

Financial Sector Development and Economic Growth in Nigeria

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DOI: <https://doi.org/10.47772/IJRISS.2026.100300110>

Received: 10 March 2026; Accepted: 16 March 2026; Published: 27 March 2026

ABSTRACT

This study investigates the relationship between financial sector development and economic growth in Nigeria from 1981 to 2024. Its primary objective is to evaluate the contributions of banks, insurance, and stock market development to the country's economic growth over this period. Specifically, the research assesses the impact of banking sector development, examines the influence of the insurance sector, and analyzes the effect of stock market evolution on economic performance. Despite extensive empirical investigations, the existing literature reveals significant gaps: insufficient integration of Stage of Development Theory and McKinnon–Shaw Financial Theory with comprehensive empirical analyses; limited studies addressing the combined effects of all financial subsectors; inadequate exploration of the dynamic interplay among financial access, depth, efficiency, and stability; and a scarcity of research on the bidirectional causality between financial development and economic growth under varying macroeconomic conditions. Adopting an *ex post facto* design and leveraging secondary time series data from the World Bank's World Development Indicators, this study applies the Autoregressive Distributed Lag (ARDL) model to evaluate long-run and short-run relationships. Results indicate that banking sector development and stock market growth significantly and positively influence Nigeria's economic expansion, while the insurance sector's impact is positive but statistically insignificant. These findings underscore the need for targeted policies to enhance financial inclusion, strengthen credit allocation to productive sectors, and improve stock market infrastructure. The study contributes to closing literature gaps by offering an integrative, longitudinal perspective grounded in relevant theories, providing nuanced insights for policy formulation aimed at fostering Nigeria's sustained economic growth through financial sector advancement.

Keywords: Financial Sector Development, Economic Growth, Banking Sector, Insurance Sector, Stock Market Development

INTRODUCTION

The relationship between financial sector development and economic growth has long been a central focus of economic research, reflecting the fundamental role that financial institutions and markets play in fostering prosperity. Economic growth, conventionally measured through indicators such as GDP growth rate, real GDP per capita growth, and annual percentage change in GDP, serves as the primary dependent variable in such studies (World Bank, 2024). Financial sector development encompassing banking sector development, insurance sector development, and stock market development constitutes independent variables, each serving distinct yet complementary functions in capital mobilization, risk management, and investment facilitation essential for sustained economic growth (Levine, 2022; Beck, 2011).

Globally, the theoretical foundations linking financial development to economic growth are well established. The pioneering works of McKinnon (1973) and Shaw (1973) propose that reduced financial repression and enhanced financial intermediation catalyze savings and investment, thereby accelerating growth. Endogenous growth theories further stress the importance of financial markets in improving resource allocation and fostering technological innovation (Romer, 2021). Empirical evidence from both advanced and developing economies broadly supports a positive causal relationship between financial sector development and economic growth, though these relationships are nuanced by country-specific institutional contexts and developmental stages (Greenwood & Jovanovic, 1990; Beck & Levine, 2004).

However, contrasting perspectives challenge this unidirectional causality. Robinson (1952) contends that economic growth itself drives financial sector expansion, implying reverse causality. Others argue that overdeveloped financial sectors may induce economic volatility and misallocation of resources, particularly where institutional weaknesses prevail (Stiglitz & Weiss, 1981; Lucas, 1988). The effectiveness of financial development in spurring growth is further argued to depend on complementary factors such as governance quality, regulatory frameworks, and macroeconomic stability (Demirgüç-Kunt & Levine, 2009). These divergent scholarly perspectives underscore the complexity of the finance-growth nexus and highlight the importance of context-specific empirical investigation.

In Nigeria, the financial sector's trajectory from 1981 to 2024 reflects these global debates within a uniquely complex national environment. Despite concerted financial reforms aimed at deepening financial services and inclusion, economic growth in Nigeria remains volatile and often below expectations (CBN, 2022; Adewale & Ojo, 2023). The banking sector has expanded in terms of credit provision and deposit mobilization, yet its impact on sustained GDP growth remains debated. The insurance sector, characterized by persistently low market penetration and limited reach, raises questions regarding its contribution to economic performance. Similarly, the Nigerian stock market's potential in fostering capital formation is impeded by operational inefficiencies and investor confidence deficits (Agu et al., 2025; Oluwadare & Ojo, 2021). A significant research gap exists in comprehensive, longitudinal analyses that simultaneously examine the combined effects of banking sector development, insurance sector advancement, and stock market evolution on Nigeria's economic growth over an extended timeframe. Most existing studies isolate these financial sub-sectors or focus on relatively short time spans, thereby limiting holistic understanding and policy responsiveness. This study addresses that gap by evaluating the influence of multiple dimensions of financial sector development on economic growth in Nigeria across the period 1981 to 2024 a timeframe deliberately chosen to capture the structural reforms initiated by the 1986 Structural Adjustment Program through to contemporary developments.

