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FINANCE-GROWTH NEXUS AND ECONOMIC PERFORMANCE IN NIGERIA

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Abstract

A strong financial sector is essential for economic growth in both developed and developing nations. This study examines the relationship between financial sector development and economic growth in Nigeria, with a focus on banks from 1981 to 2023. Stationarity tests using Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) methods were conducted, and the presence of a long-run relationship justified the use of the Autoregressive Distributed Lag (ARDL) model. The Toda-Yamamoto causality test was applied to determine the direction of causality. The ARDL results indicate a positive impact of financial sector development on economic growth and banking performance in both the short and long run. Market capitalization and credit to the private sector significantly boost Gross Domestic Product (GDP), while high interest rates negatively affect growth. Although commercial bank expansion shows a positive correlation with GDP, its long-run effect is statistically insignificant. Toda-Yamamoto tests reveal a unidirectional causality from economic growth to most financial sector indicators, except for credit to the private sector, which exhibits bidirectional causality. The study recommends infrastructure development, firm productivity enhancement, tax incentives

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to mitigate high interest rates, and credit risk management institutions to strengthen the financial sector's role in economic growth.

Keywords: Bank performance, Credit to private sector, Economic growth,

1.0 Introduction

The relationship between financial development and economic growth has long been a subject of academic inquiry, dating back to Schumpeter's early work, which emphasized the critical role of financial development in driving economic growth. According to the World Bank (2017), financial development is primarily about reducing costs within the financial system, including information acquisition costs and transaction costs. It is a process that enhances the quality, quantity, and efficiency of financial institutions (Imoagwu & Ezeanyeji, 2019). However, despite extensive research, there is no universal consensus on the precise nature of this relationship, as findings vary across different studies and economic contexts.

Financial sector development is often regarded as a key driver of economic growth, as it facilitates investment by mobilizing financial resources (Akintola, *et al* 2020). However, the extent of this relationship varies between countries, depending on their level of development (Imoagwu & Ezeanyeji, 2019). In the case of Nigeria, despite significant financial sector growth, the market capitalization recorded in 2023 was 75 billion naira, compared to 52 billion naira in 2022, according to CBN (2023). In addition, the amount of credit allocated to the private sector in 2023 is estimated at 52 billion naira, representing a 13 billion naira increase from the previous year. In this regard, there is no clear correlation between financial development and economic growth because GDP as a proxy for economic growth recorded merely a 3 billion naira increase from 2022 to 2023 as reported by CBN (2023).

This builds on the observation of Maduka and Onwuka (2013) where they affirmed that the economic growth is sluggish despite the growth recorded by banks and non-banks financial institution in Nigeria. Leading indigenous banks such as Guaranty Trust Bank, Zenith Bank, and Access Bank have reported substantial profits and expanded internationally. Leading indigenous banks such as Guaranty Trust Bank, Zenith Bank, and Access Bank have reported substantial profits and expanded internationally. However, this financial expansion has not translated into significant economic growth, raising questions about the actual impact of financial sector development on the country's broader economic progress.

Furthermore, empirical research on this subject has yielded conflicting results. Some studies suggest that financial sector development positively impacts economic growth in the short run but has a negative effect in the long run (Machado, Saraiva & Vieira, 2021). Conversely, Arabi (2014) found a positive long-run relationship between financial development and economic growth, while Fanta and Makina (2016) argued that no significant relationship exists at all. These divergent findings can be attributed to differences in research methodologies, variable selection, and the economic contexts of the countries studied.

Given these inconsistencies, further research is needed to clarify the nature of financial sector development's impact on economic growth, particularly in developing economies like Nigeria.

Existing literature including Maduka (2013), Arabi (2014), Imoagwu and Ezeanyeji (2019), Machado and Saraiva (2021), Igwe (2021) and Bello *et. al.* (2023) have largely overlooked the bi-directional relationship between financial development and economic growth, particularly in relation to the performance of banking institutions. This implies that relationship between financial development and economic growth extends beyond a simple positive or negative correlation. The banking sector plays a crucial role in fund mobilization, investment facilitation, and risk diversification, all of which stimulate economic activity. In turn, increased economic activity drives demand for financial services, further contributing to the development of the financial sector in the long run.

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This study critically assesses the relationship between financial development and economic growth with a particular focus on the impact of banking sector performance in Nigeria. Furthermore, it explores the bi-directional relationship between these two variables, an aspect that has not been explicitly examined in the reviewed literature.

