

Original Research Article

Financial Sector Development and Economic Growth in Nigeria

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Abstract: This study investigates the influence of financial sector development on the economic growth of Nigeria. It examines how financial access, financial depth, financial stability, and financial efficiency affect Nigeria's gross domestic product using annual series data from 1986 to 2021, and sourced from the Central Bank of Nigeria data bank. The descriptive, unit root, co-integration and Parsimonious error correction as well as the Granger Causality test were adopted at the 95% confidence level. From the analysis, all variables are integrated at order one; and presented of long-run cointegration. The Parsimonious error correction model confirmed that financial access and its depth are both positive and significant to gross domestic product, whereas financial stability and efficiency are both positive but insignificant to gross domestic product. The Granger causality test demonstrated a one-way movement from to gross domestic product to financial access, and a two-way causality between financial depth and gross domestic product only. In conclusion, the expansion of Nigeria's financial industry has a substantial impact on the growth of her economy. The study thus suggests that financial institutions should continue to allocate more funds to the private sector in the form of credit in order to stimulate more growth prospects in the economy. In addition, interest rates paid to depositors should be improved to attract more deposits; while simultaneously cutting back the rate charged on business loans and advances in order to encourage investors to borrow funds and invest in profitable ventures that will quicken growth.

Keywords: Financial Sector, Institutions, Economic Growth, Parsimonious ECM, Interest rate.

JEL Classification: E12, E43, F63, G15, G21, G23, O55.

INTRODUCTION

The link between financial sector development and the growth of an economy have been widely discussed both theoretically and in empirics. The potential contribution of financial institutions to fostering economic growth and development has, however, sparked renewed interest in light of the development of fresh endogenous growth theories. Through investment, saving, capital productivity, and efficient information management, Greenwood and Jovanovich (1990), Pagano (1993), and King and Levine (1993) all demonstrated that financial sector development does have promising impact on economic growth. An all-round financial sector development involves increasing depth, stability, accessibility, and efficiency (Svirydzenka, 2016). Financial sector development has two apparatuses: the growth of financial institutions and expansion of financial markets (Svirydzenka, 2016). Financial institutions in Nigeria are made up of banks, discount houses, issuing, brokerage and insurance firms, mutual and pension funds. Financial markets relate to the growth of the stock market and the bond market. Utilizing depth, access, and efficiency, financial institutions' and markets' development are evaluated. Depth gauges the size and liquidity of the markets and financial institutions. Efficiency evaluates the capacity of the financial institution and market to provide services to clients at low costs with sustainable income. Access measures the number of publics that have access to financial services (Svirydzenka, 2016).

Nigeria's financial sector was relatively shallow and focused on international trade financing at the time of independence prior to reforms and liberalization in the financial sector (Gelbard & Leite 1999). Since Nigeria's banking industry was completely nationalized and the issuance of credit was viewed as a potent tool to accelerate growth and

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development, financial development suffered greatly even after independence. This was witnessed in the provision of credit subsidies and granting of selective credit distribution to a small number of sectors that only exhibited growth. These actions led to poor financial resource allocation, inflation, and large non-performing loans, which actually made the pace of growth achieved during those times pretty worse.

Nigeria adopted the structural adjustment programmes presented by the IMF and World Bank in 1986 as a useful channel to enhancing the financial sector and then expansion. Other events during the period included the restructuring of state-owned banks, which made it possible for foreign banks to operate in the banking sector thereby allowing domestic banks to buy foreign assets; removing credit ceilings, and liberalizing interest rates (Moyo, Nandwa, Council, Oduor, & Simpasa, 2014; Otchere, Senbet & Simbanegavi, 2017). According to Moyo *et al.* (2014), there is a sliver of strong evidence that developing Sub-Saharan Africa, have advanced in growth and development relative to their counterparts who lack transparency. These countries had high financial regime transparency combined with financial sector reforms. Technically speaking, this means that the size, pace, and order of the reforms determine whether it is successful.

