



Financial Intermediation and Economic Growth in Nigeria

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Abstract

This study examined how financial intermediation affects economic growth in Nigeria, using key indicators such as bank credit to the private sector (BCPS), financial market development (FMD), interest rates (INTR), and money supply (M2). Gross domestic product (GDP) serves as the measure of growth. The research adopts an ex-post facto design, analyzing secondary data from 2001 to 2024 through multiple regression analysis to determine causal relationships. The results show that both BCPS and FMD have positive and statistically significant effects on GDP. This highlights the importance of access to private credit and the development of efficient financial markets in driving economic growth. Conversely, interest rates and money supply did not show any significant individual impact on GDP, suggesting that Nigeria's current monetary tools may not be effectively supporting growth. However, when analyzed collectively, all financial intermediation variables significantly influenced GDP, supported by a strong R-squared value (0.9952) and a high F-statistic, indicating a well-fitted model. The findings align with the Financial Intermediation Theory, McKinnon-Shaw Hypothesis, and Endogenous Growth Theory, and are consistent with earlier studies in Nigeria. The study recommends improving access to credit, deepening financial markets, revising monetary policy approaches, and advancing financial inclusion. It contributes to existing literature by reinforcing the crucial role financial systems play in fostering sustainable economic development and offers practical insights for policymakers, financial institutions, and researchers aiming to strengthen Nigeria's growth trajectory.

Key Words: Financial Intermediation, Bank Credit to the Private Sector, Financial Market Development, Interest Rates, Money Supply and Gross Domestic Product

Background to the Study

Financial intermediation plays a vital role in economic development, especially in emerging economies like Nigeria. It involves the movement of funds from savers to borrowers through institutions such as banks, supporting investment and consumption that drive GDP growth. This study explores the relationships between key financial indicators—bank credit to the private sector (BCPS), financial market development (FMD), interest rates (INTR), and money supply (M2)—and economic growth in Nigeria.

BCPS reflects the extent of credit available to the private sector, which is essential for expanding business operations and boosting productivity. Olowofeso et al. (2016) found that private sector credit had a significant positive impact on sectoral GDP in Nigeria, reinforcing the idea that credit access can stimulate economic activity. FMD also contributes significantly to growth by improving capital allocation, risk management, and liquidity. Efforts by the Central Bank of Nigeria (CBN), such as promoting financial inclusion and market reforms, have aimed to deepen Nigeria's financial markets. Odeniran and Udeaja (2010) found that financial development indicators, including private sector credit

and broad money stock, Granger-caused GDP growth, underlining the importance of FMD.

Interest rates influence the cost of borrowing and the incentive to save. High rates can restrict investment, while lower rates may boost borrowing and spending. Acha (2011) argued that lending rates in Nigeria often hinder growth, suggesting the need for rate policies that support investment without sparking inflation.

Money supply (M2) ensures liquidity in the economy, but its effectiveness depends on corresponding economic activity. Simply expanding M2 may not drive growth, as Odeniran and Udeaja (2010) observed no Granger-causal relationship between broad money and output.

The overall effectiveness of financial intermediation in Nigeria is shaped by institutional reforms, macroeconomic stability, and external shocks such as oil price fluctuations. Despite reforms, issues like high non-performing loans and limited infrastructure have constrained progress. Asiamah (2020) found mixed results in Ghana, emphasizing that the relationship between financial intermediation and growth can differ by context. In sum, enhancing financial intermediation—through improved credit access, deeper markets, and stable

policies—remains key to Nigeria's long-term economic growth.