The core objective of this study is to examine the relationship between financial sector development and economic growth in Nigeria from 1981 to 2024. Specifically, it evaluates the impact of banking sector development on economic growth, examines the influence of insurance sector development on economic performance, and analyses the effect of stock market development on Nigeria's growth trajectory. The study relies on quantitative data sourced from credible institutions including the Central Bank of Nigeria, the National Bureau of Statistics, and the Nigerian Stock Exchange, acknowledging that qualitative factors such as regulatory changes and institutional quality, while relevant, are beyond the study's primary scope. The significance of this study extends across multiple stakeholder groups. For policymakers and government agencies, the empirical findings provide an evidence base for designing targeted financial sector reforms that enhance banking efficiency, expand insurance coverage, and deepen stock market functionality ultimately supporting GDP growth and long-term economic expansion. For financial regulators such as the Central Bank of Nigeria and the Securities and Exchange Commission, the study's insights reinforce the importance of robust regulatory frameworks that promote financial stability, reduce non-performing loans, and foster market transparency, thereby strengthening investor confidence. Financial sector practitioners, including banks, insurance firms, and investment houses benefit from improved understanding of how their services collectively influence macroeconomic performance, enabling more strategic decision-making around capital allocation and risk management.

For academia and research institutions, this study contributes a comprehensive, integrative framework for analyzing multiple financial sector variables against standard economic growth indicators within an emerging market context, serving as a valuable reference for future research on the finance-growth nexus in developing economies (Levine, 2022; Zakari & Isma'il, 2024). International development organizations and donor agencies similarly gain nuanced empirical data to better tailor support programs, prioritize capacity-building initiatives, and design interventions that leverage financial sector development as a multiplier for poverty reduction and sustainable development in Nigeria (World Bank, 2024; Demirgüç-Kunt & Levine, 2009). By simultaneously and longitudinally assessing banking, insurance, and stock market development in relation to Nigeria's economic growth over nearly four decades, this study endeavors to reconcile divergent scholarly views, fill critical gaps in the existing literature, and provide informed, evidence-based guidance for policymakers and financial

stakeholders committed to harnessing financial sector reforms for sustainable and inclusive economic development in Nigeria.

LITERATURE REVIEW

Concept of Economic Growth in Nigeria

Economic growth remains one of the most critical indicators of a nation's economic health and development, reflecting sustained increases in the production of goods and services within an economy over time. Globally, economic growth is often measured through metrics such as the gross domestic product (GDP) growth rate, real GDP per capita growth, and the annual percentage change in GDP (World Bank, 2024). These indicators provide comprehensive insights into how effectively economies expand their productive capacities, raise living standards, and improve welfare. Within the theoretical landscape, growth is explained through various models ranging from classical accumulation of capital and labor to endogenous growth theories emphasizing technological innovation and human capital development (Romer, 2021; Barro, 2020).

From a global perspective, the drivers of economic growth include a mix of macroeconomic stability, institutional quality, investment in physical and human capital, and the efficiency of financial markets (Acemoglu & Robinson, 2019). Countries that successfully blend these elements tend to exhibit robust, sustainable growth, while those with structural rigidities, weak governance, and underdeveloped financial systems often experience volatile or stunted economic progression. For instance, in emerging economies, the role of the financial sector has been increasingly recognized as pivotal in catalyzing growth by mobilizing savings, allocating capital, mitigating risks, and facilitating trade and investment (Beck & Levine, 2022).

Narrowing down to Nigeria, economic growth has historically oscillated due to factors such as reliance on oil revenues, macroeconomic shocks, policy inconsistencies, and infrastructural deficits (CBN, 2023). Nigeria's GDP growth rate demonstrated significant expansion in various periods, notably linked to oil prices and reforms, but has also been marked by recessions and sluggish productivity in non-oil sectors (World Bank, 2024). Real GDP per capita growth, a more refined indicator accounting for population growth, has been variable, reflecting challenges in translating economic gains into broad-based improvements in living standards (NBS, 2023).

The relevance of economic growth to financial sector development in Nigeria between 1981 and 2024 is profound. The financial sector is a cornerstone of economic growth as it facilitates resource mobilization, credit provision, and efficient investment allocation, driving not only aggregate economic expansion but also sectoral diversification (Akinlo, 2021). Empirical findings demonstrate that the degree of development in banks, insurance companies, and stock markets correlates strongly with Nigeria's economic performance (Zakari & Isma'il, 2024). Conversely, weaknesses in the financial system, such as limited access, inefficiency, and instability, frequently constrain growth and exacerbate economic vulnerabilities (Adewale & Ojo, 2023).

Understanding economic growth in Nigeria through a global lens thus illuminates the multifaceted nature of the growth process and the critical role played by financial sector development. Robust financial institutions and markets underpin the efficient transformation of savings into productive investments, fostering innovation and competitive markets essential for economic expansion. As Nigeria continues to grapple with structural reforms and economic diversification, integrating financial sector improvements into growth strategies remains pivotal. This conceptual undergirding provides the foundational framework for analyzing the interconnectedness of financial sector development and economic growth over the period from 1981 to 2024.

