Economic Performance Implications of Financial Intermediation in Nigeria

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ABSTRACT

This study examined the economic performance implications of financial intermediation in Nigeria between 2000 and 2025. The study employed the Auto Regressive Distributed Lag (ARDL) bounds testing estimation technique and a dynamic Error Correction Model (ECM) to assess the short-term and long-term effects of financial intermediation components on Nigeria's economic performance. Data on Real Gross Domestic Product (RGDP) (a measure of Nigeria's economic performance) served as the dependent variable, whereas the ratio of broad money supply to GDP (BMGDP), the ratio of private sector credit to GDP (PCGDP), the ratio of bank loans to deposits (BLDR), and Market Capitalization (MkCAP) were treated as independent variables. Data was sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, and the ARDL bounds test indicates that the variables in the model demonstrate cointegration. The results show that the Broad money supply to GDP ratio (BMGDP) positively affects Real Gross Domestic Product (RGDP) significantly in both the short and long terms. The proportion of private sector credit to GDP (PCGDP) has significant adverse short-term effect and insignificant adverse long-term effect on RGDP. The proportion of bank loans to deposits (BLDR) has significant positive short-term effect and insignificant positive long-term effect on RGDP. Market Capitalization (MkCAP) exerts significant negative short-term effect and significant positive long-term effect on RGDP. The researcher concludes that among all the financial intermediation indicators utilized, the Broad money supply to GDP ratio (BMGDP) has the most substantial effect on the economic performance indicator examined. Among other suggestions, it was recommended that the Nigerian government should implement more favorable monetary policies, such as increased interest rates or dividends on deposits, bonds, shares, treasury bills, and more, to encourage individuals to keep a larger portion of their broad money in banks and other investment-friendly securities that enhance economic performance.

Key Words: Financial Intermediation, Economic Performance, Broad Money Supply, Private Sector Credit, Market Capitalization.

INTRODUCTION

The performance of the Nigerian economy appears to significantly depend on the efficiency of the financial sector and its intermediary roles. Financial intermediation involves the process by which financial intermediaries, such as banks and stock markets, collect deposits or excess funds and transform these resources into loans that improve overall economic activity. Improvements in the finance sector will ease capital flow, encouraging expenditure and investment, resulting in job opportunities, aiding individuals in overcoming poverty, and ultimately boosting economic performance.

Financial systems perform crucial functions like mobilizing savings, allocating capital, providing a reliable payment mechanism, managing and enforcing corporate governance, and reducing risk (Asongu and Odhiambo 2019). An efficient intermediation process and improved financial sector boost domestic savings and increase the effectiveness of monetary policy in any nation or region by ensuring that scarce financial resources are allocated to the most crucial economic opportunities, outcomes, and investments (Tchamyou, 2020).

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In nations such as Nigeria, financial assets are crucial for fostering growth through efficient financial intermediation. Financial intermediaries play a critical role in Nigeria's financial system by participating in numerous activities vital for economic performance. Financial intermediaries further enhance risk management by providing options for diversification and risk sharing. Efficient financial intermediation promotes a vibrant financial system, enhances employment and production rates, as well as income. The advancement of the Nigerian financial sector impacts its ability to effectively and efficiently perform its main role of directing funds from the surplus sector to the deficit sector of the economy. The CBN Act of 1958 entrusted the Central Bank of Nigeria with the responsibility of implementing monetary policy, greatly affecting the efficiency of the financial system in carrying out its role of financial intermediation. In addition to increasing overall demand and investment in the economy, financial intermediation can be employed to promote Nigerian domestic investment across micro, small, medium, and large enterprises to create jobs, improve production, and drive economic growth and development in the country (Ayodele, 2020).