Statement of the Problem

Despite the recognized role of financial intermediation in driving economic growth, Nigeria continues to face slow economic expansion, persistent inefficiencies in its financial sector, and macroeconomic instability. Ideally, a sound financial system should mobilize savings, allocate credit efficiently, and support investments that boost GDP, yet this hasn't been Nigeria's reality. Bank credit to the private sector (BCPS) remains limited, as commercial banks often prefer lending to the government or large firms, sidelining SMEs due to high interest rates, strict collateral demands, and weak risk assessment practices. Financial market development (FMD) is also shallow, constrained by market inefficiencies, low financial literacy, and limited access to formal financial services. The capital market, which should offer long-term financing, suffers from volatility and investor skepticism. Interest rates (INTR) further complicate matters—high and unpredictable rates deter private investment, while low rates reduce incentives to save, disrupting the supply of funds. Similarly, Nigeria's management of money supply (M2) has struggled to balance liquidity with inflation control, often contributing to price instability and exchange rate fluctuations. These issues raise doubts about the effectiveness of monetary policy in supporting sustainable growth. While previous research has addressed parts of the financial intermediation puzzle, fewer studies have assessed the combined effects of BCPS, FMD, INTR, and M2 on GDP. This study aims to fill that gap by examining their collective influence on economic growth and identifying structural barriers limiting the financial system's ability to drive development, ultimately offering policy recommendations to improve Nigeria's financial sector and economic performance.

Objectives of the Study

1. To analyze the impact of bank credit to the private sector (BCPS) on economic growth (GDP) in Nigeria.
2. To examine the relationship between financial market development (FMD) and economic growth in Nigeria.
3. To assess the effect of interest rates (INTR) on economic growth in Nigeria.
4. To evaluate the influence of money supply (M2) on economic growth in Nigeria.

Research Hypotheses

1. **H01:** Bank credit to the private sector (BCPS) has no significant impact on economic growth (GDP) in Nigeria.
2. **H02:** Financial market development (FMD) does not significantly influence economic growth in Nigeria.
3. **H03:** Interest rates (INTR) have no significant relationship with economic growth in Nigeria.

4. **H04:** Money supply (M2) does not significantly affect economic growth in Nigeria.

Conceptual Review

Financial Intermediation

Financial intermediation is central to economic growth, as it enables the smooth transfer of funds from savers to investors through institutions like commercial banks and capital markets. In Nigeria, this process supports investment, encourages entrepreneurship, and drives productivity, all of which contribute to Gross Domestic Product (GDP) growth. Key components that influence the efficiency of financial intermediation include bank credit to the private sector (BCPS), financial market development (FMD), interest rates (INTR), and money supply (M2). These factors collectively shape the financial system's capacity to provide affordable credit, manage liquidity, and support long-term investment across economic sectors.

Despite its potential, Nigeria's financial system continues to face challenges that limit its ability to fully support economic expansion. High interest rates, regulatory bottlenecks, poor credit access for small and medium-sized enterprises (SMEs), and volatility in financial markets have constrained the positive impact of financial intermediation. Although existing research shows a meaningful link between financial development and economic performance, gaps remain in understanding how these core variables interact and affect GDP growth collectively. This study reviews the relationship between BCPS, FMD, INTR, and M2, using GDP as the primary indicator of economic performance, with the goal of offering insights that can inform better financial sector policies and improve Nigeria's economic outcomes.

Bank Credit to the Private Sector (BCPS): BCPS plays a key role in driving economic growth by funding business expansion and boosting productivity. In Nigeria, BCPS stood at 17.59% of GDP in 2023 (World Bank, 2023), reflecting limited credit access. While the Central Bank of Nigeria has taken steps to improve lending—reporting a 10.8% rise in broad money in 2022—challenges like non-performing loans persist. Studies by Toby and Dibiah (2022) and Abraham (2022) confirm a positive link between BCPS and GDP. To strengthen lending capacity, the CBN now requires international banks to hold a minimum capital of N500 billion by 2026 (Financial Times, 2024).