The financial sector of Nigeria has undergone several reforms that led to its deregulation and liberalizations, along with improvements in the technology used to deliver such financial services which has increased the relevance of the industry more than at any other time in history. Studies from developing nations has it that Nigeria significantly improved her financial sectors with subsequent improvements in economic basics (Ibrahim & Alagidede, 2017; Valickova, Havranek, & Horvath, 2015; Hermes, & Lensink, 2013; Durusu-Ciftci, Ispir & Yetkiner, 2017). Over periods, researchers have investigated the connection between financial development and economic growth. Economists such as Schumpeter (1911), McKinnon (1973), Ibrahim and Alagidede (2017), Ofori-Abebrese, Becker, and Diabah (2017), Erataş-Sönmez and Salam (2019), and Matadeen and Fauzel (2019) agree that financial development leads to economic growth through technological innovations and the provision of necessary funds to entrepreneurs or investors. Others such as Robinson (1952), Meier and Seers (1984), Agbetsiafa (2003) and Odhiambo (2009), on the other hand, believe that economic growth and expansion in the real sectors imply the demand for financial services and hence drive financial development. Greenwood and Jovanovic (1990), Shahbaz, Khan, and Tahir (2013), and Yirdaw (2019) all proposed a bi-causal relationship between finance and growth. Finally, Lucas (1988); and Stern (1989) proposed that there is certainly no meaningful association between financial development and economic growth, implying that the substance of financial development is highly exaggerated.

The preceding arguments demonstrate that no agreement has been established on the underlying relationship concerning financial sector development and the growth of an economy. Despite this, most contemporary works confirm the finance-led growth hypothesis and, with a few exceptions, the bi-causal relationship between financial development and economic expansion. This assumes that Nigeria must expand its financial sector in order to achieve economic growth and development. Additionally, the endogenous growth model lends more support to the crucial part that financial development plays in a country's development (Romer, 1994). Accordingly, financial growth leads to effective knowledge about investment opportunities, diversification of funds, risk management, sound corporate governance, effective mobilization of savings, and interchange of products and services. Large quantities of savings as a result of the financial development's function would be made available for capital investments, leading to growth and development.

Although the significance of financial development in influencing economic growth is undeniable from both a theoretic and experiential perspective, some of the measures used as proxies for development in experimental studies do not accurately capture the real effect of financial sector development on economic growth. In Cihak, Demirgüç-Kunt Feyen, and Levine (2012), financial sector development is a multifaceted process that entails increasing the breadth, accessibility, stability, and effectiveness with which financial institutions and the financial market deliver financial services. This signifies that financial sector development is multi-dimensional, thereby determining the real influence of financial development on economic growth. The International Monetary Fund (IMF) also created a new broad-based index for financial development in 2016 to address the issue of utilizing a single financial sector indicator for financial development. This index takes into consideration the multidimensional character of financial growth (Svirydzenka, 2016).

Ngongang (2015), Effiong (2016), Berhane (2018), and Ibrahim and Alagidede (2018) worked on the impact of financial development on economic growth; Effiong (2016) evaluated a panel analysis on the validity of financial development on the growth of economic institution among 21 Sub-Saharan African nations from 1986 to 2010; Fagbemi and Ajibike (2018) carried out both short and long term consequence of financial development on economic growth in Nigeria from 1984 to 2015; and Muhammad and Kaoje (2021) examined the effect of financial development on economic performance from 1981 to 2016. Accordingly, at the time of this investigation, no new study has put forward an updated study on how financial sector development affects economic growth in Nigeria for the period 1981-2021. This constitutes our gap in literature. Similarly, studies by Ngongang (2015), Effiong (2016), Berhane (2018), and

Ibrahim and Alagidede (2018) focused on the dimensions of financial access, depth and stability as measures of financial sector development. This study fills the extant literature by adding financial efficiency (which is measured using interest rate spread offered to depositors and lenders) as a part of the proxy for measuring financial sector development in Nigeria. This is because for the financial sector to be fully developed, it must be able to play down its interest rate spread in the business environment. This is another gap that this study seeks to fill.

LITERATURE REVIEW

Endogenous growth theory

The endogenous growth theory was developed by Paul M. Romer (1994) who advanced that, economic growth is generated from forces within the system, hence, an internal phenomenon; as opposed to the neoclassical view. Increase in productivity and growth is directly the end product of innovation, improvement in human capital and investment capital rather than unknown external forces. Economists who support the endogenous growth point of view, advocate for state and private institutions to shore up innovations and provide incentives and secured property to encourage novelties in research and development.

This study adopts the endogenous growth theory as the theoretical underpinning of the study due to the failures in the predictive power of growth in the classical growth model, Harrod-Domar growth model and the neoclassical growth model. For example, while the neoclassical growth model attribute growth to an external force, the endogenous growth model emphasizes the fact that growth in the end is caused by creativity rather than only capital accumulation which can be internally sourced. Endogenous growth model emphasize the need for investment in research and innovations, physical and human capital, for growth. Then again, where does the funds required for such investments comes from? This provides the justification for the importance of the financial sector into current and future growth of an economy.