Components of financial intermediation examined in this study include the Broad Money Supply to Gross Domestic Product (GDP) ratio, Private Sector Credit to GDP ratio, Bank Loans to Deposit ratio, and Market capitalization, among others. The ratio of Broad Money Supply to GDP in Nigeria, indicating the depth of Nigerian Broad Money Supply, was 12.44% in 2000 but fell to 11.41% in 2005. By 2010, it rose to 20.01% and continued to climb to 21.94% in 2015, 23.36% in 2020, and 24.18% in 2023. The ratio of Nigerian Private Sector Credit to GDP, indicating the depth of Private Sector Credit, was at 7.51% in the year 2000 and rose to 7.95% in 2005. By 2010, it rose again to 18.96% and kept rising to 19.64% in 2015. It decreased slightly to 18.82% in 2020 and rose again to 19.30% in 2023 (CBN, 2024).

Throughout the years, the Nigerian financial sector has undergone changes that have impacted the ups and downs of different players, consequently influencing the economy. Years ago, to bolster industry operations, stakeholders, especially Deposit Money Banks and Insurance Companies, were encouraged to either increase their capital or merge to improve their stability, and this trend continues today (Emmanuel and Odum, 2019). Financial intermediation has been examined in scholarly studies from both micro and macro perspectives. At the broader scale, the importance of financial intermediation cannot be emphasized enough. However, there are differing opinions on that issue. Some argued that it improves the effectiveness of the financial system (Gromb and Vayanos; 2010), while others saw it as passive and simply a means for executing monetary policy (Bensivenga and Smith 1991). Certain research indicates that financial intermediation drives economic growth (Nieh et al. 2009; Islam and Osman; 2011), while other studies argue that economic growth fosters financial intermediation. Odhiambo (2011) argued that a two-way causation exists between financial intermediation and economic growth. This research added to the discussion by examining the implications of financial intermediation on the current economic performance in Nigeria.

Empirical studies from Nigeria, unlike our research, did not investigate the effect of the depth of broad money supply (the broad money supply to GDP ratio) and the depth of bank credit to the private sector (the private sector credit to GDP ratio) on economic performance. For instance, Onipede et al. (2021) studied the overall money supply, Ogbanje and Ihemezie (2021) investigated the impact of broad money supply and exchange rates on Nigeria's agricultural GDP, while Okete and Okuma (2024) assessed how private sector credit and market capitalization contribute to Nigeria's economic growth. Our study explored various aspects, including the extent of the broad money supply and the volume of bank credit to the private sector by evaluating the broad money supply to GDP ratio and the private sector credit to GDP ratio, along with their effects on Nigeria's economic performance through Real Gross Domestic Product. Unlike other empirical studies reviewed also, we analyzed how the ratio of bank loans to deposits affects Nigeria's economic performance.

Given these concerns, this research examined the effect of key financial intermediation elements on Nigerian economic performance, including the ratio of Broad Money Supply to Gross Domestic Product (GDP), the Private Sector Credit to GDP ratio, the Bank Loans to Deposit ratio, and Market capitalization. The economic performance of Nigeria is represented by Real Gross Domestic Product (RGDP).

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LITERATURE REVIEW

Concept of Financial Intermediation

According to Onwe and Adeleye (2018), financial intermediation involves a financial intermediary such as a bank collecting deposits and transforming these funds into bank credits, usually manifested as loans and overdrafts. It entails acquiring money from depositors and then providing those funds to borrowers for investment and diverse economic growth initiatives. Financial intermediation refers to financial service institutions, like banks, collecting money from the public as deposits and transforming it into funds accessible for loans (Agbada and Osuji, 2013). This implies that the intermediation process helps convert deposit liabilities from surplus economic units into the bank's main income source, which consists of loans and advances to the economy's deficit units. According to Andrew and Osuji (2013), financial intermediation is the process of channeling resources from savers to investors by collecting funds and enabling the efficient transformation of these funds into productive capital growth. Moreover, financial intermediation involves transforming the gathered deposit liabilities by financial intermediaries such as banks into bank assets or credits, such as loans and overdrafts.