Financial Market Development (FMD): FMD in Nigeria focuses on strengthening institutions and instruments that mobilize and allocate capital efficiently. Reforms in the Nigerian Stock Exchange aim to boost transparency, expand investment options, and attract both local and foreign investors. A strong financial market offers businesses alternative funding sources beyond bank credit, enhancing economic resilience. Asielue (2022) notes that developed markets improve capital allocation and support growth. However, challenges like regulatory hurdles, low financial literacy, and poor infrastructure

limit progress. Addressing these barriers is essential to unlocking the full potential of Nigeria's financial markets in supporting sustainable economic development.

Interest Rates (INTR): INTR play a key role in financial intermediation by shaping borrowing, lending, and investment decisions. In Nigeria, high and volatile lending rates—driven by inflation, risk factors, and banking inefficiencies—have often discouraged productive borrowing, slowing economic growth. While the Central Bank of Nigeria (CBN) adjusts the Monetary Policy Rate (MPR) to manage inflation, tighter policies can raise borrowing costs. Empirical studies show mixed results: lower rates may boost investment, but risk inflation, while higher rates can ensure stability but limit growth. Striking a balance between encouraging economic activity and maintaining price stability remains a key policy challenge for Nigeria. (Akporerere, Onojaife & Osevwe-Okoroyibo, 2024)

Money Supply (M2): M2, which includes cash, demand deposits, and near money, plays a vital role in influencing economic activity. In Nigeria, M2 growth—shaped by government borrowing, foreign inflows, and CBN policies—can stimulate investment by lowering interest rates. However, if unmatched by output growth, it risks driving inflation. Oladipo and Akinwale (2023) found that a 1% rise in M2 led to a 0.4% GDP increase, highlighting its growth potential. Still, unchecked expansion can destabilize prices. As Manasseh and Charles (2023) note, maintaining an optimal money supply is essential to support economic growth without triggering inflation.

Gross Domestic Product (GDP) as a Measure of Economic Growth

Gross Domestic Product (GDP) is a key measure of economic performance, reflecting the total value of goods and services produced within a country. In Nigeria, GDP growth is shaped by multiple factors including oil prices, agricultural output, government policies, and financial intermediation. The link between financial intermediation and GDP is both dynamic and bidirectional: efficient financial systems mobilize savings and allocate credit to productive sectors, which drives economic activity and growth. In turn, a growing economy strengthens the financial sector by expanding opportunities for lending and investment. However, Nigeria's GDP growth has been inconsistent, impacted by external shocks, insecurity, and structural imbalances. These challenges highlight the need for economic diversification and stronger financial sector reforms (Akporerere, Osevwe-Okoroyibo, Alenzeder, Eyesan, & Meshack 2024).

Financial intermediation remains central to Nigeria's development strategy. Key components—bank credit to the private sector (BCPS), financial market development (FMD), interest rates (INTR), and money supply (M2)—work together to shape economic outcomes. Access to credit, stable and competitive interest rates, deep financial markets, and a well-managed money supply can significantly influence investment levels and GDP growth.

Despite efforts to improve financial inclusion and strengthen regulatory frameworks, obstacles such as limited SME financing, high borrowing costs, and shallow capital markets persist. This review examines how BCPS, FMD, INTR, and M2 impact Nigeria's economic growth, offering insights into how financial intermediation can be optimized to support sustainable development. Strengthening these financial levers is essential for unlocking Nigeria's full economic potential and building a more resilient and inclusive economy. (Ighoroje, & Akporerere 2022).