Concept of Financial Sector development

Financial sector development represents a fundamental pillar for the economic advancement of nations, encapsulating improvements in the structure, efficiency, and accessibility of financial institutions and markets that facilitate the mobilization and allocation of resources (Levine, 2022). From a global perspective, it encompasses a diverse range of activities including banking sector expansion, insurance market growth, capital market deepening, and the evolution of non-bank financial institutions. These components collectively enhance financial intermediation by improving savings accumulation, risk

diversification, liquidity provision, and information asymmetry reduction, which are critical for fostering investment and sustainable economic growth (Beck & Demirgüç-Kunt, 2023).

Theoretical frameworks underscore financial sector development as a catalyst for economic growth through various channels. Classical models stress the role of financial institutions in pooling savings and channeling them into productive investments (McKinnon, 1973; Shaw, 1973), while endogenous growth theories incorporate the sector's influence on technological innovation and human capital formation (Romer, 2021). Empirical evidence from diverse economies frequently confirms that countries with well-developed financial sectors exhibit higher growth rates due to enhanced efficiency in capital allocation and reduced transaction costs (King & Levine, 2020). However, the extent and nature of this impact are often mediated by institutional quality, regulatory frameworks, and macroeconomic stability (Demirgüç-Kunt & Levine, 2019).

Focusing on Nigeria, financial sector development assumes critical importance given the country's aspirations for economic diversification and inclusive growth. Since the early 1980s, Nigeria's financial sector has undergone significant reforms aimed at liberalizing interest rates, increasing banking efficiency, expanding insurance services, and enhancing capital market activities (CBN, 2023). Despite these reforms, challenges persist, including limited financial inclusion, infrastructural deficits, and regulatory bottlenecks, which hinder optimal sectoral performance (Adewale & Ojo, 2023). Bank development, characterized by metrics such as credit extension to the private sector, branch density, and return on assets, alongside insurance penetration and stock market capitalization, provides a multifaceted lens through which Nigeria's financial sector progress can be assessed (Zakari & Isma'il, 2024).

The relevance of financial sector development to Nigeria's economic growth trajectory from 1981 to 2024 is underscored by its dual role as both an outcome of growth and a growth driver. As the sector expands and innovates, it facilitates investment and entrepreneurial activities that lead to economic diversification beyond oil dependency (Akinlo, 2021). Conversely, economic growth generates demand for more sophisticated financial products and services, fostering deeper financial markets (Eme & Eze, 2022). This bidirectional relationship emphasizes the sector's integrative role in Nigeria's economic architecture and justifies the focused empirical analyses on its components' specific impact on growth during this period.

Understanding financial sector development from a holistic and contextualized perspective thus provides essential insights into policy design aimed at overcoming structural weaknesses and enhancing financial system efficiency. As Nigeria continues to pursue a sustainable and diversified growth pathway, the dynamic interplay between the financial sector and economic expansion remains a cornerstone theme of research and development agendas. This conceptualization aligns directly with the main work's objective of exploring the comprehensive impact of financial sector development on Nigeria's economic growth over four decades.

Concept of Banks Development

Banks development constitutes a vital component of financial sector development, representing the evolution and enhancement of banking institutions in intermediating funds, providing credit, and offering payment services vital for economic functioning. At the global level, banks play a pivotal role in mobilizing savings, allocating capital efficiently, managing risks, and facilitating liquidity and transactions all of which are foundational to economic growth and stability (Levine, 2022; Beck & Demirgüç-Kunt, 2023). The performance of banking systems is commonly assessed using indicators such as private sector credit relative to GDP, bank branch density, return on assets (ROA), capital adequacy ratios, and non-performing loan (NPL) ratios, which collectively portray the depth, outreach, profitability, and soundness of banks (IMF, 2020; BIS, 2023).

Globally, robust banking sectors contribute to growth by lowering transaction costs and fostering investment opportunities, technological innovations, and entrepreneurial activities (King & Levine, 2020). However, the global banking environment remains challenged by regulatory reforms, technological disruptions, and economic uncertainties, as seen in the post-pandemic recovery where banking profitability and asset

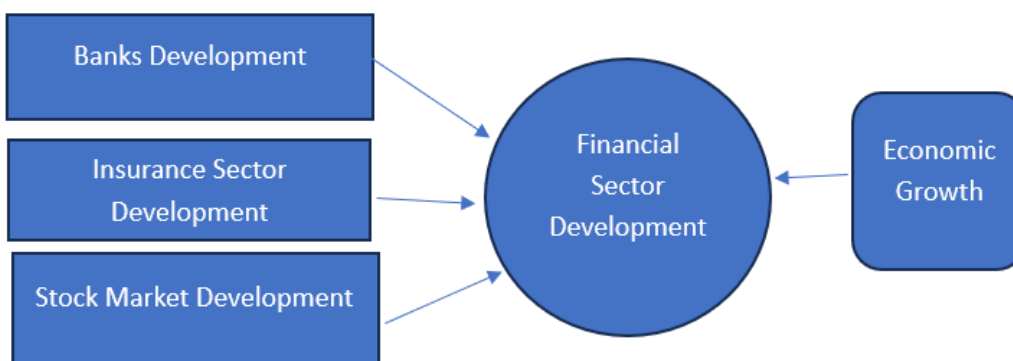
quality varied across regions (Bank of China Research Institute, 2023). Emerging economies, in particular, face the dual challenge of fortifying banking soundness while extending financial inclusion to underserved populations (Demirgüç-Kunt & Levine, 2019).

