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Financial Deepening and Economic Growth in Nigeria

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Abstract
The study empirically examined the impact of financial deepening on Nigeria's economic growth from 1986 to 2020 with time series data from 1986 –2020 gotten from the Central Bank of Nigeria Statistical Bulletin employed. A model was drawn and the variables were subjected to a unit root test with stationarity achieved at either order zero I(0) or order one I(1). The model was thus analysed using the Auto-regressive Distributed Lag Model (ARDL) and the Error Correction Mechanism estimation techniques. The estimates from ECM and the long run show that money supply, market capitalization and liquid liabilities positively impact economic growth in Nigeria while credit to private sector and lending rate has no significant impact on economic growth in Nigeria during the period under study. In light of the empirical findings, it was recommended by changing the lending rate, financial service providers will be able to lend to the private sector at reasonable rates, which will boost savings and investment necessary for growth. Raising the interest provided to depositors on their savings will serve as a perk to attract customers to save more money with commercial banks, savings and borrowing for investments will be encouraged as a result.
Keywords: Financial Deepening, Economic Growth, ARDL, ECT
JEL Classification Codes: E12, E43, E51, E61

1. Introduction

Financial deepening is the term for a rise in an economy's supply of financial assets. Due to the undeniable importance of the development of the financial sector for economic growth, the relationship between financial deepening and economic growth has received attention in financial literature and has been widely acknowledged. Financial deepening implies that financial organizations can efficiently utilize savings for investments through financial intermediation by enhancing the competitive efficacy of financial markets. It is a comprehensive process that involves the intersection of primary, secondary and retail

markets, as well as financial instruments (Ademola & Marshal, 2018). Undoubtedly, the degree of financial system development affects how much money can be raised from surplus economic units and channeled to productive deficit units. The financial organizations assume this intermediation role and draw in the pool of savings and non-performing funds, channelling them to business owners, consumers, governments, and other essential endeavours in the hopes of making a profit (profit). This helps in improving economic circumstances through increased financial market competition and, as a result, indirectly benefits non-financial sectors of the economy.

Since the contributions of financial deepening to the Nigerian economy include expanding the base of available resources and providing the capital needed to promote savings and credit investment, it has led to the implementation of efficient mediations and programmes in the Nigerian banking industry and as posited by Nwanna and Chiwundu (2016), these programmes have contributed directly to the ongoing improvement of financial assets. In 1952, the Banking Ordinance was passed, which marked the beginning of attempts to reform the Nigerian financial system. In 1986, following the Structural Adjustment Programme (SAP), The financial system has seen a shift in policy from one of direct control to one based on market interactions with the programme's three major financial sector policies centred around interest rates, currency rates, and free entry into and exit from the banking industry. Other programmes centred around deepening the financial system include modifications from the era of banking distress to the banking consolidation era which emphasized bank consolidation through the merger and acquisition process to the universal banking model reform which aimed to limit commercial banks to exclusively banking activities while also addressing the establishment of a non-interest bank to reduce excessive banking interest.

These reforms made efforts to close the systemic financial gaps, abolish constraints on credit allocation and control framework, attain positive real interest rates, increase market participants' effectiveness in the intermediation process, and focus on the formal and official financial system structure. However, Nigeria's ideal measure of financial deepening includes the formal and informal sectors. While the formal sector consists of financial institutions, financial markets, financial instruments (assets or securities) as well as financial services with the Federal Ministry of Finance, the Central Bank of Nigeria, the Securities and Exchange Commission (SEC), the Nigerian Deposit Insurance Corporation, (NDIC), the National Insurance Commission (NAICOM) and the National Pension Commission (PENCOM) as the regulatory bodies, the informal sector which is poorly developed has no

official structure and is made up of local cooperative organizations, thrifts, savings and loans, and money lenders (Nzotta & Okereke, 2009).