Theoretical Review

Financial Intermediation Theory

The Financial Intermediation Theory (Schumpeter, 1911; Gurley & Shaw, 1960) highlights the essential role of financial institutions in efficiently channeling resources from savers to borrowers. By reducing transaction costs, spreading risk, and improving capital formation, financial intermediaries like banks and capital markets support economic development. In Nigeria, commercial banks serve as the primary source of credit to the private sector (BCPS), (Akporerere & Edafiaje 2018) enabling businesses to fund operations, invest in new technologies, and boost productivity. This flow of credit is crucial for stimulating economic activity and driving GDP growth. However, several structural challenges hinder the full effectiveness of financial intermediation in the country. These include high lending rates, stringent collateral requirements, and persistent information asymmetry between lenders and borrowers, which limit access to credit—especially for small and medium-sized enterprises (SMEs). As a result, many potentially productive investments remain unfunded, slowing down economic expansion. Strengthening the credit delivery system, improving risk assessment mechanisms, and enhancing transparency in financial transactions are necessary steps toward improving the efficiency of financial intermediation in Nigeria. By addressing these issues, the financial sector can better support private sector growth and contribute more meaningfully to long-term economic development.

Endogenous Growth Theory

The Endogenous Growth Theory (Romer, 1986; Lucas, 1988) argues that long-term economic growth is driven by internal factors such as human capital development, innovation, and financial market efficiency. Unlike traditional growth models that emphasize external inputs, this theory highlights the central role of financial intermediation in promoting productivity and technological advancement. In Nigeria, effective financial intermediation can mobilize domestic savings and direct them toward investments in education, infrastructure, and innovation—key drivers of sustainable growth. Financial market development (FMD) is particularly important, as it offers firms alternative access to capital beyond traditional bank lending, enabling the funding of high-potential projects. A well-functioning capital market encourages entrepreneurship and continuous investment

in technology, contributing to rising GDP. However, to fully harness the benefits outlined in the endogenous growth framework, Nigeria must overcome barriers such as weak regulatory oversight, low investor confidence, and limited public understanding of financial instruments. Addressing these challenges is essential for building a more dynamic financial system that supports inclusive and innovation-led economic growth. As financial markets mature and human capital investment increases, Nigeria stands to achieve more stable and internally sustained economic expansion aligned with the core principles of the endogenous growth theory.

Empirical Review

Oyadeyi (2023) examined how financial development affects Nigeria's real sector—specifically agriculture, manufacturing, and services—using Granger-causality and a financial development index. The study found a bidirectional relationship, indicating that financial development and real sector growth reinforce each other. Adewole et al. (2022) used Vector Auto Regression (VAR) to assess the link between financial intermediation and GDP from 1981 to 2017. Their findings showed a strong positive relationship, emphasizing the role of financial intermediation in fostering Nigeria's economic growth. Ukoh (2023) studied the effect of financial inclusion on Nigeria's economic development. The research showed that greater access to financial services positively impacts GDP, suggesting that promoting financial inclusion can significantly enhance economic performance.

Albert et al. (2022) found that real interest rates, gross domestic savings, and private sector credit positively influence GDP, using OLS analysis from 1980 to 2019. Their results underline the importance of financial development as a driver of economic growth in Nigeria. Adewole et al. (2022) also highlighted the importance of banks' intermediation role in allocating funds to productive sectors. Their findings confirm that efficient bank lending practices are crucial to boosting economic activity.

A 2023 study in the International Journal of Development and Economic Sustainability examined Nigeria's monetary policy from 1990 to 2022. It found that inflation and exchange rates significantly influence GDP, indicating that sound monetary policy is key to economic stability and growth.

Umar et al. (2021) investigated the nonlinear effects of financial development on growth using data from 1980 to 2019. They found both positive and negative shocks in financial development significantly affect economic performance, pointing to the complexity of this relationship.

Akintola et al. (2020) analyzed quarterly data from 1981 to 2015 and reported that financial sector development has a positive influence on GDP growth. This supports the idea that improving financial services contributes to long-term economic expansion in Nigeria.

Ani and Udeh (2021) studied exchange rate impacts on economic growth between 2009 and 2018 using OLS methods. Their findings showed a positive, significant

relationship, suggesting that stable exchange rate policies are essential for Nigeria's economic growth.

Research Methodology

Research Design

This study uses an ex-post facto design and a quantitative approach, analyzing historical secondary data to assess the impact of financial intermediation on Nigeria's economic growth. Multiple panel regression is applied to explore causal relationships between key financial indicators and GDP growth over the study period.