Mckinnon-Shaw's financial theory

Mckinnon (1973) and Shaw (1973) financial theory on financial repression was developed separately but then, the central view of the two proponents were that financial repression negatively affects the growth of an economy since it does not make funds available for investment. Financial repression refers to a situation where interest ceiling, higher reserve requirements, quantitative credit controls and selective credit allocation programmes, barriers of entry into financial sectors and other activities are used by governments to channel funds to themselves. When governments in most developing countries are unable to raise the revenue needed for the management of their economy, they turns to implement policies of this nature to raise funds to finance budget deficits. The advantages associated with eliminating financial repression far outweighs the benefit of keeping them; therefore, if it is impossible to eliminate financial repression, efforts must be made by governments to reduce it (Mckinnon-Shaw, 1973). In addition, McKinnon (1973) and Shaw (1973) stated that, setting an interest rate ceiling leads to a reduction in savings and capital accumulation which is a necessary condition for growth. To them, financial repression may result in financial dualism where the sector favored by the policy enters into capital-intensive technologies while the sector that's disadvantaged gets involve in only high-yielding projects that has short maturity. Due to the selective credit allocation, state-owned enterprises with low-yielding projects are favored and the enterprises with a high-yielding project may not have access to the needed capital which may affect the long-run growth of an economy.

In furtherance, empirical investigations have come with differing findings on financial sector development and its reaction to economic growth. De Haan, Pleninger, and Sturm (2022) estimated an unbalanced fixed-effect panel model on the role of financial development of 84 countries in the poverty gap from 1975 to 2014; and found no direct effects. Ahmed, Kousar, Pervaiz, and Shabbir (2022) used World Bank data to explain the role of financial development and institutional quality in green-growth in South Asian economies from 2000 to 2018. The study also employs fully modified ordinary least squares (FMOLS) and dynamic ordinary least squares (DOLS) and show that institutional quality and financial development are long-term drivers of green economic growth. Zuojun, Khan, and Khan (2022) employed the dynamic OLS and panel regression on 189 nations. The study found that better institutions are imperative for financial development. Specifically political stability, corruption control, and regulatory quality positively alter financial development. Over the period from 1985-2019, Khan, Gu, Khan, and Meyer (2022) investigated the effects of national culture on financial sector development in emerging and developing economies. The findings show that cross-country differences in financial sector development are significantly explained by national culture. Shahbaz, Nasir, and Lahiani (2022) explored on the impact of financial development on countries' levels of financialization. The findings revealed the existence of variable threshold asymmetric co-integration between 1986 and 2020.

Baloch, Ozturk, Bekun, and Khan (2021) investigate the relationship between financial development, economic growth, energy innovation, and environmental pollution for a panel of OECD countries from 1990 to 2017. The study employs the Pooled Mean Group Autoregressive Distributed Lag (PMG/ARDL) and finds that financial development promotes energy innovation and improves environmental quality. Gong, Song, and Chang (2021) examine the long-run

relationship between corruption, economic growth, and financial development in 142 countries using panel cointegration and panel error correction models from 2002 to 2016. The findings confirm the existence of long-term cointegrating relationship among the variables. The results show that economic growth has a positive effect on financial development, whereas corruption has a negative effect. Nwinee and Olulu-Briggs (2016) explored the import of financial development when the Nigerian economy is open, and found a significant link between the growth rate of the economy and private sector credit. the study advocates for more flexibility in both loans and interest rate so that industrialists can be encouraged to stimulate businesses in Nigeria.

Yirdaw (2019) analyzed the effect of banking and insurance sector on economic growth in Ethiopia from 1980 to 2018 using VECM technique and found that banking and insurance sector positively influence growth in Ethiopia both in the long run and the short-run. However, the study concluded that the financial sector is still poorly developed. Bist (2018) analyzed the long-run effect of financial development on economic growth on 16 low-income countries from 1995 to 2014. Using fully modified OLS and a Pedroni panel cointegration analyses, the result showed that financial development has a positive effect on economic growth. Ibrahim and Alagidede (2018) examined the growth effect that will result if a country experiences growth in its financial and real sector using data of 29 sub-Saharan African countries, and the system generalized methods of moments (GMM). From the analysis, financial development support growth but this depends on the real-time growth from both the real and financial sectors. Fagbemi and Ajibike (2018) analyzed the short and long-run effect of institutional quality on financial development in Nigeria from 1984 to 2015 using the ARDL approach. The result showed that institutional quality does not affect financial development both in the short and long run. Prowd (2018) studied the relationship between financial development and economic growth in Liberia from 1960 to 2016 using ARDL and ECM techniques. The result indicated that financial development affects growth in the long-run but it is insignificant in the short-run. Kacho and Dahmardeh (2017) studied the effect of financial development and institutional quality on economic growth within the OECD Countries from 2002 to 2014, using GMM. The result showed that financial development positively affects growth. The interaction between institutions and financial development is also significant.