In Nigeria, banks development has mirrored these global trends but within a context marked by economic volatility, policy shifts, and structural reforms since the 1980s. Key indicators such as credit to the private sector, banking sector assets, and branch network expansion reflect notable progress, albeit constrained by challenges including high NPL ratios, underdeveloped financial infrastructure, and limited rural outreach (Central Bank of Nigeria, 2023; Adewale & Ojo, 2023). The banking sector remains the dominant conduit for financial intermediation, influencing economic growth through the provision of credit to various productive sectors, deposit mobilization, and payments facilitation (Linus et al., 2025)

The relevance of banks development to Nigeria’s financial sector development and economic growth between 1981 and 2024 is well documented in empirical literature. Studies consistently find that banking sector depth, liquidity, and efficiency significantly impact GDP growth, supporting non-oil sector diversification and entrepreneurship (Eme & Eze, 2022; Nwankwo & Okeke, 2022). Nevertheless, the sector’s full potential is often hampered by structural inefficiencies, regulatory weaknesses, and economic shocks, underscoring the need for continued reforms targeting asset quality, profitability, financial technology adoption, and rural financial inclusion (Ogundele et al., 2023). Hence, banks development, viewed from a global perspective and contextualized within Nigeria’s evolving economic landscape, forms a cornerstone for understanding the intricate dynamics of financial sector-led growth. With Nigeria’s ongoing drive towards financial sector modernization, banks development remains central to achieving sustainable economic growth, justifying the focused analysis in the main work investigating this period’s multidimensional financial sector influences on Nigeria’s economic trajectory.

Conceptual Framework

The conceptual framework posits that financial sector development measured through banking sector growth, insurance sector expansion, and stock market development drives Nigeria’s economic growth. Economic growth, represented by GDP growth rate, real GDP per capita growth, and annual percentage change in GDP, is the dependent variable. Enhanced financial intermediation, efficient capital allocation, and diversified financial services are expected to stimulate productive investments and sustainable economic expansion between 1981 and 2024 as presented in figure 2.1.



Source: Authors’ creation, 2025.

Fig: Financial Sector Development and Economic Growth In Nigeria

THEORETICAL REVIEW

The Stage of Development Theory and the McKinnon–Shaw Financial Theory underpin this study as they collectively explain the vital link between financial sector development and economic growth in Nigeria (1981–2024).

Stage of Development Theory

The theoretical basis of this study is anchored on stage of development hypothesis of financial development by Hugh & Patrick (1966) which states that the direction of causality between financial development and economic growth changes over the course of development. That is, at the early stage of development, the supply- leading impetus is evident but as real growth occurs in the economy, it will spark demand for financial services. This theory suggests a demand following relationship between financial and economic developments. High economic growth creates the demand for modern financial institutions, their services, their assets and liabilities and arrangements, by investors and savers in the real economy. The financial market in turn responds to such demands. In this case, the evolutionary development of the financial system is a continuing consequence of the pervasive, sweeping process of economic development, the level of demand for financial services.

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 was 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 programme, 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 turn to implement policies of this nature to raise funds to finance budget deficits. The advantages associated with eliminating financial repression far outweigh 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 led to a reduction in savings and capital accumulation which is a necessary condition for growth.

Empirical Review

The empirical literature on financial sector development and economic growth in Nigeria reveals a broadly positive but contextually nuanced relationship across banking, insurance, and stock market sub-sectors. Collectively, these studies affirm the financial sector's role as a growth catalyst while consistently identifying structural, regulatory, and institutional barriers that limit its full potential findings directly relevant to understanding Nigeria's economic trajectory from 1981 to 2024. Foundational multi-dimensional studies establish the general positive contribution of financial sector development to Nigeria's economic growth. Linus et al. (2025) confirmed that credit expansion and capital market development significantly boosted growth in non-oil sectors, while Zakari and Isma'il (2024), employing ARDL and VECM models across 1986–2022, affirmed banking and stock market development's significant positive impact on GDP, though insurance sector effects remained weak. Eme and Eze (2022) added complexity by identifying bidirectional causality between financial depth and economic growth, suggesting mutual reinforcement, while financial efficiency showed weaker immediate effects. Eme (2023) corroborated these differential sectoral contributions, reinforcing that banking and stock markets drive growth more robustly than insurance, a pattern that runs consistently through the literature and frames this study's three-pronged investigative approach.