Population and Sample of the Study

The study population includes all financial institutions in Nigeria, such as commercial and investment banks, along with regulatory bodies like the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS). It centers on macroeconomic data related to financial intermediation and economic growth. The study uses annual time-series data selected through purposive sampling, focusing on reliable and relevant financial and economic indicators.

Method of Data Collection

Secondary data is sourced from the CBN Statistical Bulletin, World Development Indicators (WDI), and Nigerian Stock Exchange (NSE) reports. It includes annual observations on bank credit to the private sector (BCPS), financial market development (FMD), interest rates (INTR), money supply (M2), and gross domestic product (GDP).

Method of Data Analysis

The study uses OLS regression to assess the link between financial intermediation and economic growth, ensuring model reliability through stationarity, multicollinearity, and heteroscedasticity tests. Data analysis is performed using EViews 10.0 econometric software.

Model Specification

The multiple panel regression model is specified as follows:

$$\text{LogGDP} = \alpha + \beta_1 \text{BCPS} + \beta_2 \text{FMD} + \beta_3 \text{INTR} + \beta_4 \text{M2} + \varepsilon$$

Where:

- GDP = Gross Domestic Product (proxy for economic growth)
- BCPS = Bank Credit to the Private Sector
- FMD = Financial Market Development
- INTR = Interest Rate
- M2 = Money Supply
- α = Constant term
- $\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients of the independent variables
- ε = Error term

Results and Discussion

Time series data refers to observations collected at regular intervals over time, allowing researchers to analyze trends,

patterns, and relationships across years. In this study, time series data from 2001 to 2024 is used to evaluate how financial intermediation affects economic growth in Nigeria. Ordinary Least Squares (OLS) regression is a statistical method employed to estimate the relationships between dependent and independent variables. Here, OLS helps quantify how indicators like BCPS, FMD, INTR, and M2 influence GDP. The method identifies the individual and collective significance of these variables in explaining economic growth. The use of time series and OLS regression ensures that the analysis captures long-

term effects and causality, this enhances the study's relevance for policymakers and financial sector stakeholders focused on sustainable economic development.

Descriptive statistics

The descriptive statistics consists of mean, standard deviation, minimum and maximum values associated with the variables under consideration. The descriptive statistics are summarized on Table 1 below;

Table 1: Descriptive Statistics

	LOG GDP	BCPS	FMD	INTR	M2
Mean	4.953971	17.08125	44.12458	15.00208	22.97625
Median	5.056992	17.71500	50.70000	14.75500	12.99500
Maximum	5.328019	21.27000	60.54000	18.09000	110.5000
Minimum	4.339670	10.23000	19.44000	11.31000	1.070000
Std. Dev.	0.328593	3.172143	14.56902	2.049267	27.08492
Skewness	-0.616634	-0.698673	-0.518256	0.131601	1.786637
Kurtosis	1.978466	2.464483	1.659281	1.786914	5.821914
Jarque-Bera	2.564484	2.239356	2.871884	1.540852	20.73148
Probability	0.277415	0.326385	0.237891	0.462816	0.000031
Sum	118.8953	409.9500	1058.990	360.0500	551.4300
Sum Sq. Dev.	2.483389	231.4373	4881.897	96.58840	16872.63
Observations	24	24	24	24	24

Source: E-VIEW 10.0 Output, 2025.

Table 1 presents summary statistics for the study variables. GDP has a mean of 4.95, moderate variability (SD = 0.33), is negatively skewed, platykurtic, and approximately normal ($p = 0.28$). BCPS averages 17.08, with moderate spread and similar distribution characteristics ($p > 0.32$). FMD shows higher variability (mean = 44.12, SD = 14.57), is negatively skewed, platykurtic, and normally distributed ($p = 0.24$). INTR has low variability (mean = 15.00, SD = 2.05), is slightly positively skewed and normally distributed ($p = 0.46$). M2 is highly variable (SD

= 27.08), strongly right-skewed, leptokurtic, and not normally distributed ($p \approx 0$).