METHODOLOGY

This research sheds new light on the relationship between financial sector development and economic growth. The study, in particular, adds to knowledge on how financial access, depth, stability, and efficiency affect Nigeria's economic growth. Its focus is on the period following the implementation of the structural adjustment period (SAP) as well as the liberalization and deregulation of the Nigerian economy from 1986 to 2021; and the purposive sampling technique was adopted. Annual secondary data on financial sector development and Nigeria's economic growth was annexed from the Nigeria Bureau of Statistics (NBS) and the Central Bank of Nigeria's databases (CBN). Statistical techniques adopted includes the descriptive statistics, unit root, Johansen co-integration, Parsimonious ECM, and Granger Causality techniques at the 95% confidence intervals.

In line with the study's objectives, the functional form of the model is:

$$GDP = f(FA, FD, FE, FS) \tag{1}$$

For uniformity of the series, some of the variables is in logarithmic form:

$$\text{LnGDP}_t = \beta_0 + \beta_1 \text{LnFA}_t + \beta_2 \text{FD}_t + \beta_3 \text{LnFE}_t + \beta_4 \text{FS}_t + \mu_t \tag{2}$$

Apriori, we expect that the variables follows $\beta_1, \beta_2, \beta_3$ and $\beta_4 > 0$

Where, GDP = Gross Domestic Product, FA = Financial access (the number of adults with commercial bank accounts per 1,000), FD = Financial depth (ratio of private sector credit-to-gross domestic product ratio), FS = Financial stability (ratio of current asset to current liability), FE = Financial efficiency (the interest rate spread between deposits and loans), β_0 = Intercept; $\beta_1, \beta_2, \beta_3,$ and β_4 = Constant parameters, μ_t = Error term which justifies that other variables not included in the model may also impact on the gross domestic product.

RESULTS AND DISCUSSIONS

Table 1: Descriptive Summary of the Study Variables

	LNGDP	FD	LNFA	FE	FS
Mean	10.43939	7464.355	9.150956	15.39560	1.656721
Median	10.41403	1259.100	9.319299	17.28699	1.397733
Maximum	11.18350	32196.89	13.76568	30.60000	2.589196
Minimum	9.631547	15.24745	5.142205	0.500000	1.197559
Std. Dev.	0.553589	9855.852	2.287433	7.927749	0.470981
Skewness	0.069741	1.093914	-0.205721	-0.511214	0.579326

Kurtosis	1.424734	2.856651	1.934068	2.415196	1.773693
Jarque-Bera	3.751379	7.210711	1.958243	2.081035	4.269455
Probability	0.153249	0.027178	0.375641	0.353272	0.118277

Source: E-view Output

From table 1, the level of variability is high for only financial depth, and somewhat low for gross domestic product, financial access, financial efficiency, and financial stability respectively. Skewness is used to determine which direction the variables are biased to. Gross domestic product, financial depth, and financial stability all have positive skew coefficients indicating that their distributions are skewed to the right, whereas financial access and financial efficiency have negative skew coefficients indicating that their distribution are skewed to the left. Kurtosis is a measure of a distribution's relative peakedness. If it equals 3, the distribution is said to have relative peak (mesokurtic), but if it is larger than or less than 3, it is leptokurtic or platykurtic, respectively. Gross domestic product, financial access, financial efficiency, and financial stability are platykurtic, while financial depth is mesokurtic since it value is approximately 3. The Jarque-Bera statistics test demonstrates the distribution's normality. From the p-values of the various variables, only financial depth is not normally distributed.

