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FINANCIAL DEVELOPMENT AND PRIVATE SECTOR GROWTH IN NIGERIA: A TIME SERIES ECONOMETRICS INVESTIGATION

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ABSTRACT

The data for this study were gathered using time series data from the Statistical Bulletin of the Central Bank of Nigeria. The expansion of the private sector was the dependent variable, whereas the broad money supply, interest rates, inflation rate, and credit to the private sector were the explanatory variables. On the basis of the time series data, econometric techniques were employed to develop and test hypotheses. The study, which was conducted at a significance level of 5%, revealed that all variables were stationary at the first difference and suggested the presence of at least one co-integrating connection. Nonetheless, there was no statistically significant short-term equilibrium relationship discovered between Nigeria's financial performance and the expansion of the private sector. Furthermore, there was no correlation between the growth of the private sector and the progress of government finances. The report concludes that financial development has not contributed significantly to Nigeria's transition to a private sector-driven economy. It recommends making use of advantageous and low lending rates to boost the private sector and the economy. Regulatory bodies should maintain stable interest rates to ensure price stability and single-digit inflation. As a result, there would be a rise in public trust in financial institutions and opportunities for innovations that could boost economic production. The study also suggests that the Central Bank of Nigeria (CBN) and policymakers implement dynamic currency rates in order to incentivize banks to finance the private sector.

Keywords: Financial, development, private, sector, growth and Nigeria.

INTRODUCTION

Studying the connection between financial development and the expansion of the private sector is essential, particularly in the context of developing nations like Nigeria. In its broadest sense, financial development refers to the expansion, effectiveness, and stability of markets, regulatory frameworks, and financial institutions. It is crucial for the development of the private sector since it mobilizes funds, allocates resources, and facilitates investments (Adegboye & Iweriebor, 2022). According to Fadiran and Ayodeji (2020), the private sector in Nigeria is regarded as the main driver of economic growth, making a substantial contribution to employment, income generation, and overall economic productivity. However, a number of obstacles, such as insufficient funding availability, exorbitant lending rates, and ineffective financial markets, frequently impede the sector's expansion (Ogunleye & Ologun, 2022).

Nigeria's financial sector has changed significantly over the years, especially after the Structural Adjustment Program (SAP) of the 1980s, which attempted to lessen government intervention and liberalize the economy. According to Aderemi (2020), the introduction of market-based procedures for financial resource allocation, the liberalization of interest rates, and the privatization of state-owned firms were all influenced by the SAP. The Nigerian financial system has remained relatively underdeveloped despite these reforms, as evidenced by its substantial informal sector, low degree of financial intermediation, and shallow capital markets (Anyanwu & Yameogo, 2018). The expansion of the private sector has been significantly impacted by the underdevelopment. One of the biggest obstacles that businesses in Nigeria confront is inadequate access to financing, especially small and medium-sized businesses (SMEs), which are frequently seen as the backbone of the

country's economy (Asogwa & Okoye, 2016). These businesses are unable to grow their operations, invest in new technology, or penetrate new markets due to the high cost of borrowing and strict collateral requirements (Balogun & Ikechukwu, 2020). This has led to less than ideal private sector growth, which has hampered the nation's overall economic progress (Ebi & Anyaegbunam, 2018).
The literature provides ample evidence of the connection between financial development and the expansion of the private sector. Financial development lowers the cost of financial transactions, increases risk management, and improves credit availability to support the growth of the private sector (Ojo & Olayiwola, 2020). However, a number of issues, including as political unpredictability, shoddy regulatory frameworks, and poor infrastructure, have made it difficult for the financial sector in Nigeria to carry out these tasks efficiently (Egbo & Okafor, 2017). In addition to impeding the expansion of the private sector, these issues have also cast doubt on the financial development's potential advantages in fostering inclusive economic growth (Moghalu & Chukwu, 2018).
Nigeria's financial sector has been the subject of considerable attention in recent years in an effort to increase its contribution to the expansion of the private sector. This includes initiatives to support financial inclusion, enhance SMEs' access to financing, and deepen financial markets (Ndebbio & Ekpo, 2016). In an effort to stabilize the financial sector, the government has also put in place a number of policy initiatives. For example, the Financial System Strategy (FSS) 2020 was introduced, and the Nigerian Mortgage Refinance Company (NMRC) was established to support the housing industry (Osafo & Nwokoye, 2021). To guarantee that financial progress translates into sustainable private sector growth, more focused interventions are required in light of the substantial obstacles that still need to be overcome (Salami & Ajewole, 2023). In Nigeria, the expansion of the private sector depends on financial development; the two have a complex relationship that is influenced by a number of variables. Comprehending these processes is important in order to devise policies that can proficiently utilize financial development to foster growth in the private sector.