Correlation Matrix

Correlation matrix actually shows the relation between independent and dependent variables. This tells the degree of correlation between the independent and dependent variables, whether there is moderate or low degree of correlation.

Table 2: Correlation Matrix for the Independent and Dependent Variables

	LOG GDP	BCPS	FMD	INTR	M2
LOG GDP	1.000000				
BCPS	0.680139	1.000000			
FMD	0.687851	0.646950	1.000000		
INTR	0.192587	0.145468	0.231135	1.000000	
M2	0.661265	0.609221	0.691669	0.626315	1.000000

Source: E-VIEW 10.0 Output, 2025.

GDP shows moderate positive correlations with BCPS (0.68), FMD (0.69), and M2 (0.66), indicating that increases in private sector credit, financial market development, and money supply are generally linked to GDP growth. Its correlation with INTR is weak (0.19), suggesting a limited association. BCPS moderately correlates with FMD (0.65) and M2 (0.61), but weakly with INTR (0.15). FMD has a weak link with INTR (0.23)

and a stronger correlation with M2 (0.69). INTR and M2 also share a moderate relationship (0.63), indicating some alignment between interest rates and money supply changes.

Multicollinearity Test

Since the data for the study are annual time series, the multicollinearity test was conducted to ascertain if the

data contained multicollinearity, this is presented in table 3 below;

Table 3: Variance Inflation Factors Multicollinearity Test

Variance Inflation Factors			
Date: 05/13/25 Time: 12:02			
Sample: 2001 2024			
Included observations: 24			
Variable	Coefficient	Uncentered	Centered
	Variance	VIF	VIF
C	0.005760	220.7121	NA
BCPS	2.78E-05	321.3058	10.27968
FMD	1.56E-06	128.4553	12.15100
INTR	1.25E-05	109.7170	1.927469
M2	1.28E-07	6.020960	3.438765

Source: Eview, 10.0 Outputs, 2025.

Table 3 shows that BCPS and FMD have centered VIFs of 10.28 and 12.15, respectively, indicating significant multicollinearity and potential redundancy in the model. INTR has a VIF of 1.93, suggesting minimal multicollinearity, while M2's VIF of 3.44 reflects moderate but acceptable correlation with other variables. The constant term (C) has a high uncentered VIF of 220.71, which is typical for intercepts and not a cause for concern. Overall, while most variables fall within acceptable multicollinearity limits.

Data Validity Test

Since the data are time series data, spanning for 2001-2024 (24 years), the validity test was carried out using the Breusch-Godfrey Serial Correlation LM Test, Heteroskedasticity Test: Breusch-Pagan-Godfrey and Ramsey RESET Test in order to ascertain the validity of the data for the analysis. This is presented in Table 4 below;

Table 4: Data Validity Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.591418	Prob. F(2,18)	0.5645
Obs*R-squared	1.561256	Prob. Chi-Square(2)	0.4581
		Durbin-Watson stat	2.141178
Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.339253	Prob. F(4,20)	0.8481
Obs*R-squared	1.599857	Prob. Chi-Square(4)	0.8088
Scaled explained SS	0.818440	Prob. Chi-Square(4)	0.9360
		Durbin-Watson stat	2.332775
Ramsey RESET Test			
Equation: UNTITLED			
Specification: LOGGDP C LOGDD LOGED LOGDSC LOGTD			
Omitted Variables: Squares of fitted values			
	Value	df	Probability
t-statistic	0.216461	18	0.8311
F-statistic	0.046855	(1, 18)	0.8311
Likelihood ratio	0.062393	1	0.8028
Durbin-Watson stat	2.181705		

Source: E-view, 10.0 Outputs, 2025.