The banking sector emerges as the most consistently significant financial driver of Nigeria's economic growth (Arize, Kalu & Nkwor, 2018). Nwankwo and Okeke (2022) and Ibrahim and Suleiman (2019) both confirmed significant positive relationships between private sector credit, deposit mobilization, branch expansion, and GDP growth, emphasizing financial inclusivity as a growth driver. Adama and Eze (2021) established a long-run equilibrium with bidirectional causality between bank credit and growth, indicating a reinforcing feedback mechanism. Ogundele et al. (2023) further confirmed overall positive effects of banking development on GDP per capita, noting post-2010 regulatory reforms as critical turning points. However, important caveats emerge. Musa and Adeyemi (2020) found that bank profitability alone does not translate into macroeconomic growth, while Okafor and Njoku (2018) identified episodic negative correlations during periods of economic instability, cautioning that banking expansion is not invariably beneficial. Bello and Taiwo (2024) synthesized these perspectives through structural equation modeling, demonstrating that banking efficiency enhances credit

availability, which in turn fosters growth providing a more holistic understanding of the intermediary pathways through which banking development influences Nigeria's economy.

The insurance sector presents the most ambiguous relationship with economic growth, reflecting Nigeria's persistently low insurance penetration and limited market development. Oladele and Animasahun (2021) found a significant long-run positive impact of life insurance penetration on real GDP per capita, while Ezenwa and Obasi (2024) confirmed a statistically significant but moderate positive effect of insurance expansion on GDP. Mohammed and Akintola (2022) identified insurance's contribution as primarily indirect, operating through its stabilizing influence on savings and investment particularly relevant during periods of macroeconomic volatility. Contrasting these findings, Adebayo (2020) failed to establish any significant direct relationship between insurance indicators and growth, attributing this to low penetration, poor product diversification, and insufficient integration with other financial institutions. Chukwu and Uzonwanne (2023) similarly found insurance capital's positive contribution subdued by limited market confidence and regulatory lapses. These divergent findings collectively highlight that while the insurance sector holds growth potential, realizing it requires substantial policy intervention, improved regulatory enforcement, and enhanced public awareness.

Stock market development demonstrates a consistently positive influence on Nigeria's economic growth, particularly through market capitalization and liquidity. Ogunleye and Adeoti (2020) and Ibe (2023) confirmed significant positive long-run relationships between market capitalization and GDP growth, while Eze and Nwankwo (2022) emphasized liquidity's more immediate growth effects. Akinbobola and Oladipo (2024) added that foreign portfolio investment inflows enhance market depth and economic growth, though excessive reliance on volatile foreign capital poses risks. Divergences emerge around volatility, Kalu et al. (2025) found that high stock price volatility dampens growth despite market size benefits, while Nwafor and Okafor (2023) suggested stable dividend policies could mitigate such effects. Onuoha and Ezeani (2025) confirmed that regulatory reforms positively influenced market performance, though transparency and investor education gaps remain persistent barriers. Synthesizing these empirical contributions, the literature affirms that banking and stock market development are stronger and more consistent drivers of Nigeria's economic growth than the insurance sector, while all three sub-sectors face structural constraints requiring targeted reforms directly motivating this study's integrated longitudinal analysis from 1981 to 2024.

Despite extensive empirical inquiry, gaps persist in the literature on financial sector development and economic growth in Nigeria. Grounded in the Stage of Development Theory and the McKinnon–Shaw Financial Theory, this study recognizes that Nigeria's financial sector has evolved through distinct reform-driven stages since 1981, while financial liberalization has shaped savings, credit efficiency, and investment. However, existing studies inadequately integrate these theoretical insights across all financial subsectors simultaneously. Most research examines banking or stock markets in isolation, neglecting their joint and differential impacts alongside insurance. Bidirectional causality, long-run equilibrium dynamics, and short-run interactions under Nigeria's unique macroeconomic challenges remain insufficiently explored, necessitating an integrative longitudinal approach.

METHODOLOGY

The data for this work by nature is numerical. They are observations in numbers conveying weight. Also, the data can be described as time series because they follow a regular annualised frequency covering the period 1981 to 2024.

In addition, the data sets were drawn from a repository given that it is secondary in nature. Specifically, the data were drawn from World Development Indicator which is a World Bank database that contains several arrays of datasets for almost all the countries of the world. This repository is considered to be reliable enough for providing data relevant for a study such as this.