Table 2: Result of Unit Root Test (Using ADF)

Variable	ADF test statistic	Critical Value 5%			Order of Integration	Prob.
		1%	5%	10%		
LNGDP	-3.745146	-3.639407	-2.951125	-2.614300	I(1)	0.0067
LNFA	-8.855976	-3.639407	-2.951125	-2.614300	I(1)	0.0000
FD	-3.876383	-3.639407	-2.951125	-2.614300	I(1)	0.0335
FS	-4.225622	-3.639407	-2.951125	-2.614300	I(1)	0.0022
FE	-6.500878	-3.646342	-2.954021	-2.615817	I(1)	0.0000

Source: E-views 10 Output

From table 2, all variables are stationary after their first differences were taken. This is supported by the ADF test statistic and their probability values which are less than their 5% levels. Overall, all the variables have a consistent trend and can be used for estimation and prediction.

Table 3: Result of Johansen Co-integration Test

Series: LnGDP, LnFA, FD, FE, FS						
Hypothesized No. of CE(s)	Eigen value	Max Eigen value	0.05 Critical Value	Trace Statistic	0.05 Critical Value	Prob. **
None *	0.687931	38.42957	33.87687	81.16171	69.81889	0.0047
At most 1	0.532564	25.09623	27.58434	42.73214	47.85613	0.1392
At most 2	0.309715	12.23147	21.13162	17.63590	29.79707	0.5930
At most 3	0.151031	5.403194	14.26460	5.404430	15.49471	0.7645
At most 4	3.75E-05	0.001236	3.841466	0.001236	3.841466	0.9714

Source: E-views 10 output

The above results in table 3 is the Johansen cointegration test, which determines whether or not the variables achieve equilibrium in the long run. Both the trace and max eigenvalue test reveals the existence of one (1) cointegrating equation. As a result, there appears to be a long-term relationship between gross domestic product and financial sector development in the Nigerian economy. The presence of a long run cointegrating relations necessitates the test for a parsimonious error correction technique.

The error correction model (ECM) is employed to check short and long term influences of the independent variables on the dependent variable. Thus, the deviations from an equilibrium status of the last period to a long run equilibrium and how these errors influence the dynamic short term parameters. The parsimonious error correction model includes lagged period residuals to measure its dynamic short term parameters in order to identify the optimum effect of financial sector development on the growth rate of the Nigeria economy.

Table 4: Parsimonious Error Correction Model

Dependent variable = D(LnGDP)				
Variables	Coefficient	Std. Error	t-Statistic	Probability values
D(LNFA(-1))	0.148552	0.018377	8.083421	0.0000
D(FD(-1))	0.189160	0.071973	2.628197	0.0132

D(FE(-1))	0.001243	0.001193	1.042608	0.3075
D(FS(-1))	0.034025	0.056157	0.605889	0.5503
ecm(-1)	-0.050302	0.008234	-6.109394	0.0000
c	-0.050302	0.043875	-0.052447	0.9586
Adjusted R-squared	0.966881		F-statistic	256.4528
Durbin-Watson stat	1.772499		Prob(F-statistic)	0.000000

Source: E-views 10 output

The analysis from table 4 on the ECM statistic show that 5.03% of previous errors are corrected in the current period meaning that variables exhibit long term equilibrium after experiencing varying deviations in the short term. This result is sustained by the probability value of 0.0000 which is less than a 5% level of significance. At lag 1, financial access demonstrated a 14.85% increase while financial depth also reveals an 18.91% surge, thus, presenting positive and significant relationship with economic growth. However, coefficients of financial efficiency and financial stability displayed positive but insignificant link with economic growth because their probability values are higher than their 5% levels. Collectively, financial access, financial depth, financial stability, and financial efficiency are key to forecasting and predictive decisions on the growth of the Nigerian economy; as shown by the F-statistic of 256.4528 and associated p-value of 0.000000.

The Adjusted R-square obtained implies that about 96.7% of variation in gross domestic product is explained by the independent variables, while 3.3% is due to excluded variables. The Durbin-Watson value of 1.772499 is greater than the DB statistics of both upper and lower limits of D_U 1.24 and D_L 1.73 levels at $k=4$. This means that the model is free from first-order serial correlation and as such both current and lagged values of the variables are independent and not similar. Further analysis of the variables was carried out using the granger causality test to experiment how the report on each of the variables can be used to predict the behavior of others.