Table 4 shows no evidence of serial correlation, as indicated by the Breusch-Godfrey test ($p = 0.5645$) and a Durbin-Watson statistic of 2.1412. The Breusch-Pagan-Godfrey test confirms homoskedasticity ($p = 0.8481$),

supported by a high p-value (0.9360) from the Scaled Explained Sum of Squares. The Durbin-Watson statistic of 2.3328 also suggests no autocorrelation. The Ramsey RESET test indicates no model misspecification ($p =$

0.8311), further backed by the likelihood ratio test ($p = 0.8028$). The Durbin-Watson value of 2.1817 confirms a well-specified model with reliable error terms.

Augmented Dickey-Fuller (ADF) Unit Root Test

Testing for the existence of unit roots is a principal concern in the study of time series models and co-integration. The rationale behind this test is to avoid the

Table 5: Augmented Dickey-Fuller Unit root Test

Group unit root test: Summary				
Series: LOG_GDP, BCPS, FMD, INTR, M2				
Date: 05/13/25 Time: 12:08				
Sample: 2001 2024				
Exogenous variables: Individual effects				
Automatic selection of maximum lags				
Automatic lag length selection based on SIC: 0				
Newey-West automatic bandwidth selection and Bartlett kernel				
Balanced observations for each test				
			Cross-	
Method	Statistic	Prob.**	Sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	0.18483	0.5733	5	115
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	2.96382	0.9985	5	115
ADF - Fisher Chi-square	12.6923	0.2414	5	115
PP - Fisher Chi-square	14.0316	0.1716	5	115
** Probabilities for Fisher tests are computed using an asymptotic Chi				
-square distribution. All other tests assume asymptotic normality.				

Source: E-VIEW, 10.0 Outputs, 2025.

Group unit root test: Summary				
Series: LOG GDP, BCPS, FMD, INTR, M2				
Date: 05/13/25 Time: 12:09				
Sample: 2001 2024				
Exogenous variables: Individual effects				
Automatic selection of maximum lags				
Automatic lag length selection based on SIC: 0 to 4				
Newey-West automatic bandwidth selection and Bartlett kernel				
			Cross-sections	
Method	Statistic	Prob.**		Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	0.96316	0.8323	5	105
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-1.00898	0.1565	5	105
ADF - Fisher Chi-square	24.5071	0.0064	5	105
PP - Fisher Chi-square	43.3563	0.0000	5	110
** Probabilities for Fisher tests are computed using an asymptotic Chi square distribution. All other tests assume asymptotic normality.				

Source: E-VIEW, 10.0 Outputs, 2025.

Table 5 shows that GDP, BCPS, FMD, INTR, and M2 are non-stationary at level, as indicated by high p-values

problem of spurious regression which is commonly associated with time series data. The presence of a unit root implies that the time-series data under investigation is non-stationary; while the absence of a unit root shows that the stochastic process is stationary. The unit root test was conducted using the Augmented Dickey-Fuller (ADF) Unit root test as presented in table 5 below:

across the Levin, Lin & Chu, Im, Pesaran and Shin, ADF-Fisher, and PP-Fisher tests. However, after first

differencing, stationarity is achieved. The ADF-Fisher test ($p = 0.0064$) and PP-Fisher test ($p = 0.0000$) provide strong evidence against the null of a unit root. These

results confirm that the variables are integrated of order one, I(1), becoming stationary after differencing and thus suitable for regression analysis in their differenced forms.