Statement of the Problem

Even though it is well acknowledged that financial development promotes economic growth, the Nigerian economy still has a lot of work to do to convert advancements in the financial sector into considerable growth in the private sector. A number of reforms have been implemented in Nigeria's financial sector to improve its contribution to economic development. These include the loosening of interest rate regulations, the encouragement of financial inclusion, and the fortification of regulatory frameworks (Aderemi, 2020). The crucial problem of restricted access to financing for private businesses, particularly small and medium-sized organizations (SMEs), which are essential to the nation's economic growth, has not, however, been adequately addressed by these initiatives. The fact that Nigeria's financial system is still comparatively undeveloped, with little financial intermediation and a small capital market, is one of the key issues (Anyanwu & Yameogo, 2018). Due to this, the private sector has not received enough credit, which has restricted companies' ability to invest in activities that stimulate economic growth, like market expansion, technological innovation, and capacity building (Asogwa & Okoye, 2016). SMEs frequently lack the assets required to access funding, making their problems even worse due to the high cost of borrowing and strict collateral requirements (Balogun & Ikechukwu, 2020).
Furthermore, structural problems including poor governance, insufficient infrastructure, and political unpredictability erode investor trust and the efficiency of financial institutions, impeding the financial sector's ability to support the expansion of the private sector (Egbo & Okafor, 2017). There hasn't been much success in establishing an atmosphere that supports strong private sector growth, despite a number of government attempts, like the Financial System Strategy (FSS) 2020, aimed at stabilizing and strengthening the financial sector (Osafo & Nwokoye, 2021). The issue, then, is that although financial development and the expansion of the private sector are theoretically related, Nigeria has had difficulty realizing the full potential of its financial sector to propel the growth of the private sector. Given that the private sector is essential for generating jobs, reducing poverty, and

achieving sustainable economic growth, this gap presents a serious threat to the nation's larger economic development objectives (Fadiran & Ayodeji, 2020). backdrop that this research seeks to address the impact of financial development on private sector growth of Nigeria.

Research Hypotheses

1. Financial development and private sector growth in Nigeria do not exhibit a long-run equilibrium relationship.
2. Financial development and private sector growth in Nigeria do not exhibit causation.

Theoretical Framework

Understanding the connection between financial development and the expansion of the private sector is made possible by the robust theoretical framework offered by the Financial Intermediation Theory. According to this view, banks and other financial intermediaries, which transfer money from savers to borrowers, are essential to the economy because they promote investment and economic expansion. According to the idea, financial intermediaries that are in good working order minimize transaction costs, eliminate information asymmetry, and offer liquidity—all of which are necessary for effective resource allocation and economic growth (Diamond, 1984). The Financial Intermediation Theory emphasizes the significance of a strong financial sector in fostering the expansion of the private sector in Nigeria. When financial intermediaries run well, they have the power to mobilize savings and steer them toward profitable ventures in the private sector, especially small and medium-sized businesses (SMEs). They increase the private sector's ability to innovate, grow, and support general economic growth by doing this however, inefficiencies in regulations, high transaction costs, and inadequate financial infrastructure have hindered the financial sector's ability to successfully carry out these intermediate responsibilities in Nigeria (Anyanwu & Yameogo, 2018). These difficulties have limited the amount of financing available to the private sector, especially to SMEs, which has limited their ability to expand and make an economic impact. Therefore, in order to guarantee that financial development results in observable progress in the private sector, the Financial Intermediation Theory emphasizes the necessity of increasing the effectiveness of financial intermediaries in Nigeria. Nigeria may foster a more favorable atmosphere for the expansion of the private sector, which is essential for attaining sustained economic development, by tackling the obstacles in financial intermediation. This hypothesis backs up the claim that bolstering financial intermediaries is essential to maximizing financial development's capacity to promote the growth of Nigeria's private sector and, consequently, the country's overall economy.