In order to evaluate “Financial Sector Development and Economic Growth in Nigeria”, the research utilized a robust method of estimation to fit or suit the nature of the research effort. The Autoregressive distributed Lag model method is used in this study and specified thus which is in line with (Linus, J. O., Oladipo, B., Yalouli, T., Okafor, S. O., & Lawal, F. C., 2025):

$$\begin{aligned}
 GDPGR_t = & \beta_0 \\
 & + \sum_{n=1}^k \Delta\beta_1 GDPGR_{t-n} \\
 & + \sum_{n=1}^k \Delta\beta_2 CPSGDP_{t-n} + \sum_{n=1}^k \Delta\beta_3 INSDEN_{t-n} \\
 & + \sum_{n=1}^k \Delta\beta_4 MCAPGDP_{t-n} + \sum_{n=1}^k \Delta\beta_5 INTR_{t-n} + \pi_1 CPSGDP_t + \pi_2 INSDEN_t + \pi_3 MCAPGDP_t \\
 & + \pi_4 INTR_t + \varepsilon_t
 \end{aligned}$$

Where:

GDPGR = Dependent variable (Economic Growth)

CPSGDP = Independent variable (Bank Development)

INSDEN= Independent variable (Insurance sector development)

MCAPGDP= Independent variable (Stock market development)

INTR= Control variable (Interest Rate)

β_0 = constant/intercept

β_{1-4} = coefficients of the short run parameters

π_{1-4} = coefficients of the long run parameters

ε_t = error term

The variables used in this study are defined in the table below

Table 1: description of model variables

S/N	Name of variable	Notation	Role	Source
1.	Economic Growth	GDPGR	Dependent variable	World development indicator
2.	Bank Development	CPSGDP	Independent variable	World development indicator
3.	Insurance Development	INSDEN	Independent variable	World development indicator
4.	Stock Market Development	MCAPGDP	Independent variable	World development indicator

Source: compiled by author

In analysing the collected data, graphs and tables were first used to show their behavior while tables were used to present the tables in rows and in columns. This was followed by **basic descriptive statistics** which included the measures of dispersion, central tendency, measure of the degree of peakness and symmetry of the distribution.

Linear association was evaluated using Correlation test while the unit root tests provided an assessment of the stationary properties of the series.

The model used in this study is the Auto regressive distributed lag model (ARDL). It was chosen over the Ordinary Least Squares method (OLS) because of its many shortcomings. The ARDL model has the following advantages:

1. It models long run and short run elasticity.
2. ii. It addresses the distributed lag problem more efficiently than other models.
3. iii. It allows regressors to have mixed or unknown orders of integration, 1(0) or 1(1) which other cointegration tests do not permit (Pesaran et al 2001).
4. iv. It is more robust.

Lastly, the following post estimation tests were carried out to confirm the validity and reliability of the estimates.

1. Test for higher order auto correlation using BG Lag Multiplier test (BG LM test)
2. Test for heteroskedastic residuals using white test or ARCH test
3. Test for model stability using Ramsey RESET Tests and CUSUM Tests.

RESULTS

Table 2 below comprises of the proxies for the variables used in this study. The time frame for coverage is 2000 - 2024. Based on the dataset as it was presented, estimates from this study were made.

Table 2: Values of Bank Development, Insurance Development, Stock Market Development and Economic Growth in Nigeria.

Year	GDPGR	CPSGDP	INSDEN	MCAPGDP	INTR
2000	5.015935	8.248989	0.353321	NA	14.00
2001	5.917685	9.880807	0.462176	NA	20.50
2002	15.32916	8.084343	0.559949	2.497463	16.50
2003	7.347195	8.909485	0.578255	NA	15.00
2004	9.250558	8.461664	0.617050	11.68635	15.00
2005	6.438517	8.435095	0.638938	12.66234	13.00
2006	6.059428	8.120360	0.730265	13.76801	10.00
2007	6.591130	13.79702	0.846741	30.50899	9.50
2008	6.764473	18.63301	1.646085	14.15777	9.75
2009	8.036925	19.62560	1.599521	10.92286	6.00
2010	8.005656	13.49074	1.805789	13.77322	6.25
2011	5.307924	11.04363	2.311093	9.416533	12.00
2012	4.230061	10.60470	2.458676	12.11395	12.00
2013	6.671335	11.53321	2.973465	15.49841	12.00
2014	6.309719	13.29701	3.058042	10.93140	13.00
2015	2.652693	13.07868	2.608574	10.13614	11.00
2016	-1.616869	14.60804	2.617996	7.362535	14.00
2017	0.805887	12.85203	2.609737	9.905001	14.00
2018	1.922757	10.24658	2.798843	7.473943	14.00
2019	2.208429	11.15756	NA	9.256055	13.50
2020	-1.794253	12.13185	NA	12.78211	11.50
2021	3.647187	13.44945	NA	12.30183	11.50
2022	3.251681	12.95747	NA	13.06667	11.50
2023	2.860215	NA	NA	12.76626	11.50
2024	3.426439	NA	NA	28.97370	NA

Source: World Development Indicators

Result presentation began with descriptive statistics of the data as shown in table 3 below:

Table 3 summary of descriptive statistics

Variables	Aggregative Characteristics		Shape Characteristics		Variability Characteristics	
	\bar{x}	$\mu_{\frac{1}{2}}$	S	K	σ	$\frac{\sigma}{\bar{x}}$
GDPGR	4.98	5.30	0.48	4.42	3.57	0.72
CPSGDP	11.85	11.53	0.86	3.50	3.10	0.26
INSDEN	1.64	1.64	0.02	1.34	1.00	0.61
MCAPGDP	12.81	12.20	1.70	6.19	6.17	0.48
INTR	12.37	12.00	0.17	4.19	3.05	0.25

Source: computed by author using Eviews

Note: \bar{x} is the mean of the sampled observations, $\mu_{\frac{1}{2}}$ is the median, S is the skewness which is the degree of symmetry or departure from symmetry. K is the kurtosis which is the degree of peakness. While σ and $\frac{\sigma}{\bar{x}}$ represents the standard deviation and coefficient of variation respectively.