Although Nigeria's financial and economic system has significantly improved over time, the relationship between the growth of the financial system and the economy has been a contentious subject. This supports the vast variety of initiatives that have been implemented throughout the nation in an effort to include many stakeholders and participants, particularly in the informal sector. However, the industry is still underdeveloped and has a small market (Olofin & Afandigeh, 2008). Its precise size and impact on the economy are still unknown and still debated. The ratio of broad money to GDP in the country has been volatile and has impacted the deepening of the financial system. From a figure of 17.732% in 2005, it rose to 43.266% in 2009 and fell to 21.021% in 2010. It has remained at an average of about 20% since then. Furthermore, the credit to private sector ratio to GDP in Nigeria was put at 3.7% in 1960, increased to 12.22% in 1980, fell to 4.95% in 1990, increased to 8.24 and 19.62 in 2000 and 2009 respectively, fell again to 10.60% in 2012 and was 12.13% in 2020. For comparison, the world average in 2020 was 60.26% (World Bank, 2020). This comparison shows that despite the improvements in the Nigerian financial sector, more work still needs to be done.

Also worrisome is the volatile nature of the global stocks, which has led to government bond prices plummeting, the pound dipping against the dollar, oil prices slumping, rising interest rates and stubbornly high inflation. The issue of macroeconomic volatility has persisted as a barrier to the growth of the banking sector. Disinvestment in the financial and real sectors due to frequent policy changes has had a negative impact on macroeconomic performance. This calls for a heightened focus on financial inclusion and accessibility and the need to assess the financial sector's deepening impact on economic performance in Nigeria becomes necessary taking into account the fact that financial deepening measures intended to improve bank performance have remained pale and are still the subject of continued debate. This has not been helped by the recent downturn in the financial market, distress of banks, global economic and financial meltdown, and fluctuating economic growth over years. Therefore, the goal of this study is to assess the relationship between financial deepening and economic growth from 1986-2020. However, the choice of this period was basically a result of the SAP liberalization policy implemented in 1986. The study will seek to answer the following questions: Does financial deepening impact Nigeria's economic growth rate? Does financial deepening exhibit negative implications on economic growth? What is the causal link between financial deepening and economic growth in Nigeria?

2. Literature Review

2.1 Theoretical Underpinning

2.1.1 Solow-Swan Growth Model

Several theories are linked to financial deepening and economic growth. One of such theory is the basic neoclassical Solow-Swan model, independently developed by Solow (1956) and Swan (1956). The theory posits capital accumulation, labour/population expansion, and advances in productivity are primarily fuelled by technical advancement in explaining long-term economic growth. This model contends that the impact of technological advancement is vital, and noticed that technology has a significant role in sustaining growth, leading to its inclusion as an independent variable in the growth equation (Egbulonu & Ajudua, 2017). According to the theory, the capital-labour ratio would have a tendency to adapt itself over time in the direction of the equilibrium ratio with technical coefficient and it is predicated on the following tenets; one composite commodity is produced; net output is output less depreciation; constant return to scale, decreasing returns to a single input, payment of capital and labour based on marginal physical productivities, and flexibility of prices and wages; labour is employed fully; full utilization of the capital stock that is available; labour and capital are interchangeable; neutral advancements in technology; a constant savings ratio; investment equals savings; capital depreciates at a constant rate; population increases at a constant rate.

Thus, the model mathematically is:

$$Y = f\ (K, L) - (1)$$

$$Y = AK^{\alpha}L^{(1-\alpha)} - (2)$$

K = Capital, L = Labour

The model predicted that an increase in labour force and capital accumulation would enhance economic growth, but only for a limited period of time due to diminishing returns. If there is only one worker in an economy, increasing the number of workers will significantly boost output. However, if there are thousands of workers in the economy, adding one additional worker won't result in a significant boost in output. At some point, the economy will expand steadily, with GDP increasing at a rate equal to the growth of the labour force and productivity. At this steady state, the resources in the country are used up. When this happens, only technological innovation and advancement will raise the rate of economic growth. The model predicts that with technological advancement, the gap between wealthy and developing nations will close, a phenomenon known as "Catch up growth" or convergence. That is, a propensity for underdeveloped economies to catch up with

developed ones. This is due to the fact that each extra unit of capital will have a larger return in poor countries than in rich countries because they have less capital to begin with (Egbulonu & Ajudua, 2017).