2.0 Theoretical Framework

This study is grounded in financial intermediation theory, which highlights the role of financial intermediaries—such as banks, insurance companies, and investment firms—in bridging the gap between savers and borrowers. These intermediaries pool funds, lower transaction costs, and provide liquidity, thereby facilitating investments and economic growth. A key aspect of financial intermediation is access to credit, which enables a larger percentage of economic agents to secure funding for investments, ultimately driving long-term economic expansion. Additionally, financial intermediaries mitigate investment risks through diversification strategies, such as allocating resources across a broad range of assets to minimize the impact of any single asset's performance on the overall portfolio.

2.1 Empirical Review

2.1.1. The Link Between Financial Sector Development and Economic Growth

The relationship between financial sector development and economic growth in Nigeria has been extensively studied, with empirical research revealing complex and multidimensional linkages. Various studies have explored the impact of financial intermediation, financial inclusion, stock market performance, and banking sector dynamics on economic growth, shedding light on both short- and long-term effects.

2.1. 2 Financial Development and SME Growth

Bello, *et al* (2023) investigated the connection between financial development and the growth of small and medium-sized enterprises (SMEs) in Nigeria using the endogenous growth theory. This theory posits that financial intermediation enhances productivity by facilitating efficient capital allocation. Employing Johansen cointegration and Granger non-causality tests, their study identified a long-run relationship and a unidirectional causality from financial development to SME growth. Their findings emphasize that improved access to affordable credit can significantly enhance SMEs' contributions to GDP by alleviating capital constraints. However, the study primarily focused on unidirectional causality, leaving room to explore potential feedback effects, such as the extent to which SME growth might drive financial sector innovation.

2.1.3. Financial Inclusion and Macroeconomic Growth

Iwedi (2024) shifted the focus to financial inclusion, analyzing how accessibility to banking services influences economic growth in Nigeria. Using OLS and multivariate regression techniques, the study found a significant positive relationship between financial inclusion indicators—such as bank branch penetration and reduced transaction costs—and economic growth. Based on these findings, the study advocates for policies to expand banking infrastructure in rural areas and lower transaction fees to integrate underserved populations into the formal financial system. However, the analysis does not fully address the possibility of reverse causality: economic growth itself could drive higher demand for financial services. A bidirectional model, such as vector autoregression (VAR), could help disentangle these dynamics.

2.1.4 Financial Deepening, Fragility, and Growth Dynamics

Nwosu, *et al* (2021) explored the non-linear relationship between financial deepening and economic growth in Nigeria using an asymmetric ARDL framework. Their findings indicate that financial deepening—measured by credit-to-GDP ratios—positively influences long-run economic growth. However, in the short run, financial fragility—manifested as banking sector instability—has a negative impact on growth. This duality underscores the financial sector's role as both a catalyst for economic expansion and a potential source of vulnerability, depending on regulatory safeguards. While their methodological approach enhances analytical rigor, the study does not examine how external shocks, such as oil price volatility, moderate these relationships.

2.1.5 Key Gaps in the Literature

While existing studies affirm the crucial role of financial sector development—whether through SME credit access, financial inclusion, or deepening measures—in fostering Nigeria's economic growth, three major gaps persist:

1. **Bidirectional Analysis Deficiency** – Most studies focus on unidirectional causality, overlooking feedback loops such as how economic growth can drive demand for financial innovation.

2. **Limited Consideration of Contextual Challenges** – Many studies do not adequately account for Nigeria's unique economic characteristics, including oil dependence, informal markets, and regulatory inefficiencies, which may distort financial intermediation.

3. **Policy-Operationalization Mismatch** – While policy recommendations, such as expanding rural banking (Iwedi, 2024), are sound, they do not sufficiently consider real-world challenges such as infrastructure deficits and cybersecurity risks in Nigeria's rural areas.

2.1.6 Bidirectional Relationship Between Financial Development and Growth

Imoagwu and Ezeanyeji (2019) examined the dynamic interplay between financial development and economic growth in Nigeria, adopting a rigorous econometric approach. They first applied the augmented Dickey-Fuller (ADF) test to ensure data stationarity before employing the Yamamoto causality framework to analyze causal linkages. Their findings reveal a striking temporal duality:

- **In the short run**, financial sector expansion—driven by improved credit access, banking services, and capital mobilization—stimulates economic growth, aligning with conventional theories that emphasize the role of financial intermediation in driving investment and productivity.