The distributional characteristics of the variables used in the study are presented in table 4.2 with attention given to their aggregative, shape and variability characteristics.

The mean and median represent the aggregative features of the variables. It shows how closely distributed the variables are as is noticed in all the variables. The shape characteristics which show normality are represented by kurtosis and skewness.

As observed from the table above, GDPGR, CPSGDP, MCAPGDP and INTR variables are leptokurtic (excess kurtosis, $K > 3$) while the INSDEN was found to be Platykurtic (Kurtosis less than 3, $K < 3$). The variables are positively skewed ($S > 0$) (Skewed to the right). CV stands for coefficient of variation, also known as relative standard deviation (RSD). It compares the degree of variation from one data series to another. The CV of the variables is less than 1 which indicates that the distribution is not highly dispersed. To ascertain the linear relationship between the variables, correlational matrix was computed using the level series.

Table 4: Correlational Matrix result

VARIABLES	GDPGR	CPSGDP	INSDEN	MCAPGDP	INTR
GDPGR	1.00				
CPSGDP	R = -0.20 *-0.80	1.00			
	**0.43	-----			
INSDEN	R = -0.63 *-3.11	R = 0.29 *1.17	1.00		
	**0.00	**0.25	-----		
MCAPGDP	R = -0.00 *-0.00	R = 0.20 *0.78	R = -0.22 *-0.86	1.00	
	**0.99	**0.44	**0.40	-----	
INTR	R = -0.03 *-0.12	R = -0.61 *-2.93	R = 0.04 *0.15	R = -0.47 *-2.04	1.00
	**0.89	**0.01	**0.87	**0.06	-----

R = correlation *Represents the T-Stat, ** Represents the P-value

Source: computed by author using E-views.

From the above results and following the decision criteria, GDPGR shares a significant correlation with the only one independent variables (INSDEN). It should be noted that for variables to share a significant relationship, t statistics should be greater than 2.5 and the p value, less than 0. From our result, the correlation coefficients for each of the pairs are reported to be negative and positive for different variables, the t statistics and the associated p value all fall within the region that we can accept the null of no significant correlation.

The stationarity test was conducted to examine the stationarity properties of the variables under study to avoid running a false regression. The test used is Augmented Dickey-Fuller (ADF) following the Traditional Unit Root Test. The Augmented Dickey-Fuller (ADF), a test that adheres to the conventional unit root test and breakpoint consistent technique, were utilized. The decision was based on a 5% level of significance.

Table 5: Unit Root Test Results

Variables	Test stat	Critical Values@			INF
		1%	5%	10%	
CPSGDP	-4.01	-4.53	-3.67	-3.27	I(1)
INSDEN	-3.81	-3.88	-3.05	-2.66	I(0)
MCAPGDP	-5.10	-4.53	-3.67	-3.27	I(0)
GDPGDR	-4.24	-4.39	-3.61	-3.34	I(0)
INTR	-6.57	-4.44	-3.63	-3.25	I(0)

Source: Extracted from E-views

From table 4.4 above, all the variables in the Unit root tests were found to be stationary at levels except for CPSGDP which was found to be stationary at order 1 of integration. The decision rule states that if the ADF statistics is more negative than the critical value at the chosen level then the series is stationary. Based on this, the series in the result above was found to be stationary. This implies that there is no unit root.

The table below presents the summary of the ARDL regression results, which is a robust method for exploring the long-term relationships among variables. The table outlines the key ARDL results including the coefficients, statistical significance and implications of the variables in the model.

Table 6: Summary of ARDL regression results

Variables	Coefficient	Std. Error	t-Statistic	p-Values
LOG(CPSGDP)	11.6769	2.4258	4.8135	0.0171
LOG(INSDEN)	7.3319	2.8831	2.5430	0.0845
LOG(MCAPGDP)	5.2528	1.0317	5.0910	0.0146
DIAGNOSTIC TESTS				
BGLM	16.08 (0.17)			
BPG	0.22 (0.95)			
RESET	2.67 (0.11)			

Source: Extracted by the author from E-views 10

The diagnostic tests confirm that the estimated model satisfied all the required properties and that the diagnostic estimates are valid and reliable. Thus, the BPG probability value (0.95) was greater than 0.05 implying there is no presence of heteroskedasticity in the regression result. Also, the result of the B-G Serial Correlation LM probability was 0.17 and this is greater than 0.05 hence we say that there is no higher order auto correlation.