However, because the Solow-Swan neoclassical growth model was unable to account for long-term economic growth due to diminishing capital returns, (Onyimadu, 2015), and the failure to account for the cause of technological progress (Orji, Ogbuabor & Anthony-Orji, 2015), the endogenous growth theory was developed.

2.1.2 Endogenous Growth Theory

According to this theory, endogenous forces determine an economy's long-term growth rate. The theory argues that rather than being driven or determined by some exogenously growing variables, long-run growth is determined within the model (Egbulonu & Ajudua, 2017). The theory was first developed by Arrow (1962). He tried to shed light on the origins of technological advancement, a major force behind economic growth as technical change was previously thought to occur exogenously rather than endogenously. The theory was further propelled by Romer (1986) and Lucas (1988). The theory produced two separate methods for incorporating human capital into economic growth models. The first, which derives from Lucas's work, see the development of human capital as the primary driver of growth, and the second strategy posited by Romer places emphasis on the contribution of human capital to innovation and the adoption of new technologies.

The theory thus favoured endogenous technological advancement that would be driven by the pace of investment, the size of the capital stock, and the stock of human capital. Levine (1991) and Bencivenga and Smith (1991) first suggested the Endogenous Growth Model as a means through which financial institutions could influence long-term economic growth. They offered both direct and indirect connections which were hinged on the belief that wealth distribution, financial stability, and advancements in technology all influence growth outcomes. Hence, the connection between long-term societal development and financial progress is hinged on the importance of productivity growth as it relates to development, investments, savings, and financial markets (Samuel-Hope, Ehimare & Osuma, 2020).

The Solow-Swan model and the Endogenous model both explain how economies grow, but because of their presumptions about the symmetry of the economy's sectors or the existence of a single market for a given product, these theories were unable to propel the economies of less developed nations toward growth. As a result, researchers and other interested parties have sort other theories to account for the factors required for economic growth, particularly in less developed nations.

Two views on the deepening of the financial system have gained popularity over time, one of which favours financial repression and the other of which favours financial deepening from a liberalization standpoint. The two main theories are the Keynesian theory of financial deepening and the Mckinnon/Shaw theory.

2.1.3 Keynesian Theory on Financial Deepening

The literature on finance and development is referenced in the theoretical formulation of the financial deepening equation which asserts that the development of the real economy, as well as the development of the financial system, are mutually reinforcing. It explains how government influences financial intermediation to set financial prices. This is seen in the postulations of the Keynesian theory of financial deepening.

The Keynesian hypothesis of financial deepening which is based on the theoretical work of Keynes (1936), argued that there is a need for government intervention in the financial markets (Orji et al., 2015). According to the theory, rising government spending is essential for the financial deepening phenomenon. As such, the theory asserts that the government needs to increase government spending so to stimulate the economy and achieve full employment. According to Keynes, government spending is a factor that may be used as a tool for policy to encourage economic growth. He asserts that a change in expenditure has a multiplier effect on the national income (Ajudua, 2018). This is so because government spending increases aggregate demand and income, which in turn raise the demand for money (Mckinnon, 1973), with the demand for money and its stability necessary for both macroeconomic modelling and monetary policy (Okonkwo, Ajudua & Alozie, 2014), and economic growth.

The popularity of Keynes' theory declined in the 1970s due to its inability to respond to the problems of high levels of inflation, unemployment and economic stagnation (Yilmaz & Keskin, 2018). This sadly is a situation quite similar to what we have in Nigeria today. Consequently, the theory's financial repression approach gave way to an approach that sorts financial liberalization, hence the Mckinnon/Shaw theory.