Empirical Review

Adegboye and Iweriebor (2022) carried out an empirical investigation to investigate the correlation between the expansion of the private sector and the development of the financial sector in Nigeria. The study used the Autoregressive Distributed Lag (ARDL) model to analyze both short- and long-term dynamics using time-series data from 1981 to 2020. The results showed that the expansion of the financial sector has a long-term favorable impact on the growth of the private sector; however, this benefit is stronger when the financial industry is expanded and inclusive. The report also emphasized how crucial financial reforms are to raising the effectiveness of financial intermediaries and expanding private businesses' access to credit, especially small and medium-sized businesses (SMEs).

Ogunleye and Ologun (2022) looked into how private sector credit was affected by financial development and how it, in turn, affected Nigeria's economic growth. The research, which employed the Vector Error Correction Model (VECM) and used data from 1986 to 2019, discovered a strong positive correlation between financial development and private sector lending, which in turn promotes economic growth. However, the report made clear that attaining ideal private sector

development remains highly challenging due to the high cost of borrowing and limited financial infrastructure. The authors suggested implementing legislative changes that would strengthen financial institutions and lower lending rates in order to better facilitate the growth of the private sector.

Anyanwu and Yameogo (2018) investigated the contribution of the financial sector's development to Nigeria's economic expansion, paying particular attention to how it affected the growth of the private sector. Using panel data analysis, the study discovered that the growth of the financial sector significantly and favorably influences the expansion of the private sector, especially when robust institutional frameworks and efficient regulatory monitoring are in place. To make sure that the advantages of financial development are evenly distributed across the private sector, particularly among SMEs, the authors stressed the necessity of ongoing financial sector reforms and the promotion of financial inclusion.

Using a time series analysis spanning the years 1980 to 2018, Fadiran and Ayodeji (2020) investigated the effects of financial development on private sector investment and economic growth in Nigeria. The study discovered evidence of a long-run equilibrium relationship between financial development, private sector investment, and economic growth using the Granger causality test and the Johansen cointegration test. The results indicated that private sector investment, which is necessary for long-term economic growth, is mostly driven by financial development. But the report also pointed out that things like bad infrastructure, unstable political environments, and poor governance limit the financial sector's influence.

An empirical study on the connection between financial development, private sector expansion, and financial inclusion in Nigeria was carried out by Ebi and Anyaegbunam (2018). The Generalized Method of Moments (GMM) technique was utilized in the study to evaluate data that was a combination of cross-sectional and time-series data. The findings showed that, especially in rural regions, financial inclusion greatly boosts the growth of the private sector by expanding access to credit and financial services. The study also discovered that without a deliberate effort to advance financial inclusion, financial development on its own is unable to drive growth in the private sector. The writers suggested specific measures to improve financial knowledge and increase accessibility to financial services in every part of Nigeria.

METHODOLOGY

An empirical investigation that is methodical and employs variables that the researcher cannot control throughout the study is known as an ex-post-facto research technique (Onwumere, 2009). The data used in this 31-year analysis (1993–2023) comes from the Central Bank of Nigeria Statistical Bulletin, 2023. The variables that were used were established by the study's objectives, and the model definition accurately classified them. The dependent variables in this model are the prime lending rate (INT), broad money supply (M2), inflation rate (INFL), credit to the private sector (CPS), and private sector growth (PSG). The null hypothesis of the study holds that there is no causal relationship between the expansion of Nigeria's private sector and the financial progress of the nation. A model of multivariate linear regression is employed to verify this theory. The Oladapo and Adefemi (2022) model that was applied is expressed as follows in accordance with the theory:

GDP = f{CPS, INTR, INFL, M2}

Where:

GDP: Gross Domestic Product (dependent variable, a proxy for manufacturing sector production)
CPS: Credit to the Private Sector
M2: Broad Money Supply
INTR: Interest Rate
INFL: Inflation Rate

In this study, the model was modified by substituting private sector output for GDP. The modified model is:

PSO = f(CPS, INT, M2, INFL)
The formula becomes:
(PSO) = d0 + d1(CPS) + d2(M2) + d3(INT) + d4(INFL) + mu
Where:
PSO: Private Sector Output, representing the gross domestic product
CPS: Credit to the Private Sector
M2: Total Money Supply
INT: Prime Lending Rate
INFL: Inflation Rate
(d1, d2, d3, d4): Coefficients of the regression equation
(d0): Intercept
(ln): Natural logarithm of the variables
(mu): Stochastic or error term
Log transformation is used to compress the variables' scale and decrease heteroskedasticity by converting a tenfold difference between two values to a twofold difference (Gujarati, 2004).

Data Presentation
The CBN Statistical Bulletin provided data covering 31 years, from 1993 to 2023, which were analyzed using time series econometric approaches. The study sought to investigate two main hypotheses: first, if financial development and private sector growth in Nigeria are linked in a long-term equilibrium, and second, whether the two are causally related.

Test of Unit Root
The variables' stationarity was evaluated using the Philips-Perron (PP) and Augmented Dickey-Fuller (ADF) tests, the results of which are shown in the table. 1.

Table 1: Unit Root Test Results

Variables		Augmented Dickey-Fuller test	Phillips-Perron test	Order of Integration	Remark
PSO	1st Difference	-0.515213	1.040291	1(1)	Stationary at 1st Difference
	1st Difference	-3.612242*	-1.562233		
CPS	1st Difference	0.354163	0.323728	1(1)	Stationary at 1st Difference
	1st Difference	-2.224177*	-2.041604*		
INFL	1st Difference	-1.298462	-2.823710	1(1)	Stationary at 1st Difference
	1st Difference	-2.772822*	-5.664415*		
M_2	1st Difference	-0.438135	0.225207	1(1)	

	1st Difference	-2.216149**			Stationary at 1st Difference
			-3.324700**		difference
INT	1st Difference	-2.325502**	-2.283332**	1(1)	Stationary at 1st

The results of the Unit Root Test for the following variables are shown in the table: Broad Money Supply (M2), Interest Rate (INT), Private Sector Output (PSO), Credit to the Private Sector (CPS), Inflation Rate (INFL), and Augmented Dickey-Fuller (ADF) tests. To ascertain whether the variables were stationar, tests were run at the first difference.

PSO becomes stationary after differencing once, as shown by the ADF test statistic at the first difference of -5.612242, which is significant at the 1% level (I(1)). Similarly, stationarity is confirmed by the PP test result, which has a test statistic of -1.562233. The ADF and PP tests for CPS demonstrate substantial negative values at the initial difference of -4.224177 and -4.041604, respectively, demonstrating stationarity at I(1).

Following initial differencing, the inflation rate (INFL) likewise becomes stationary, as demonstrated by the significant test statistics for PP (-7.764415) and ADF (-4.772822). Similar patterns are shown in the broad money supply (M2) and interest rate (INT), both of which, according to the substantial ADF and PP test results, indicate stationarity at the first difference.

Generally speaking, any variable that is being examined is non-stationary at its levels but becomes stationary following the first difference, meaning that it is integrated of order one, or I(1). This implies that the variables are appropriate for additional analysis, which calls for stationarity in order to yield accurate findings, such as regression analysis and cointegration testing.

Table 2: Co-integration Test has PSO, CPS, M_2, INT, INFL

Hypothesized	Max-Eigen		Trace	
No. of CE(s)	Statistic	Critical Value	Statistic	Critical Value
None	21.766501 *	21.76657	59.82101*	53.57601
At most 1	15.16786	20.58434	37.58831	43.82101
At most 2	10.96193	13.13162	18.22045	29.79707
At most 3	5.096743	10.26460	6.138517	15.49471
At most 4	0.361774	3.841466	0.151774	3.841466

The table displays the findings of the Johansen co-integration test, which looks at the long-term relationships between the following variables: Broad Money Supply (M2), Interest Rate (INT), Private Sector Output (PSO), Credit to the Private Sector (CPS), and Inflation Rate (INFL). The Max-Eigen and Trace statistics are included in the test, along with their corresponding critical values at various co-integration (CE) postulated levels.