- **In the long run**, however, financial development exerts a negative impact on growth. The authors attribute this shift to systemic inefficiencies, such as resource misallocation, speculative bubbles, and regulatory failures, which gradually erode the initial benefits.

A similar pattern emerged in their analysis of stock market capitalization. While equity market expansion initially boosted economic growth by attracting investor confidence and capital inflows, over time, unchecked market growth led to volatility, overvaluation, and speculative excesses that destabilized the economy.

2.1.7 Implications for Policy and Practice

These findings underscore the importance of balanced financial sector policies. While financial reforms can spur short-term growth, long-term sustainability requires mitigating instability risks. Policymakers should prioritize:

- Strengthening regulatory oversight to prevent speculative distortions.
- Enhancing transparency in financial markets.

- Implementing robust risk management frameworks in banking and stock markets.
- Investigating structural factors—such as institutional quality and sectoral diversification—that may moderate the long-term effects of financial expansion.

By recognizing the dual-edged nature of financial sector growth, Nigerian policymakers can adopt a forward-looking approach that harmonizes growth ambitions with systemic resilience.

2.1.8 Comparative Perspectives on Financial Development and Growth

The financial development-growth nexus varies across contexts. Matei (2020) analyzed eleven European nations, finding that domestic credit to the private sector had a strong short-term positive impact on growth, but its long-term effects were less clear. In contrast, Mokhoele (2016) established a robust long-run relationship between financial development and economic growth in South Africa, highlighting a consistent positive effect. Focusing specifically on Nigeria, Omoruyi, *et al* (2014) employed the OLS method to examine the contributions of the stock market and banking system. Their findings confirmed that both positively influence economic growth, with a clear causal link from finance to growth. Similarly, Ayunku and Etale (2014) used co-integration techniques to demonstrate that trade openness, domestic credit, and interest rates significantly enhance banking sector performance, driving economic growth in both the short and long run.

These studies suggest a broadly positive correlation between financial development and economic growth. However, while European findings indicate potential long-term uncertainty, Nigerian and South African research presents a more consistent long-term relationship.

2.1.9 The Impact of Banking Reforms and Financial Indicators on Growth

Gidibi (2017) assessed the effects of banking reforms on economic growth and bank performance in Nigeria (1981–2015) using ANOVA. The study found that while reforms supported industrialization and job creation, they primarily benefited shareholders and directors, limiting broad-based economic growth.

Similarly, Igwe, *et al* (2021) used the ARDL model to examine financial development indicators. Their findings showed that domestic credit had a negative impact on economic growth in both the short and long run, while gross premium exerted a positive effect. Pension assets, meanwhile, had a negative but insignificant short-run impact and a positive but insignificant long-run effect.

The relationship between financial sector development and economic growth in Nigeria remains complex, with varying effects over different time horizons. While financial deepening, inclusion, and banking sector expansion generally foster growth in the short term, long-term success depends on mitigating systemic risks such as financial fragility, speculative bubbles, and inefficient resource allocation. Future research should prioritize

bidirectional analysis, address contextual economic challenges, and refine policy recommendations to account for real-world implementation barriers.

By adopting a balanced and well-regulated approach, Nigeria can harness financial sector development as a sustainable driver of economic growth.

3.0 Methodology

The study covers the period from 1981 to 2023, utilizing time series data from the Central Bank of Nigeria's statistical bulletin (CBN, 2023). The dependent variable is Gross Domestic Product (GDP), representing economic growth, while the independent variables include market capitalization, bank credit to the private sector, interest rate, and the number of commercial bank branches. Data sources include the Nigeria Exchange Limited and the CBN statistical bulletin.