2.1.4 Mckinnon/Shaw Theory

The McKinnon (1973) and Shaw (1973) frameworks, popularized the idea of financial liberalization and the need to ease financial repression by, among other things, removing credit controls and allowing market-determined real interest rates to be set. Low savings, high consumption, low investments, and suppressed economic growth

are the results of repression. According to McKinnon and Shaw models, any restriction or distortion of the banking industry, such as reserve and liquidity requirements, interest rate regulations impede financial expansion primarily by driving down interest rates (Capannelli, Lee & Petri, 2009). The models contend that the increase in real interest rates brought on by interest rate liberalization will increase savings, stimulate investment, and ultimately lead to an expansion of the economy.

Therefore, the McKinnon-Shaw approach is focused on market distortions brought on by financial repression which has a disadvantageous effect on financial development and subsequently on bank performance. Mckinnon and Shaw thus advocated for financial liberalization as a tool needed by emerging countries to expand their financial sector in order to boost their real growth (Orji *et al*., 2015). Financial liberalisation will encourage economic growth by increasing savings through a rise in the real deposit rate and by increasing private investment in important economic sectors. As a result, the McKinnon-Shaw framework contends that removing interest rate and credit control restrictions as well as other restrictive financial laws is necessary for an economy to enjoy economic growth through more effective capital accumulation and allocation.

2.2 Empirical Literature

There have been contrasting views by scholars on the impact of financial deepening on the economic growth performance of nations. Several findings on the subject matter are reviewed below.

Using the standard Johansen Vector Auto Regression (VAR) framework and the endogenous and exogenous Johansen cointegration structural break frameworks the nexus between financial development, investment, and economic growth in Nigeria was examined by Ndako (2017). A long-run relationship between financial development, investment and economic growth in Nigeria was established. The study also demonstrated that investment is a critical channel by which advancements in finance have an impact on economic growth.

Paul (2017) used secondary data encompassing the years 1986 to 2015 to assess the effect of financial deepening on economic growth in Nigeria. The OLS approach, cointegration, and error correction model (ECM) were used as estimation tools. The study demonstrated that the financial depth indexes had a long-term impact on economic growth in Nigeria. The study also demonstrated a favourable and significant relationship between financial deepening and economic growth. In order to increase savings, the report advised financial inclusion, financial reforms, infrastructure development, and an effective payment system. It also suggested boosting public confidence in the currency and stock

markets to encourage investment and efficient resource allocation to stimulate investment and efficient resource allocation.

Ozturk (2008) looked into the relationship between financial development and economic growth in Turkey from 1975 to 2004 using the vector autoregression framework. Findings showed two-way (bidirectional) causality between financial development and economic growth. Using the OLS method, Omankhanlen (2012) investigated the financial sector reforms and their impact on the Nigerian economy for the period 1980 - 2008. Despite the lending rate still being unpredictable, the study demonstrated a favourable influence of financial sector reforms on the Nigerian economy. The study concluded that the financial sector's reforms are not the only reason for the sector's improvement.

Ghildiyal, Pokhriyal and Mohan (2015) investigated the causal effect of financial deepening on Indian economic growth using the Autoregressive Distributed Lag (ARDL) Bound testing strategy and the Granger Error Correction Model (ECM) technique. The study found that there is a long-term relationship between financial development and economic growth. Additionally, the study demonstrated that financial deepening promotes economic growth both in the long run and the short run, and suggested improvement in the financial deepening.

In a study by Shittu (2012) in which he utilised secondary data from 1970 to 2010, applied cointegration test and error correction model in order to ascertain the effect of financial intermediation on economic growth in Nigeria, the study discovered that even though Nigeria's financial index is low, financial intermediation significantly affects economic growth. As a result, the study found that the financial system had not maintained financial intermediation that works, particularly in regard to the distribution of credit and significant monetization of the economy, which led them to propose that the regulatory structure be changed to guarantee sound risk management, corporate governance, and a decrease in systemic crisis.

Kibet and Agbelenko (2015) evaluated the relationship between financial development and economic growth in the West African Economic and Monetary Union using time series data from 1981–2010 while applying the General Moment Method (GMM). They came to the conclusion that there is a bidirectional causal relationship between financial development and economic growth that is positive and statistically significant. They recommended pursuing policies that would manage inflation and promote trade openness while luring foreign direct investments.