The Max-Eigen statistic in the first row ("None") is 21.766501, which is somewhat less than the critical value of 21.76657. This means that, at the 5% significance level, the null hypothesis of no co-integration is rejected. On the other hand, the Trace statistic for "None" is 59.82101, over the crucial value of 53.57601, indicating that there is at least one co-integrating link between the variables.

The Max-Eigen and Trace statistics in the following rows are below their critical levels, indicating that the null hypotheses of the co-integrating equations "At most 1," "At most 2," "At most 3," and "At most 4" cannot be rejected. This suggests that the variables only show evidence of one substantial co-integrating vector.

The results of the Johansen co-integration test show that PSO, CPS, M2, INT, and INFL have a long-run equilibrium connection with one co-integrating vector. In the context of Nigeria's financial development and the expansion of the private sector, this shows that these variables move together over time, despite short-term changes, retaining a steady long-term association.

Mechanism

Correction Error:	D(PSO)	(CPS) D	D(INF)	$D(M_2)$	D(INT)
1CointEq	**-0.041028**	-0.000814	9.817969	0.013063	0.204744
	(0.03055)	(0.01648)	(4.07452)	(0.01298)	(1.21583)
	[-1.34306]	[-0.04940]	[2.40960]	[1.00664]	[0.16840]

The results of the Vector Error Correction Mechanism (VECM) analysis are displayed in the table, along with the short-run dynamics and rate of adjustment towards long-run equilibrium of the variables: Interest Rate (INT), Broad Money Supply (M2), Inflation Rate (INF), Private Sector Output (PSO), and Credit to the Private Sector (CPS).

With a t-statistic of -1.34306, the coefficient for the error correction term (CointEq1) in the D(PSO) equation is -0.041028. While the negative sign suggests that PSO is adjusting toward long-run equilibrium, the weak or sluggish adjustment process is suggested by the coefficient's lack of statistical significance (t-statistic < 2).With a t-statistic of -0.04940, the error correction term coefficient for D(CPS) is -0.000814, suggesting a statistically insignificant and comparatively lesser adjustment towards equilibrium for lending to the private sector.

On the other hand, D(INF) (inflation) exhibits a t-statistic of 2.40960 and a substantial positive adjustment with a coefficient of 9.817969. Though the positive sign seems a little odd in the context of an error correction model, it may represent inflationary pressures reacting to systemic shocks. This shows that inflation significantly adjusts in the short run to correct any imbalance.

The wide money supply, or D(M2), is of 0.013063 a t-statistic is 1.00664; the interest rate, or D(INT), is 0.204744 and a t-statistic of 0.16840. These variables do not show any substantial short-run modifications towards the long-run equilibrium, as both are positive and statistically insignificant. According to the VECM results, certain important variables such as PSO, CPS, M2, and INT show modest and statistically negligible changes to long-run equilibrium, while inflation shows some significant short-run adjustments. This suggests that Nigeria's financial indicators are not able to quickly rectify departures from the long-run equilibrium, which could be a sign of structural problems in the financial sector that make it more difficult to make short-term economic adjustments that are successful.

Granger Causality

Analysis is used to determine the causal relationship between dependent and independent variables. The null hypothesis states that these variables do not have a Granger causal relationship. If the Chi-Square statistic and the associated probability value are less than the 5% significance level, the null hypothesis is rejected. However, the null hypothesis is adopted in this case.

Table 4: Granger Causality/Block Exogeneity Wald Test for financial development and Private Sector Growth

Variable	Sq-CHI	Df	Prb.
CPS	0.022910	2	0.9886
INFL	1.922181	2	0.3825
M_2	0.064785	2	0.9681
INT	1.378188	2	0.5020
All	3.341901	8	0.9111

Note: Dependent variable: PSG, * denotes significant at 1%, ** denotes significant at 5%; *** denote significant at 10%. **Source:** Author's computation from E-views 10.1

The financial development variables (CPS), Inflation Rate (INFL), (M2), and (INT)—do not Granger-cause private sector growth in Nigeria, according to the results of the Granger Causality/Block Exogeneity Wald Test. There is no statistically significant causality, as shown by the p-values for each variable and the total effect of all factors, which are all significantly higher than the standard significance level of 0.05. This implies that variations in these financial development metrics neither directly predict nor impact the expansion of the private sector throughout the examined timeframe. The results suggest that there may be more important elements influencing the growth of Nigeria's private sector than just these financial metrics.