The concept of Financial Intermediation is connected to the history of human societies. As money evolved, societies were divided into two categories: those possessing surplus resources beyond their immediate requirements (surplus economic units) and those lacking sufficient resources for their economic activities (deficit economic units). The recognition by the surplus economic unit that their surplus can be effectively used to mitigate the shortfall encountered by the deficit economic unit led to the creation of a credit system. This system was initially established by lenders (surplus unit) and borrowers (deficit unit) seeking to connect and interact directly, a method known as direct financing (Akpan, 2009; Akpanuko and Acha, 2010).

Financial intermediation can act as a catalyst for economic growth, and conversely, economic growth can also influence it. The positive viewpoint of the finance-led growth hypothesis often highlights the role of financial development in directing domestic savings and investments via a more accessible and deregulated financial system, while also improving productivity by creating an effective financial market. A gradual rise in credit volume signals not only weak economic growth but can also further encourage it (Bundesbank, 2005).

Components of Financial Intermediation comprise bank advances and loans, savings, money supply, deposits, market capitalization, the loan-to-deposit ratio, bank credit to Gross Domestic Product ratio, money supply to Gross Domestic Product ratio, interest rates, exchange rates, and others. Tchamyou (2020) described loans and advances as the provision of credit or the accessibility of any credit facility, encompassing the disbursement of funds resulting from the execution of established guarantee and indemnity agreements. Market capitalization refers to the total value of a public company's outstanding common shares owned by its shareholders (Chukwunulu and Ibenta, 2021). Money supply denotes the amount of cash and currencies available in the economy in forms that are not sufficiently liquid and easily spendable at any specific time. (Nwankwoeze, 2012).

Theoretical Review

Certain theories have associated elements of financial intermediation with economic factors such as economic performance. This research utilized the Goldsmith Theory as proposed by Goldsmith (1969), which was among the first to acknowledge the importance of financial intermediaries in creating savings. The development process is funded via local resources, international resources, or a combination of both. The ways in which funds are sourced and utilized, along with their financing methods, uncover the elements influencing the demand for funds. In this context, the function of financial intermediaries in gathering savings and directing them to different sectors is essential. Acknowledging this, Goldsmith examined the asset sizes of different financial intermediaries, their categorical patterns and distribution, concerning sustained economic growth. Goldsmith indicates that the rise of financial intermediaries and their increasing portion of national assets and wealth are especially significant to economists. It shows the extent and type of financial relationships, which in turn helps evaluate how capital investments are financed and how existing assets are

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moved between proprietors. Together, these are essential for directing the flow of savings into investment, along with their size, which in turn fosters economic growth.

Empirical Review

Manasseh et al. (2025) examine how bank credit to the private sector and financial deepening affect Nigeria's economic growth, using yearly time series data spanning from 1990 to 2021. The ARDL findings demonstrate that economic growth was significantly affected by private sector bank credit and money supply, with the bound test confirming a long-term relationship between the variables in the model.

Nwagu and Udeagbala (2024) investigated the impact of bank credit to the private sector on the performance of the manufacturing sector in Nigeria, analyzing data from 1981 to 2021. Information was obtained from the statistical bulletin of the Central Bank of Nigeria and the National Bureau of Statistics over several years. The dependent variable in the research was manufacturing output, while the indicators for the exploratory variable included credit to the private sector (CPS), interest rates, and exchange rates. The analysis and estimation were performed employing the Autoregressive Distributed Lag (ARDL) approach. The findings indicated that the exchange rate possessed a positive coefficient and greatly influenced manufacturing output in Nigeria throughout the study period, whereas other explanatory factors, like credit to the private sector and interest rate, were statistically insignificant regarding manufacturing GDP during the same time frame.

Asongo et al. (2024) examined how the broad money supply influences economic growth, concentrating on sub-Saharan Africa between 1995 and 2021, using data obtained from the World Development Indicator. The study employs the Blundell and Bond system GMM approach for estimation objectives. The study reveals that the extensive money supply exhibits a positive and statistically significant relationship, at a one percent significance level, with economic growth in Sub-Saharan Africa in both the short and long term throughout the examined period. Our research, among various distinctions, concentrated on the Nigerian economy.