In their study, Karimo and Ogbonna (2017) examined the relationship between financial deepening and economic growth in Nigeria between 1970 and 2013. The study, which used the Toda-

Yamamoto augmented Granger causality test method, found that financial deepening promotes growth and consequently advised that policy efforts be focused on removing obstacles that weaken the growth of credit to the private sector as well as on restoring the public's confidence in stock market activities through suitable formulating suitable policies.

Studies in Nigeria have primarily examined the relationship between financial development and economic growth, with a variety of outcomes. Additionally, the majority of the studies concentrated on conventional financial metrics. Using annual data, this paper evaluates the effects of financial deepening on economic growth in Nigeria between 1986 and 2020 but utilized supplementary variables like liquid liabilities (ratio of liquid liabilities to GDP which offers a measurement of the financial intermediaries' size), which is a measure of extended broad money (M_3) so as add more support to the already established and existing arguments.

3. Methodology

Ex-post facto research methodology was used in this study because the datasets were of a secondary nature based on information from the Central Bank of Nigeria for the period 1986 - 2020. The econometric analysis method was employed, with the ordinary least square (OLS) regression approach used because of its BLUE characteristics. Utilizing the linear production function's generic form where

$$Q = f(X_1, X_2 \ldots X_n) - (3)$$

With Q = output (dependent variable) and X_1, X_2, X_n = inputs (explanatory variables), and anchoring on the work of Bakang (2015) and the endogenous growth model which emphasised the role of endogenous variables in economic growth the mathematical function to determine how the relationship between financial deepening and economic growth in Nigeria in this study is stated thus:

$$GDP = f(MS, CPS, MC, BLR, LL) - - - - - - - - - - - - - - - - - - (4)$$

Econometrically, the aforementioned function becomes

$$GDP_t = a_0 + a_1 MS_t + a_2 CPS_t + a_3 MC_t + a_4 BLR_t + a_5 LL_t + \mu_t \ - (5)$$

Variables would be converted into their logarithm form in order to compress the scales in which they are measured and avoid the issue of heteroskedasticity (Gujarati, 1995). Equation 5 thus becomes

$$LogGDP_t = a_0 + a_1 LogMS_t + a_2 LogCPS_t + a_3 LogMC_t + a_4 BLR_t + a_5 LL_t + \mu_t \quad ------(6)$$

Where:
GDP_t = Gross Domestic Product in time t
MS_t = Broad Money Supply in time t
CPS_t= Credit to Private Sector in time t
MC_t = Market capitalization in time t
BLR_t = Bank Lending Rate in time t
LL_t = Liquid Liabilities in time t
μ_t = Error term which is a random variable that captures other variables not include in the model.
a_0= Intercept
$a_1 - a_5$ = Coefficients of parameters to be estimated.

Based on the outcome and behaviour of the variables obtained from the diagnostic tests carried out, the Autoregressive Distributive Lag (ARDL) Model was used in the research. This is so since the variables used were integrated of difference orders (i.e., I(0) and I(1)).
Using the Autoregressive Distributive Lag (ARDL) $(p, j_1, j_2, j_3, j_4,)$, the estimated long-term model is explicitly given as

$$LogGDP_t = \theta_0 + \sum_{q=1}^{p} a_1 LogMS_{t-1} + \sum_{q=0}^{j_1} a_2 LogCPS_{t-1} + \sum_{q=0}^{j_2} a_3 LogMC_{t-1} + \sum_{q=0}^{j_3} a_4 BLR_{t-1} + \sum_{q=0}^{j_4} a_5 LL_{t-1} \quad ----(7)$$