Table 5: Result of Granger Causality Test @ Lag 1

Null Hypothesis	Obs	F-statistic	Prob.
LNFA does not Granger Cause LNGDP	35	3.18568	0.0838
LNGDP does not Granger Cause LNFA		5.95254	0.0204
FD does not Granger Cause LNGDP	35	12.9937	0.0010
LNGDP does not Granger Cause FD		4.67060	0.0383
FE does not Granger Cause LNGDP	35	0.77943	0.3839
LNGDP does not Granger Cause FE		1.95269	0.1719
FS does not Granger Cause LNGDP	35	1.69078	0.2028
LNGDP does not Granger Cause FS		3.32008	0.0778

Source: E-views 10 Output

The test result in table 4.4 shows that unidirectional causality flows from gross domestic product to financial access in Nigeria. This means that financial access is attained in the presence of significant economic growth. In addition, there is evidence of bi-directional relationship between financial depth and economic growth in Nigeria. This goes to attest further that the financial depth of a nation is a good measure of its growth rate; and the growth of an economy is prompted by the level of its financial strength.

Discussion of Findings

First, financial access has a significant positive impact on Nigeria's economic growth index. For every additional unit of financial access gained by Nigerian citizens, the GDP will increase by 0.148552 unit. This signifies that the standard adult population or businesses in Nigeria have access to financial institutions' services, particularly banking services. This is consistent with the findings of Ibrahim and Alagidede (2018), Yirdaw (2019), and Fagbemi and Ajibike (2018) that financial development enhances economic growth greatly. However, it differs with Bist (2018), Ngongang (2015), and Prowd (2018) that financial development does not explain a considerable level of the growth rate of an economy. Second, Nigeria's gross domestic product is greatly boosted by financial depth. As a result, a unit increase in financial depth causes a 0.189160 unit increase in gross domestic product. This implies that Nigeria's financial industry is making significant contributions to economic growth. In support, the banking sector credit to the private sector has been routed towards practicable and viable initiatives that contribute to capital formation in Nigeria (Ibrahim and Alagidede, 2018; Yirdaw, 2019; and Fagbemi and Ajibike, 2018; Odi and Olulu-Briggs, 2016), as such, financial development enhances economic growth to a great extent. However, this is contrary to the view of Bist (2018), Ngongang (2015), and Prowd (2018).

Third, financial efficiency has a slight impact on Nigerian economic growth. For every additional unit of financial efficiency, GDP will increase by 0.001243 unit. This is because to bank's large lending-deposit spread, and non-diversification of income, which relies significantly on net interest income for profitability. In a recent study by Bist (2018), Ngongang (2015), and Prowd (2018); they opine that banking sector development does not significantly explain the rate of economic growth. Lastly, financial stability does not lead a substantial stimulation on the economy. Its 0.034025 unit increase shows that a very low stability index make it difficult for international competition (Prowd, 2018).

CONCLUSIONS AND RECOMMENDATIONS

The purpose of this investigation is to look into the existing relationship between financial sector development and how it impacts on the growth rate of the Nigerian economy from 1986-2021. Financial access, financial depth, financial stability, and financial efficiency were employed as independent variables, whereas gross domestic product proxy as economic growth. Data was sourced from the CBN databank for the period under study; and statistical techniques like the descriptive test, unit root test, Johansen co-integration test, Parsimonious error correction test, and Granger causality were applied to test the data set at the 5% level of significance. According to the estimation, financial access and financial depth are the two major elements influencing Nigeria's economic growth for the period under consideration. This suggests that Nigeria's financial industry made a significant contribution to economic growth which was as a result of credit being granted to the private sector which were spent towards practicable and viable initiatives that contributed to capital formation in the Nigerian economy. This finding is consistent with Rosalia (2013), Adu *et al.* (2013), Erylmaz *et al.* (2015), Ibrahim and Alagidede (2018), Yirdaw (2019), and Fagbemi and Ajibike (2019). Further findings show that financial stability and financial efficiency are not key variables influencing the Nigerian economy. Based on the study's findings, the following recommendations were made:

1. Financial access has a significant and positive impact on economic development. As such, financial institutions should ensure continuous orientation on novel financial products and services that will cause more inclusion into the financial system as well as allocating more resources to the private sector to stimulate the real sector.
2. Financial depth also has a considerable positive significant link with economic development. The study, thus, recommends for creation of more rural branches and microfinance banks that will make funding more accessible to small and medium-scale entrepreneurs' and stimulate economic growth in Nigeria.
3. Financial efficiency has a positive but insignificant influence on economic development. Financial institutions should consider a low interest rate spread on agricultural and industrial loans so that more loans can be granted to community banks; while raising interest rate for depositors so as to attract more deposits to grow the economy.
4. To improve their liquidity position, financial institutions should ensure the conduct of a detailed credit report of customers seeking for loans to help reduce high non-performing loans (Olulu-Briggs & Fred-Horsfall, 2023)

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