In looking at the impact of bank development on economic growth, it is found that it contributes significantly to the growth of the Nigerian economy. A unit change in bank development grows the economy by 11.7 units and this change is found to be significant at 0.05 level of significance leading to the conclusion that bank development has a positive and significant impact on economic growth in Nigeria. The result reveals that Banks development

has a significant impact on economic growth in Nigeria. Banks play a crucial role in facilitating economic growth by providing financial services that enable the smooth functioning of businesses and individuals. A well-developed banking system in Nigeria can mobilize savings, provide credit to investors, and facilitate transactions, thereby promoting economic activity. When banks can efficiently allocate resources, they can channel funds to the most productive sectors of the economy, leading to increased economic growth. Furthermore, a developed banking system can also attract foreign investment, promote financial inclusion, and enhance the overall stability of the financial system.

The significance of banks' development on economic growth in Nigeria can also be attributed to their role in promoting investment. By providing credit to businesses and individuals, banks enable them to invest in projects that stimulate economic growth. Additionally, banks can provide valuable financial advice and risk management services, helping businesses to navigate complex financial decisions and mitigate potential risks. When banks are able to provide these services effectively, it can lead to increased investment, job creation, and ultimately, economic growth.

Secondly, the study shows that insurance development it is found that it contributes significantly to the growth of the Nigerian economy. A unit change in insurance development grows the economy by 7.3 units and this change is found to be non-significant at 0.05 level of significance. The finding reveals that Insurance sector development does not significantly influence economic growth in Nigeria. One possible reason is that the insurance sector in Nigeria is still in its infancy, with low penetration rates and limited awareness of insurance products. Many Nigerians do not fully understand the benefits of insurance, and as a result, the sector has not been able to make a significant impact on the economy. Additionally, the sector is plagued by challenges such as inadequate regulatory frameworks, lack of trust, and poor claims settlement practices. These challenges have hindered the growth of the sector and limited its ability to contribute to economic growth. Another possible explanation is that the insurance sector in Nigeria has traditionally been focused on non-life insurance products, such as motor and fire insurance, which do not provide long-term funding for economic activities. Unlike life insurance products, which can provide a stable source of long-term funding for investments, non-life insurance products tend to be short-term in nature and do not provide the same level of funding for economic growth.

Furthermore, the Nigerian economy is heavily dependent on the oil sector, which can lead to volatility and uncertainty. In such an environment, insurance companies may be hesitant to provide coverage for certain risks or may charge high premiums that make insurance unaffordable for many businesses and individuals. This can limit the ability of the insurance sector to contribute to economic growth.

In addition, stock market development contributes positively and significantly to economic growth. With a coefficient of 5.25 which is significant at 0.05 level of significance there is evidence that stock market development has a positive and significant impact on economic growth in Nigeria. The stock market development also has a significant effect on economic growth in Nigeria. A well-developed stock market can provide a platform for companies to raise capital, enabling them to finance growth and expansion. This can lead to increased investment, job creation, financial stability and ultimately, economic growth (see Lawal, Onwumere, Kalu, Chinyere & Ukpere, 2024). The stock market can also provide a mechanism for price discovery, enabling investors to determine the value of securities and make informed investment decisions. Furthermore, a developed stock market can promote corporate governance and transparency, as listed companies are required to adhere to strict governance standards. This can promote investor confidence and attract foreign investment, leading to increased economic growth. Additionally, the stock market can provide a platform for privatization of state-owned enterprises, promoting efficiency and economic growth.

SUMMARY AND CONCLUSION

There is scarce literature on “Financial Sector Development and Economic Growth in Nigeria”. Most studies reviewed concentrated effects of Financial Deepening and Economic Growth in Nigeria which sparked the motivation for this research work. The data set covers the years 2000 through 2024 and was sourced from the world development indicator.

The study tested for the impact of bank development, market development and insurance sector development on the growth of the Nigerian economy. The study reveals that Banks development has a positive and significant impact on economic growth in Nigeria. Again, the research found out that Insurance sector development has a positive and non-significant influence on economic growth in Nigeria. Finally, the study reveals that Stock market development has a positive and significant effect on economic growth in Nigeria.

The research advises implementing policies to increase access to financial services, particularly in rural areas, to mobilize savings and provide credit to underserved populations as well as strengthening credit delivery mechanisms to ensure that loans are channeled to productive sectors of the economy, such as small and medium-sized enterprises (SMEs).

The research recommends encouraging insurance companies to develop products that cater to the needs of underserved populations, such as micro-insurance and agricultural insurance. Similarly, it suggests implementing policies to increase insurance penetration, particularly in rural areas, to promote financial inclusion and risk management.

Finally, to enhance the positive and significant impact of Stock Market Development, the research recommends strengthening the stock market infrastructure to ensure efficient and secure transactions, promoting investor confidence.

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