The short-run dynamic for the model in the study is stated thus;

$$\Delta LogGDP_t = \rho_0 + \sum_{q=1}^{p} \beta_1 \Delta LogMS_{t-1} + \sum_{q=1}^{j_1} \beta_2 \Delta LogCPS_{t-j} + \sum_{q=1}^{j_2} \beta_3 \Delta LogMC_{t-j} + \sum_{q=1}^{j_3} \beta_4 \Delta BLR_{t-j} + \sum_{q=1}^{j_4} \beta_5 \Delta LL_{t-j} + \delta ecm_{i-1} + \varepsilon_t \quad -------(8)$$

The variables' long run multipliers are a_1 to a_4 in equation (4) and their short run multipliers are β_1 to β_4 in equation (5). Additionally, the intercepts for the long run and short run models are denoted by θ_0 and ρ_0 while $j_1 to\ j_4$ are the optimal lag length for each of the variables. The ARDL bound test was used to establish whether the null hypothesis that there is no cointegration between variables should be accepted or rejected.

4. Results and Discussion

4.1 Unit Root Test

To prevent results that could interfere with the estimation of reliable, unbiased, linear parameter estimations the need to ascertain the stationarity level of variables using the Augmented Dickey-Fuller (ADF) unit root test becomes necessary. The unit root test for the study is thus presented in table 1.

Table 1: Unit Root Test Result

Variable	ADF Statistic	1% Critical Values	5% Critical Values	10% Critical Values	Order of Integration
LOGGDP	-3.726089	-3.661661	-2.960411	-2.619160	I(0)
LOGMS	-3.763618	-3.670170	-2.963972	-2.621007	I(1)
LOGCPS	-4.048329	-3.670170	-2.963972	-2.621007	I(1)
LOGMC	-4.262039	-3.670170	-2.963972	-2.621007	I(1)
BLR	-4.517978	-3.661661	-2.960411	-2.619160	I(0)
LL	-3.850201	-3.661661	-2.960411	-2.619160	I(1)

Source: Authors Computation, 2022

In the pre-estimation result as shown in table 1, the stationarity level of the variables in the model was checked using the Augmented Dickey-Fuller unit root test. The result gotten showed that were stationary or integrated at different level. Gross Domestic Product and Bank Lending Rate were stationary at level zero, i.e. I(0) indicating the absence of unit roots while Market Capitalization, Credit to Private Sector, Money Supply and Liquid Liabilities possessed unit roots were differenced to make them stationary with stationarity achieved at first difference i.e. I(1). Notably, the Johansen approach would preclude the mixing of both I(0) and I(1) variables. This provides a convincing

argument in favour of the ARDL model, which Pesaran, Shin and Smith (2001) presented as a bounds test strategy.

4.2 Cointegration Test

Table 2: ARDL Bound Test for Cointegration Result

Variables	**F-Statistics**	
LOGDP LOGMS LOGCPS LOGMC BLR LL	5.69302	
Critical Values	**Lower Bound**	**Upper Bound**
1%	2.51	3.63
5%	2.78	3.99
10%	3.83	5.11

Source: Authors Computation, 2022

The ARDL estimates of F-statistics which are given in the table 2 shows that when compared, the F- statistics of 5.69302 exceeds the Upper Bound values at all the significance levels (3.63, 3.99 & 5.11). Hence there is the presence of cointegration and there exists a stable long run equilibrium relationship between the variables employed in the study.

4.3 ARDL Long Run Estimation

Table 3: Result of ARDL Long Run Coefficients

Long run Coefficients				
Dependent Variable: LOGGDP				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
LOGMS	0.540150	0.209060	3.703108	0.0319
LOGCPS	0.170883	0.156177	1.045722	0.3104
LOGMC	0.234626	0.072189	3.696020	0.0322
BLR	-0.005023	0.006634	1.432032	0.2003
LL	0.030412	0.020006	3.843022	0.0306
C	2.650120	0.210246	11.95343	0.0000
R-squared	0.811745	Adjusted R-squared	0.783021	
F-statistic	13.99101	Durbin-Watson stat	1.820123	
Prob(F-statistic)	0.002120			