Model Specification

This research employs an econometric model to investigate the relationships between financial development, economic growth, and bank performance. The model's design is consistent with methodologies used in previous studies by Iwedi (2024), and Imoagwu and Ezeanyeji (2019).

$$GDP = f(FINDEV) \quad (1)$$

Where GDP= Gross Domestic Product and FINDEV= Financial development

We rewrite the functional forms in terms of their proxies

$$GDP = f(MCAP, CPS, IR, CBB) \quad (2)$$

This is written in explicit econometrics form as

$$GDP_t = \alpha + \beta_1 MCAP_t + \beta_2 CPS_t + \beta_3 IR_t + \beta_4 CBB_t + \varepsilon_t \quad (3)$$

The Autoregressive Distributed lag is specified as;

$$\Delta LINGDP = \alpha + \beta_1 LINMCAP_{t-1} + \beta_2 LINCPS_{t-1} - \beta_3 IR_{t-1} + \beta_4 CBB \sum_{i=1}^{p} + \theta_1 \Delta LINGDP_{t-1} + \sum_{i=1}^{p} \theta_2 \Delta LINMCAP_{t-1} + \sum_{i=1}^{p} \theta_3 \Delta LINCPS_{t-1} - \sum_{i=1}^{p} \theta_4 \Delta IR_{t-1} + \sum_{i=1}^{p} \theta_5 \Delta CBB_{t-1} + \lambda ECT_{t-1} + \varepsilon_t \quad (4)$$

Where; GDP- Gross Domestic Product, MCAP – Market Capitalization, CPS – Credit to Private Sector, IR – Interest Rate, CBB- Number of Commercial Banks Branches, α is the intercept of the model, $\beta_1, \beta_2, \beta_3,$ and β_4 are the coefficients of the independent variables and ε is the error term at time t.

4.0 Results and Discussions

This section explores the linkages between financial sector development, economic growth, and bank performance in Nigeria, interpreting findings to elucidate their interconnected dynamics."

Table 1: Augmented Dickey-Fuller and Phillips-Perron Unit Root Result

Variable	Augmented Dickey Fuller				Phillips-Perron			
	ADF	5% Critical Value	Included in the equation	Remarks	PP	5% Critical Value	Included in the equation	Remarks
LINRGDP	-3.75	-3.52	Trend & Intercept	I(1)	-3.75	-3.52	Trend & Intercept	I(1)
LINCBB	-5.40	-3.53	Trend & Intercept	I(1)	-5.43	-3.53	Trend & Intercept	I(1)
IR	-8.47	-3.52	Trend & Intercept	I(1)	-8.47	-3.52	Trend & Intercept	I(1)
LINMCAP	-4.98	-3.52	Trend & Intercept	I(I)	-5.00	-3.52	Trend & Intercept	I(1)
CPS	-4.12	-3.52	Trend & Intercept	I(0)	-7.02	-3.52	Trend & Intercept	I(1)

Source: Authors' (2025)

The stationarity of the variables in the study was examined using both the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests. The results indicate that most variables are integrated at the first difference, I(1), except for credit to the private sector (CPS), which exhibits mixed integration levels. For real gross domestic product (LINRGDP), the ADF test statistic of -3.75 exceeds the 5% critical value of -3.52 under the trend and intercept specification, confirming stationarity at first difference, I(1). Similarly, the Phillips-Perron test produced identical results, validating the ADF findings.

The number of commercial bank branches (LINCBB) was also found to be stationary at first difference, I(1), with ADF and PP test statistics of -5.40 and -5.43, respectively, both exceeding the critical value of -3.53.

Interest rate (IR) exhibited strong stationarity at first difference, I(1), as both ADF and PP tests produced a test statistic of -8.47, which is significantly lower than the 5% critical value of -3.52.

Market capitalization (LINMCAP) was also integrated at first difference, I(1), with ADF and PP test statistics of -4.98 and -5.00, respectively, both exceeding the critical value of -3.52.

However, credit to the private sector (CPS) presented mixed integration levels. While the ADF test indicated stationarity at level I(0) with a test statistic of -4.12, the PP test suggested stationarity at first difference, I(1), with a stronger test statistic of -7.02, both surpassing the 5% critical value of -3.52.

These findings suggest that the variables exhibit different levels of integration, justifying the use of appropriate econometric techniques such as the Autoregressive Distributed

Lag (ARDL) model to examine the relationship between financial development and economic growth.

Table 2: ARDL Bounds Co-Integration Test Result

Test-statistics	Value	Critical Value	Lower-Bound I(0)	Upper Bound I(1)
F-statistics	7.72	10%	2.2	3.09
K	444	5%	2.56	3.49
		1%	3.29	4.37

Source: Authors' (2025)

The ARDL Bounds Co-Integration Test, as presented in Table 2, reveals an F-statistic of 7.72. This statistic is crucial for determining the presence of a long-run relationship between the variables under analysis. The test also considers the number of lags, denoted as K, which is 444.