Okete and Okuma (2024) examined how financial deepening affects economic growth in Nigeria. Employing the ARDL model and the supply-leading hypothesis with variables such as money supply, private sector credit, inflation rate, market capitalization, and prime lending rate as indicators of financial deepening, alongside the real GDP growth rate for economic development, they found that private sector credit and market capitalization positively impact economic growth in Nigeria, while money supply, inflation rate, and prime lending rate did not during the studied period (1986-2022).

Efionayi (2023) study examined the impact of financial intermediation on the growth of Nigeria's financial sector. Time series secondary data were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin for the years 1990 to 2021. The auto-regressive distributed lag (ARDL) approach was utilized to evaluate the econometric model. The study showed that the total loans and advances from commercial banks do not notably affect the financial sector's input to gross domestic product; the entire market capitalization of the stock exchange does not substantially influence the financial sector's contribution to gross domestic product; and the interest rate does not significantly impact the financial sector's contribution to gross domestic product.

Babatunde et al. (2022) studied the impact of financial intermediation on Nigeria's economic growth, utilizing eight chosen financial intermediaries with international authorization in Nigeria. Data were gathered from the World Bank Development indicator and the National Bureau of Statistics for the years 2011 to 2020. The results of the OLS analysis indicate that credit and government spending have positively affected Nigeria's economic growth, while customer deposits and liquidity reserves did not contribute to Nigeria's economic growth.

Yakubu and Abdallah (2021) investigated the impact of banks' financial intermediation functions on economic growth in Sub-Saharan Africa. The study included information from 11 countries in Sub-Saharan Africa spanning the years 1970 to 2016. The study employs the random effects model as suggested by the Breusch-Pagan test, including broad money supply, private sector loans, and bank deposits as measures of financial intermediation. Apart from bank deposits, the data suggests that the overall money supply and bank loans to the private sector play a major role in influencing economic growth.

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Research Gap

Our research stands apart from the entire empirical literature examined in terms of variable selection, among other significant distinctions. In contrast to our research, they did not look at the effect of the depth of bank credit to the private sector (the ratio of bank credit to private sector relative to GDP) and the depth of broad money supply (the ratio of broad money supply relative to GDP) on Nigeria's economic performance. Unlike other empirical studies reviewed, we will analyze the effect of the bank loan to deposit ratio on Nigeria's economic performance.

METHODOLOGY

Research Design and Data

The research methodology employed in this study is the ex-post facto research design. An ex-post facto research design allows researchers to investigate cause-and-effect relationships when the independent variables are immutable since they occurred in the past. It is the most suitable approach for research involving macroeconomic time series, as it facilitates a longitudinal examination of the trends of economic indicators over time. Data were obtained from the Statistical Bulletins of the Central Bank of Nigeria (CBN). This research relies solely on secondary data from the years 2000 to 2025.

Method of Data Analysis and Model Specification

This study employed the Autoregressive Distributed Lag (ARDL) Bounds Testing Approach for Cointegration. This approach is particularly suitable since it permits a small sample size. It permits the combination of variables at different integration levels (I(0) or I(1)) or a mix of both, provided none is I(2). It evaluates both short-term dynamics and long-term equilibrium connections at the same time. This ARDL model was effectively employed by Manasseh et al. (2024) to study the impacts of bank credit to the private sector and financial deepening on economic growth in Nigeria. The functional representations of our models are conveyed as follows:

$$\mathrm{RGDP} = \mathrm{f}(\mathrm{BMGDP}, \mathrm{PCGDP}, \mathrm{BLDR}, \mathrm{MKCAP})$$

Where:

RGDP = Real Gross Domestic Product in Nigeria

BMGDP = Broad Money Supply to GDP Ratio in Nigeria

PCGDP = Private Sector Credit to GDP Ratio in Nigeria

BLDR = Bank Loans to Deposit Ratio in Nigeria

MKCAP = Market capitalization in Nigeria

We specified generalized form of ARDL model to capture our objective as thus:

$$\mathrm{LOG(RGDP)}_t = \psi_0 + \sum_{j=1}^{p} \beta_j \mathrm{LOG(RGDP)}_{t-j} + \sum_{i=0}^{q} \alpha_i (\mathrm{BMGDP})_{t-i}$$

$$+ \sum_{m=0}^{q} \theta_m (\mathrm{PCGDP})_{t-m} + \sum_{m=0}^{q} \delta_n (\mathrm{BLDR})_{t-n} + \sum_{n=0}^{q} \emptyset_q \mathrm{LOG(MKCAP)}_{t-q} + \varepsilon_t$$

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Where ψ_0 is the constant while $\beta_j, \alpha_i, \theta_m, \ , \delta_n$ and $\emptyset_q$ represents model parameters to be estimated with ε_t as the error term and **t** = Time period (2000–2025). Note that we logged RGDP and MCAP to reduce variability and analyze them in rates or percentages.

Since our bounds-test outcome indicates the presence cointegration among variables in the model, the ARDL model was transformed to Error Correction Model (ECM) which we specify as follows:

$$\Delta LOG(RGDP)_t = \Phi ECT_{t-1} + \sum_{j=1}^{p} \beta_j LOG(RGDP)_{t-j} + \sum_{i=0}^{q} \alpha_i \Delta(BMGDP)_{t-i}$$

$$+ \sum_{m=0}^{q} \theta_m \Delta(PCGDP)_{t-m} + \sum_{m=0}^{q} \delta_n \Delta(BLDR)_{t-n} + \sum_{n=0}^{q} \emptyset_q \Delta LOG(MKCAP)_{t-q} + \varepsilon_t$$

where;

Δ is a first difference operator;

Φ = speed of adjustment to equilibrium parameter

RESULTS AND DISCUSSION

Stationarity Test

All research variables underwent unit root analysis with the Augmented Dickey Fuller (ADF) test to assess their stationarity and integration order. The results obtained were summarized in table 1 as outlined below:

Table 1 Unit Root Stationarity Test Results

Variable	Test at Level Form		Test at First Differencing		Integration Order
	ADF Statistic	Critical Value at 5%	ADF Statistic	Critical Value at 5%	
RGDP	-1.988789	-2.991878	-11.27930	-2.991878	I[1]
BMGDP	-1.438654	-2.986225	-4.629390	-2.991878	1[1]
PCGDP	-1.669012	-2.986225	-4.689926	-2.998064	I[1]
BLDR	-0.037996	-2.986225	-4.934037	-2.991878	I[1]
MKCAP	-0.114472	-2.991878	-5.121750	-2.998064	I[1]

Source: E-views Result and Author's tabulation

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The findings in Table 1 indicate that the ADF statistics for all variables were non-stationary in their level form, as their ADF values were lower than the respective critical values at the selected 5% significance level. This suggests that the changes of all variables cannot be predicted in their level form and are inappropriate for economic forecasts in that way.

The non-stationary variables in level form became stationary upon first differencing as their ADF values surpassed the relevant critical values at the selected 5% significance level.

This suggests that they are all first-order integrated I(1). Having integrated all the first-order variables, the ARDL model and approach are appropriate for the study. See the appendix for a detailed summary of the unit root tests conducted.

ARDL Bounds Test Analysis

Table 2 presents the summary outcome of the bound test I as follows:

Table 2 The ARDL Bounds Test Output

F Statistic 6.237268			
Critical Value Bounds			
Significance Level	**I(0) Bound**	**I(1) Bound**	**Decision**
10%	2.06	3.18	Cointegration exists
5%	2.36	3.52	Cointegration exists
2.5%	3.09	3.92	Cointegration exists
1%	3.48	4.25	Cointegration exists

Source: Author's tabulation from E-views Regression Output

The results of the bounds test shown in table 2 indicate that the F statistic 6.237268 is greater than the critical values of the upper bound I(1). As a result, the research variables exhibit cointegration, prompting us to estimate a long-run error correction model for the RGDP framework and analyze both the short-run and long-run effects of the selected financial intermediation factors on Nigeria's economic performance.