Source: Authors Computation, 2022

From the results in table 3, a look at the variables employed show that they all appear with expected signs. However, the result

further revealed that money supply (MS), market capitalisation and liquid liabilities (LL) were all statistically significant. These variables have t statistic probability values less than 0.05. The inference here is simply that these variables need to be improved upon in order to attract the right amount of deepening required in the economy for growth. Furthermore, the result implies that a unit increase in money supply will induce 0.54 unit increase in economic growth in the long run, a unit increase in market capitalisation will induce 0.23 unit increase in economic growth in the long run while a unit change in Liquid Liabilities will induce 0.03 unit increase in economic growth. Credit to private sector (CPS) and bank lending rate had probability values greater than 0.05 and as such are not statistically significant. This shows that while the variables, money supply, market capitalization and liquid liabilities have a positive and considerable impact on economic growth during the period under study, the variable credit to the private sector and bank lending rate have insignificant impact on economic growth during the period under study. The R^2 posits that about 83% of variation in GDP is explained by the independent variables in the model while 17% is accounted for by the error term.

4.3 Short-run Dynamic ARDL Model

Table 4: Result of Short-run Dynamic ARDL Model

Short run Dynamics				
Dependent Variable: LOGGDP				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOGMS)	0.382072	0.159575	2.394315	0.0252
D(LOGCPS)	0.183702	0.133531	1.375718	0.1822
D(LOGMC)	0.227939	0.055937	4.074918	0.0005
D(BLR)	-0.008895	0.004735	1.878781	0.0730
D(LL)	0.040412	0.029946	3.809200	0.0315
ECT(-1)	-0.259932	0.352162	-1.873946	0.0437
R-squared	0.714321	Adjusted R-squared	0.680124	
F-statistic	9.503420	Prob(F-statistic)	0.031035	
Durbin-Watson stat	1.880402			

Source: Authors Computation, 2022

The short run dynamic result is presented in table 4. From the result, the value and sign of the lagged error correction term clearly demonstrate that there is short-run dynamics and long-run relationships.

The value of the error correction term ECT(-1) is negative and significant. The speed of adjustment from the short-run equilibrium to the long-run equilibrium is measured by the ECT(-1) of -0.259932. The value shows that about 26% of the error is corrected in each time period. According to the rate of adjustment, it will probably take around 3.8 years to remedy all errors and deviations and restore equilibrium to the economy. Also, from the table, in the short run, the variables CPS (Credit to Private Sector) and BLR (Bank Lending Rate) are not significant, which suggests they have no immediate effect on economic growth. However, the variables MC (Market Capitalization) and MS (Money Supply) have a positive and significant impact on economic growth. The R^2 shows the independent variables account for 71% of the variation in the dependent variable while the Prob(F-statistic) show that the entire model has a good fit with the Durbin-Watson value of 1.88 showing the absence serial autocorrelation.

Table 4: ARDL Model Diagnostic Test

	F-Statistic	Prob
Breusch-Godfrey Serial Correlation test	0.341781	0.7110
Heteroskedasticity test	2.218502	0.0938
Jarque-Bera test	5.267	0.7511

Source: Authors Computation, 2022

The stand on the absence of serial autocorrelation is corroborated by the result in table 4 since F-statistics of serial correlation, heteroskedasticity and normality are not significant at 5% level of significance. They all have values greater than 0.05 (0.7110, 0.0938 and 0.7511) respectively.

5. Conclusion and Recommendations

The Nigerian financial system has developed considerably well over the years, however, there is still a great need for improvement as was revealed by this study's findings. The study consequently demonstrated the importance of financial deepening in propelling economic growth in Nigeria. Based on the study's findings that all the variables' parameters are correctly signed and have significant relationships with economic growth, the study, therefore, recommends that;

An enabling environment for friendly interest rates is essential such that financial service providers will be able to lend to the private sector at reasonable rates, as this will boost savings and investments

necessary for economic growth. To assist in the efficient and effective mobilization of resources to speed up the expansion of the Nigerian economy, monetary authorities should develop and implement policies focused on the deepening of the financial sector.

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