To assess the significance of the F-statistic, it is compared against critical values at different significance levels. At the 10% significance level, the lower bound I(0) is 2.2, and the upper bound I(1) is 3.09. At the 5% level, these values are 2.56 and 3.49, respectively. Finally, at the 1% significance level, the lower bound is 3.29, and the upper bound is 4.37.

It is observed that the F-statistics 7.72 is greater than the upper bound at critical values of 10%, 5%, 2.5% and 1%. Based on the decision rule, the null hypothesis will be rejected implying that there is co-integration. In other words, there is a long-run relationship between the variables. Therefore, the long-run and short-run models will be estimated using the Autoregressive Distributed Lag (ARDL) Model.

Table 3: Long- run Autoregressive Distributed Lag

Variable	Coefficient	Std. Error	t-statistic	Probabilities
LINCBB	0.3185	0.2044	-1.5579	0.1475
IR	-0.0110	0.0042	2.6065	0.0244
LINMCAP	3.27E-06	1.47E-06	-2.2286	0.0476
CPS	0.0670	0.0164	-4.0793	0.0018
C	0.0428	1.5655	2.7269	0.0103

Source: Authors' (2025)

$$RGDP = 0.0428 + 0.3185LINCBB - 0.0110IR + 0.000003LINMCAP + 0.0670CPS + \mathcal{E}_t \quad \ldots(5)$$

The long-run estimates from the Autoregressive Distributed Lag (ARDL) model reveal the relationship between financial development indicators and economic growth.

The number of commercial bank branches (LINCBB) has a positive coefficient of 0.3185, indicating a positive relationship with economic growth. However, the result is not statistically significant at the 5% significance level, as the probability value stands at 0.1475.

Interest rate (IR) exhibits a negative coefficient of -0.0110, suggesting that higher interest rates have an adverse impact on economic growth. This result is statistically significant at the 5% level, with a t-statistic of 2.6065 and a probability value of 0.0244.

Market capitalization (LINMCAP) has a very small positive coefficient of 3.27E-06, signifying a weak but significant relationship with economic growth. The t-statistic of -2.2286 and probability value of 0.0476 confirm its statistical significance at the 5% level.

Credit to the private sector (CPS) shows a strong positive effect on economic growth, with a coefficient of 0.0670. This relationship is highly significant, as indicated by a t-statistic of -4.0793 and a probability value of 0.0018.

The constant term (C) has a coefficient of 0.0428, with a t-statistic of 2.7269 and a probability value of 0.0103, indicating a statistically significant intercept in the model.

Overall, the results suggest that credit to the private sector and market capitalization significantly contribute to economic growth, while interest rates have a negative effect. The number of commercial bank branches, although positively related to economic growth, does not exhibit statistical significance in the long run.

Table 4: Short-run Autoregressive Distributed Lag

Variable	Coefficient	Std. Error	t-statistic	Probabilities
D(LINCBB)	0.5400	0.0716	7.5467	0.0000
D(IR)	-0.0030	0.0010	-3.1588	0.0091
D(LINMCAP)	7.47E-06	1.72E-06	4.3458	0.0012
D(CPS)	0.0088	0.0026	3.4535	0.0054
CointEq(-1)*	-0.8856	0.1187	-7.4629	0.0000
R^2 = 0.9106		Adjusted R-squared= 0.8267		

Source: Authors' (2025)

In the short run, the results indicate varying relationships between financial development indicators and real gross domestic product (RGDP). The coefficient of Log Commercial Bank Branches (LINCBB) is 0.5400, suggesting a positive association between RGDP and the number of commercial bank branches. Similarly, Log Market Capitalization (LINMCAP) has a coefficient of 0.000007, indicating a weak but positive relationship with RGDP. Credit to the Private Sector (CPS) also exhibits a positive impact on economic growth, with a coefficient of 0.0088. Conversely, the Interest Rate (IR) shows a negative relationship with RGDP, as evidenced by its coefficient of -0.0030.

The Error Correction Term is negative and statistically significant, with a p-value below 0.05, confirming the presence of a long-run causality between Commercial Bank Branches (CBB), Interest Rate (IR), Market Capitalization (MCAP), Credit to the Private Sector (CPS), and RGDP.

Furthermore, the coefficient of determination (R^2) is 0.9106, indicating that approximately 91.06% of the variation in RGDP is explained by the independent variables. The remaining 8.94% is attributed to other factors not captured in the model but accounted for by the error term.