ARDL Short Run, Co integration and Long Run Empirical Results

Table 3 provides a summary of the empirical findings for ARDL short-run, co-integration, and long-run.

Table 3 Summary of ARDL Short Run, Co integration and Long Run Estimates

Dependent Variable: LOG(RGDP)				
Short Run Coefficients and Cointegration Form				
Variable	**Coefficients**	**Std. Error**	**t - Statistic**	**Prob**
BMGDP	0.068352	0.019264	3.548173	0.0023
PCGDP	-0.087201	0.029382	-2.967837	0.0162

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BLDR	0.028019	0.008859	3.162772	0.0031
MKCAP	-0.097804	0.036129	-2.707077	0.0361
CointEq(-1)	-0.423726	0.061218	-6.921592	0.0000
Long Run Coefficients				
Variable	**Coefficients**	**Std. Error**	**t - Statistic**	**Prob**
BMGDPR	0.056487	0.018982	2.975819	0.0154
PCGDPR	-0.066108	0.040561	-1.629841	0.1201
BLDR	0.001612	0.001502	1.073235	0.3264
MKCAP	0.194268	0.071062	2.733781	0.0201
C	8.801652	0.460562	19.11067	0.0000

Source: Author's tabulation from E-views estimates

In table 3, positive and negative coefficients indicate positive and negative relationships respectively, while probability values lower than 0.05 indicate a significant effect at the 5% significance level.

The ratio of broad money supply to GDP (BMGDP) has a significant positive influence on real Gross Domestic Product (RGDP) or economic performance in Nigeria, both in the short term and long term, consistent with the expected sign. The coefficients indicate that a 1% increase in BMGDRP will significantly enhance RGDP by 6.8352% in the short run and by 5.6487% in the long run. This indicates that people hold a considerable portion of their substantial wealth in the banking system and various financial assets that aid domestic productive activities. It shows confidence in the financial and banking system that discourages keeping significant sums of unproductive cash at home. Keeping a significant share of the total money supply within the banking system guarantees that it remains available to investors for constructive activities that improve economic performance. The ratio of private sector credit to GDP (PCGDP) has a notable negative short-term effect and a negligible negative long-term influence on real Gross Domestic Product (RGDP) or economic performance in Nigeria through RGDP, which contradicts a priori sign expectations. The short-term coefficients indicate that a 1% increase in PCGDP will significantly decrease RGDP by 8.7201% in the short term, while the long-term coefficient reveals that a 1% rise in PCGDP will insignificantly decrease RGDP by 6.6108% in the long term. This indicates that the Nigerian government is having difficulty utilizing a suitable fraction of the national income, indicated by Gross Domestic Product, to support private sector economic initiatives that improve economic performance. Most of the world's developed economies, like the United States, function on a private sector model. They dedicate a significant portion of their earnings to support the expansion of small, medium, and large private enterprises through credit and subsidy programs. This improves their capacity for productivity and employment generation, benefitting the economy overall.

The bank loans to deposit ratio (BLDR) positively and significantly influences RGDP or economic performance in Nigeria in the short term, consistent with expected sign predictions. But it shows an insignificant positive long-term impact on RGDP, which also corresponds with previous sign expectations. The coefficients indicate that a 1% increase in BLDR will result in a significant 2.8019% boost in RGDP in the short term and a minor 1.612% increase in RGDP in the long term. It is troubling that the proportion of bank deposits designated as loans is having expected positive effect on economic performance via RGDP only in the short term. The long term minimal effect indicates that a substantial share of Nigerian bank deposits is not employed to bolster actual economic activities in the industrial or productive sectors that markedly

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improve economic performance. Nigerian banks may provide loans to investors at high interest rates, potentially discouraging long-term investments and negatively affecting economic performance.