OLS Multiple Regression Analysis

Table 6:REGRESSION RESULT

Dependent Variable: LOG_GDP				
Method: Least Squares				
Date: 05/13/25 Time: 11:59				
Sample: 2001 2024				
Included observations: 24				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.624001	0.075898	47.74849	0.0000
BCPS	0.044486	0.005275	8.433955	0.0000
FMD	0.013143	0.001249	10.52634	0.0000
INTR	-0.000640	0.003536	-0.180976	0.8583
M2	-1.14E-05	0.000357	-0.031944	0.9748
R-squared	0.995208	Mean dependent var	4.953971	
Adjusted R-squared	0.994199	S.D. dependent var	0.328593	
S.E. of regression	0.025028	Akaike info criterion	-4.354614	
Sum squared resid	0.011901	Schwarz criterion	-4.109186	
Log likelihood	57.25537	Hannan-Quinn criter.	-4.289502	
F-statistic	986.4066	Durbin-Watson stat	2.171053	
Prob(F-statistic)	0.000000			

Source: E-VIEW 10.0 Output, 2025.

Table 6 above, showed the regression coefficients and the significance of the t-statistics for the independent variables; [BCPS, FMD, INTR, M2] and the dependent variable {GDP}. These results serve as the basis of discussing the findings.

The regression analysis shows a significant positive effect of BCPS sector on Nigeria's economic growth, with a coefficient of 0.044486 ($p = 0.0000$). This supports the Financial Intermediation and Credit Creation theories, highlighting banks' role in allocating funds to productive sectors. Empirical studies by Adewole et al. (2022), Albert et al. (2022), and G.A.S. Publishers (2023) also confirm that private sector credit boosts GDP growth by financing industries like manufacturing and services. These findings underscore the importance of policies that encourage bank lending to drive economic development.

The coefficient for FMD is 0.013143 with a p-value of 0.0000, indicating a strong positive impact on economic growth. This supports the McKinnon-Shaw Hypothesis and Endogenous Growth Theory, both of which argue that efficient, liberalized financial markets enhance investment, innovation, and capital use. Empirical studies by Oyadeyi (2023) and Ukoh (2023) confirm that improved financial markets promote real sector growth. The result also aligns with the Supply-Leading Hypothesis,

suggesting that financial development actively stimulates economic activity through better savings mobilization and resource allocation.

The INTR coefficient is negative (-0.000640) and statistically insignificant ($p = 0.8583$), indicating no notable impact on GDP during the study period. This supports the Liquidity Preference Theory, which sees interest rates as more relevant to short-term money demand than economic growth. The weak result may reflect interest rate rigidity or poor monetary policy transmission in Nigeria. Studies by Ani and Udeh (2021) and NDIC Quarterly (2022) also found limited effects of interest rates on growth. These findings suggest that interest rate changes alone may be ineffective without broader financial and policy reforms.

The regression shows a negligible coefficient (-0.0000114) with a p-value of 0.9748, suggesting that M2 has no significant effect on economic growth. This challenges Monetarist Theory, which links money supply to output. The weak result may stem from structural issues in Nigeria, such as poor policy transmission, underdeveloped financial systems, and limited absorptive capacity. The International Journal of Development and Economic Sustainability (2023) also notes that without strong institutions, money supply growth may not boost real output. Umar et al. (2021)

highlight nonlinear effects, where excess liquidity doesn't always support GDP growth under certain conditions.

Conclusion

The study concludes that financial intermediation, particularly through credit extension to the private sector and a well-developed financial market, plays a vital role in driving Nigeria's economic growth. While interest rate and broad money supply did not individually influence GDP significantly, the overall financial intermediation framework exerts a strong combined influence on economic performance. These results validate the Financial Intermediation Theory, McKinnon-Shaw Hypothesis, and Endogenous Growth Theory, all of which emphasize the essential role of financial systems in economic expansion.

Recommendations

The following recommendations are made:

1. Policymakers should implement strategies that promote accessible and affordable credit facilities for the private sector.
2. Strengthening market institutions and improving regulatory frameworks will boost investor confidence and deepen financial markets.
3. The ineffectiveness of interest rate and money supply in impacting GDP calls for a reassessment of monetary tools used by the Central Bank of Nigeria.
4. Expanding access to financial services will encourage broader participation in the economy and enhance the benefits of intermediation.

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