doi.org/10.59462/3068-174X.4.1.135)