Market Capitalization (MKCAP) has a significant negative short-term effect on RGDP or economic performance in Nigeria through RGDP, which contradicts the expected a priori sign, while it shows a significant positive long-term influence on RGDP or economic performance in Nigeria through RGDP, aligning with the expected a priori sign. The short-term coefficients suggest that a 1% rise in MKCAP will notably reduce RGDP by 9.7804% in the short term, whereas the long-term coefficient shows that a 1% increase in MKCAP will significantly enhance RGDP by 19.4268% in the long term. This suggests that enhanced investments in capital market stocks, like buying company shares, will enhance Nigeria's economic performance over time. Buying shares in companies boosts the capital foundation for industrial operations, leading to higher production and job creation, thereby enhancing economic outcomes in Nigeria.

The co-integrating equation of our RGDP model reveals a negative sign as anticipated, featuring a coefficient of -0.423726 and a p-value of 0.0000. This indicates that about 42.3726% of each shift into disequilibrium is rectified within one period, and the p-value demonstrates that the coefficient holds significance at the 5% level since it is below 0.05.

Post Estimation Tests

Serial Correlation LM test

We used Breusch – Godfrey Serial Correlation LM test to check for serial Correlation in error term of our model. The summary result is as shown in table 4 thus:

Table 4 Breusch – Godfrey Serial Correlation LM test

F-statistic	0.314626	Prob. F(2,14)	0.5124
Obs*R-squared	0.918354	Prob. Chi-Square(2)	0.4715

Source: E-views Result and Author's Tabulation

Table 4 shows that the probability of the F-statistic, recorded at 0.5124, exceeds 0.05 (5%). Consequently, we conclude that the Real Gross Domestic Product (RGDP) model shows no serial correlation at the 5% significance level.

Heteroskedasticity Test

To verify Homoskedastic models, indicating a consistent error term over time, we evaluated Heteroskedasticity through the Breusch-Pagan-Godfrey heteroskedasticity test. The condensed results are shown in table 5 as detailed below:

Table 5 Breusch - Pagan – Godfrey Heteroskedasticity Test

F-statistic	1.685407	Prob. F(7,16)	0.3211
Obs*R-squared	11.22468	Prob. Chi-Square(7)	0.2614
Scaled explained SS	10.64158	Prob. Chi-Square(7)	0.1693

Source: E-views Result and Author's Tabulation

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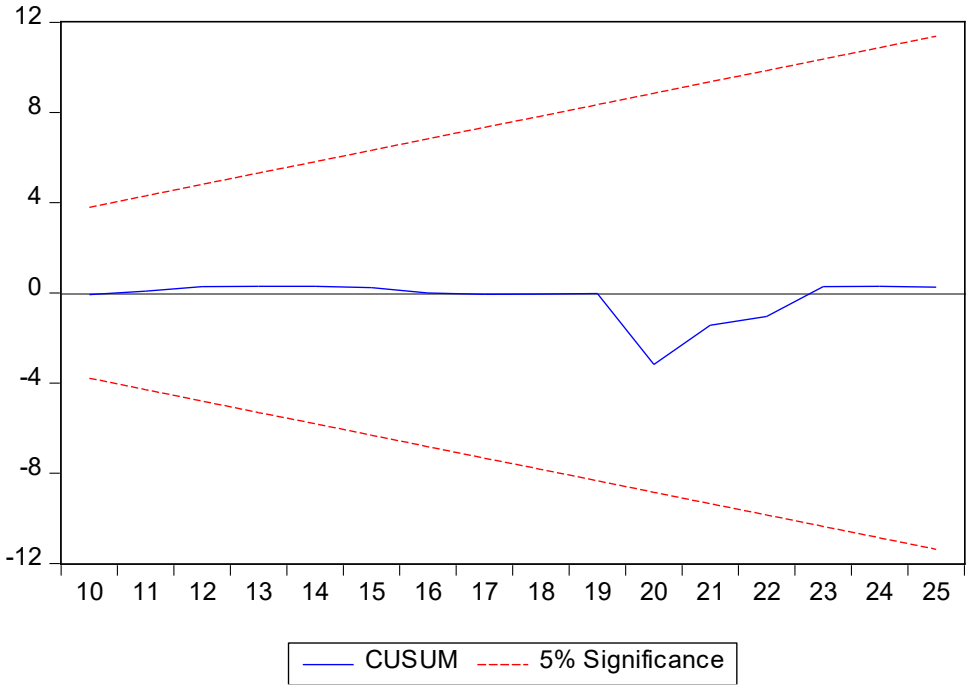
Table 5 shows that the Obs*R-square probability for the RGDP model (0.2614) exceeds 0.05. This indicates that the variability of the error term stays stable throughout time. Consequently, we conclude that our Real Gross Domestic Product (RGDP) model demonstrates Homoscedasticity at a 5% significance threshold.