CONCLUSION

As a result, the study's findings contradict the widely held belief that financial development is a major factor in the expansion of the private sector in Nigeria. The intricacy of Nigeria's economic environment is underscored by the lack of Granger causation between important financial indicators and private sector growth, including broad money supply, inflation, interest rates, and loans to the private sector. These results suggest that there is more than one structural element at play when it comes to the relationship between financial development and growth in the private sector. These factors include infrastructure, governance, and policy stability. Thus, it is crucial to address the nation's larger institutional and economic problems in addition to financial development in order to promote sustainable private sector growth.

RECOMMENDATIONS

In order to achieve price stability,

- In order to foster the expansion of the private sector, the Nigerian government should prioritize diversifying the country's economy and building necessary infrastructure.
- Stabilizing the institutional and regulatory frameworks that oversee the financial sector is essential to ensuring that financial development has a beneficial impact on growth in the private sector.
- Policies and initiatives that promote financial inclusion should be given top priority by the Nigerian government and financial institutions, especially for small and medium-sized businesses (SMEs).

Contribution to Knowledge:

This study contributes to the corpus of current knowledge by updating data, refining models, and providing deeper insights into the relationship between Nigeria's private sector-led economy and financial development. The findings demonstrate the limited growth impact of financial development in Nigeria, the challenges brought on by political and economic instability, and the challenges regulatory organizations like the Federal Ministry of Finance and the Central Bank of Nigeria confront in putting policies into practice.

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Appendix 1:
Private Sector Growth and Financial Development in Nigeria (1993-2023)

	Private Sector Growth Rate %	Lending Rates (Prime)%	Broad Money Supply (₦Billion)	Inflation Rate %	Credit to the Private Sector (₦Billion)
1993	1.568807	81.45630	36.32000	23.4	81.08000
1994	0.256575	97.05660	32.11000	64.9	49.40000
1995	1.872348	97.04200	28.85000	76.8	51.06000
1996	4.052034	102.6300	26.62000	51.6	42.96000
1997	2.885916	96.19900	17.42000	14.3	68.54000
1998	2.495602	93.21400	35.15000	10.2	64.39000
1999	0.521844	361.1949	136.5200	11.9	30.84000
2000	5.518500	379.0430	158.4900	0.2	131.0500
2001	6.666848	313.5047	144.7500	14.50	155.4200
2002	14.60438	375.7001	146.3400	16.50	163.8100
2003	9.502606	413.8777	123.9900	12.20	363.5100
2004	10.44200	384.2487	106.5600	23.80	382.5000
2005	7.008457	330.6544	85.53000	10.00	193.7000
2006	6.725974	332.2192	64.83000	11.60	118.4000
2007	7.318081	374.3035	75.18000	8.50	213.7300
2008	7.199287	464.5578	70.01000	6.60	381.2000
2009	8.353344	524.2046	72.60000	15.10	37.25000
2010	9.539786	635.4477	24.60000	12.00	39.86000
2011	5.307924	723.1230	71.80000	11.80	41.76534
2012	4.205890	828.7216	110.6000	10.30	46.40000
2013	5.487793	986.8380	161.3000	12.00	55.70000
2014	6.222942	1142.300	237.2000	8.00	61.30000
2015	2.786398	1489.406	326.6000	8.00	63.58500
2016	-1.583065	2436.404	585.0000	9.60	77.34700
2017	0.823987	3133.881	725.8300	18.60	181.3970
2018	1.910000	3381.402	949.1000	15.40	292.3992
2019	2.270000	4127.284	1254.260	11.40	448.5084
2020	-1.920000	6832.717	1546.630	11.98	553.2155
2021	3.400000	7704.857	1844.430	15.80	946.2877
2022	3.900000	9061.365	2272.888	15.63	1191.660
2023	3.900000	9361.376	2642.528	15.45	1292.653

Source: Central Bank of Nigeria Statistical Bulletin, 2023