International Journal of Research and Sustainable Development, Volume 4, Number 2, 2012
ISSN: 2276-6111

2

THE IMPACT OF FINANCIAL DEEPENING ON ECONOMIC GROWTH IN NIGERIA (1986-2009)

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ABSTRACT

The aim of this study is to ascertain the influence of financial deepening on economic growth, and to examine the causal relationship between economic growth and financial development in Nigeria. The study used Quantitative research design and applied time series econometrics technique and ordinary least square regression model to estimate the relationship between financial deepening and economic growth, while controlling for other variables specified in the model. The study found that financial development over the years impacted significantly on economic growth in Nigeria; the growth of the financial depth is significant to economic growth even though it is relatively low over the years, and that economic growth causes financial development in Nigeria. The implication of the findings is that although the financial structure had enhanced the level of financial savings and thus affected the level of financial deepening positively, the financial system has not been efficient in resource allocation, especially credit allocation and a high level of monetization of the economy, and that the low level of financial deepening does not lie in the inefficiency of the liberalization theory; but on the macroeconomic inconsistencies that accompanied its implementation. It is therefore recommended that the financial liberalization policies be strengthened through effective and efficient regulation and supervisory framework to ensure good risk management, corporate governance and stemming of systematic crisis in the system.

Keywords: Financial Deregulation, Quasi-equity, Financial Deepening, Economic Growth.

TRODUCTION

ckground of the Study

r more than two decades after independence, the Nigerian financial system was repressed, as evidenced by ilings on interest rate and credit expansion, selective credit policies, high reserve requirements, and striction on entry into the banking industry. This situation inhibited the function of the financial system d especially constrained its ability to mobilize savings and facilitate productive investment. This situation d to the financial liberalization measures adopted with the introduction of structural adjustment program in 86. Nzotta and Okereke (2009) assert that the link between financial sector stability and growth is plained by increased market depth, which potentially increase market efficiency and reduce risks through imination of weak institutions.

e reforms in the financial system in Nigeria which heightened with the 1986 deregulation affected the el of financial deepening and the relevance of the financial system to economic growth and development. wever, the rapid globalization of the financial market since then and the increased level of integration of e Nigerian financial system to the global system have generated interest on the level of financial deepening at has occurred (Nnanna and Dogo, 1998). The central focus is that a high level of financial deepening is a cessary condition for accelerating growth in an economy (Nzotta, 2004). Thus a high level of financial epening should sustain and provide basis for moderate lending rates and high level of financial ermediation.

piel (1990), Nnanna and Dogo (1998) and Nzotta (2004) maintain that financial deepening generally ails an increased ratio of money supply to Gross Domestic Product. Financial deepening is thus measured relating monetary and financial aggregates such as M_1, M_2 and M_3 to Gross Domestic Product (GDP). e logic here is that the more liquid money is available to an economy, the more opportunities exist for ntinued growth of the economy. Financial deepening encompasses the increase in the stock of financial sets or the ability of financial institutions in general to effectively mobilize financial resources for velopment (World Bank, 1994 cited in Nzotta and Okereke, 2009). This view accepts the fact that a ancial system's contribution to the economy depends on the quality and quantity of its services and the ficiency with which it performs them.

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