Stability Diagnosis

This study analyzed the stability assessment of the model using the CUSUM plots depicted in figures 1 as follows:

Figure 1 CUSUM model Stability Test for RGDP model



Source: E-views output

The CUSUM charts in figure 1 stay within the 5% critical thresholds. This suggests that the model's parameters show no structural instability over the course of the study. Consequently, all coefficients in the error correction model stay consistent.

CONCLUSION AND RECOMMENDATIONS

Conclusion

We successfully evaluated and analyzed the effect of financial intermediation on Real Gross Domestic Product (RGDP) or economic performance in Nigeria by employing particular elements of financial intermediation. Our findings reveal diverse immediate and prolonged impacts of the selected aspects of financial intermediation on Real Gross Domestic Product (RGDP) or economic performance in Nigeria. Our results emphasize the necessity for enhanced financial sector policies that facilitate effective credit distribution, bolster capital market involvement, and direct financial resources to productive, export-oriented investments to improve domestic economic performance. We anticipate that Nigerian stakeholders and policymakers will regard our research findings as an effective resource for monitoring and managing economic performance.

Recommendations

According to the findings of our research, we suggest the following recommendations:

Considering that the Broad money supply to GDP ratio (BMGDPR) significantly affects Real Gross Domestic Product (RGDP) positively in both the short and long term in Nigeria, we recommend that the government

implement more conducive monetary policies, like raising interest rates on deposits, bonds, treasury bills, and various financial instruments. This will motivate people to place a larger share of their broad money in banks and other investment-compatible assets that improve economic growth in Nigeria.

Considering that the Private sector credit to GDP ratio (PCGDPR) has a significant short-term negative effect on Real Gross Domestic Product (RGDP) or economic performance in Nigeria, while its long-term effects are insignificantly negative, we propose that the government dedicate a substantial portion of national income to facilitate the growth of low, medium, and large private businesses through credit and subsidy initiatives. This improves their productivity and job generation, aiding the overall economy and allowing the private sector to realize the desired positive short-term and long-term effects on Nigeria's economic performance.

Considering that the Bank loans to deposit ratio (BLDR) demonstrates a significant positive short-term effect and a negligible positive long-term impact on Real Gross Domestic Product (RGDP) or economic performance in Nigeria, we recommend that the government should direct a significant share of Nigerian bank deposits towards financing real, industrial, and productive sector activities that considerably boost economic performance. Nigerian banks should offer loans to investors in the productive sector at reduced interest rates and with fewer constraints to encourage long-term investments and ultimately improve economic performance in Nigeria.

The Market Capitalization (MCAP) positively influences Real Gross Domestic Product (RGDP) significantly in the long term. It is advised that the government promote awareness and encourage individuals to invest in capital market stocks, like buying company shares, to enhance Nigeria's economic performance over time. Acquiring company shares enhances the capital foundation for industrial operations, allowing them to boost production and job creation, which contributes to improved economic performance in Nigeria.

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