Table 5: Toda Yamamoto Causality

Independent Variables	Chi-sq	Prob
LINCBB	11.27165	0.0036
IR	21.94358	0.0000
LINMCAP	11.82319	0.0027
CPS	11.57372	0.0031
All	36.16338	0.0000

Source: Authors' (2025)

Table 5 presents the results of the Toda Yamamoto Causality test. Based on the findings in Table 5, we observe that real GDP has a statistically significant impact on several financial variables at the 5% significance level. The p-value for LINCBB (0.0036) is less than 0.05, demonstrating that real GDP changes affect the number of commercial bank branches. Similarly, real GDP influences interest rates, market capitalization, and credit to the private sector, as their corresponding p-values are also below 0.05. The model's overall significance (p = 0.0000) confirms that real GDP, as a whole, significantly predicts the changes in these independent variables.

Post estimation tests

After conducting post-estimation tests, the model's validity and robustness were assessed. The outcomes of these tests are outlined in Table 5.

Table 6: Post Estimation tests

Diagnostic test	F- Statistic	Prob. Value
Breusch-Godfrey serial correlation LM test	1.2522	0.3004
Heteroscedasticity Test: Breusch-Pagan Godfrey	1.5949	0.2182
Ramsey-Reset test	1.3658	0.1818
Normality Test: (Jarque-Bera)	0.4394	0.8027

Source: Authors' (2025)

The Breusch-Godfrey test confirmed the absence of autocorrelation at the 0.05 significance level. White's test indicated no heteroscedasticity, and the Ramsey RESET test validated the model's linearity. The Jarque-Bera test confirmed that the residuals followed a normal distribution, ensuring the model's statistical robustness and validity for further analysis."

5.0 Discussion

The financial sector of any country plays a crucial role in driving economic growth, as financial institutions are central to all economic activities. This study aimed to examine the relationship between financial sector development and economic growth in Nigeria, with a particular focus on the role of bank performance in this dynamic.

Findings from the research indicate that an increase in the number of commercial bank branches, a reduction in interest rates, higher credit availability to the private sector, and a significant rise in market capitalization contribute to economic growth in both the short and long run. Improved access to financial services, government policies that ensure favorable interest rates, a steady increase in the market capitalization of publicly listed companies—enabling them to raise more capital—and greater availability of bank credit to businesses collectively enhance production and stimulate economic activity.

5.1 Conclusion and Recommendations

This study aimed to examine the relationship between financial sector development and economic growth in Nigeria, with a particular focus on the impact of bank performance. Findings from the research indicate that financial sector development significantly contributes to economic progress in both the short and long run. This aligns with existing literature, which identifies the financial sector as the "engine oil" of the economy (Akintola, *et al* 2020).

Based on these findings, the following recommendations are proposed to enhance economic growth alongside the financial sector's expansion:

(i) Expanding Financial Services to Rural Areas
The lack of access to financial services has contributed to an uncorrelated growth pattern between the financial sector and the broader economy. Financial institutions are predominantly concentrated in urban areas, leaving many productive rural regions underserved. Numerous businesses in rural areas struggle due to inadequate financial infrastructure. Given the positive relationship between the number of commercial bank branches and economic growth, banking institutions should extend their operations to rural areas with high economic potential. This recommendation is supported by Aroyewun-Khostly & Akinola (2024), who highlight that financial exclusion in rural areas stems from the absence of adequate financial infrastructure, worsening the issue of financial inaccessibility in Nigeria.

(ii) Enhancing Credit Accessibility Through Government Support
To mitigate the risks associated with lending, the government should equip and support financial institutions that provide credit access to businesses.

Institutions such as the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) should be strengthened to facilitate lending to businesses, particularly in high-risk sectors.

(iii) Boosting Market Capitalization for Economic Growth
Given the positive relationship between stock market capitalization and real GDP, strategic efforts should be made to increase the value of market capitalization. This can be achieved by incentivizing more companies to list on the Nigerian Stock Exchange, thereby granting them access to additional capital. Additionally, the government should focus on fostering investor confidence by ensuring economic stability, reducing market fluctuations, promoting transparency in financial markets, and attracting foreign investors.

By implementing these measures, Nigeria can bridge the gap between financial sector development and overall economic growth, ensuring a more inclusive and sustainable economic expansion.

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