



FINANCIAL SYSTEM CONTRIBUTION ON THE DEVELOPMENT OF NIGERIAN ECONOMY

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capitalization, credit to
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ABSTRACT

This study investigated the role of the financial system in the development of the Nigerian economy between 2000 and 2023. The study focused on stock market capitalization, credit to the private sector, and financial depth, while Real Gross Domestic Product (RGDP) was used as the measure of economic development. An ex-post facto research design was employed, using annual secondary data obtained from relevant economic and financial sources. The Autoregressive Distributed Lag (ARDL) technique was used to determine the short-run and long-run effects of the financial system indicators on RGDP. The results showed that stock market capitalization exerted a positive and significant effect on RGDP in the short run but a negative and insignificant effect in the long run. Credit to the private sector had a negative and significant short-run effect but a positive and insignificant long-run effect. Financial depth also recorded a positive and significant short-run effect, while its long-run effect was positive but insignificant. The study concludes that the financial system supports economic activities in the short term, but its contribution to sustained economic development remains limited. It recommends improved financial intermediation, easier access to affordable credit, stronger capital market development, and wider financial inclusion to enhance the long-term contribution of the financial system to Nigeria's economic development.

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1.0 INTRODUCTION

1.1 Background to the Study

Economic development is concerned with sustained improvements in the productive capacity and welfare of a country. It involves changes in income, employment, productivity, infrastructure, poverty levels and the general standard of living. Todaro and Smith (2021) noted that development is broader than economic growth because it also involves structural changes and improvements in human welfare.

The financial system is an important component of economic development because it provides mechanisms for mobilising savings and directing financial resources towards productive activities. Through banks, capital markets and other financial institutions, funds can be made available for investment, business expansion and capital formation. An effective financial system can therefore support productivity, employment creation and economic growth.

In Nigeria, several reforms have been introduced to strengthen the financial system, including banking sector reforms, capital market development and the expansion of digital financial services. Despite these developments, the economy continues to experience challenges such as inadequate access to affordable credit, financial exclusion, unemployment and low productive capacity. These challenges raise questions about the extent to which developments in the financial system have translated into sustained improvements in economic performance.

It is against this background that this study examines the contribution of the financial system to the development of the Nigerian economy between 2000 and 2023. The study focuses on stock market capitalization, credit to the private sector and financial depth as measures of financial system development, while Real Gross Domestic Product (RGDP) is used as the measure of economic development.

1.2 Statement of the Research Problem

Nigeria possesses substantial economic resources and a large domestic market, yet the country continues to face challenges in achieving sustained economic development. Issues such as unemployment, poverty, inadequate investment and weak productive capacity remain significant concerns. Although various financial sector reforms have been implemented to improve financial intermediation and stimulate investment, the expected contribution of the financial system to broader economic development has not been sufficiently established.

In particular, uncertainty remains concerning whether the growth of the Nigerian capital market, increased credit to the private sector and expansion of financial resources have translated into measurable improvements in economic performance. The relationship may also differ between the short run and the long run due to changes in financial policies, economic conditions and investment behaviour.

Therefore, there is a need to empirically examine the extent to which financial system development has contributed to Nigeria's economic development. This study addresses this problem by examining the effects of stock market capitalization, credit to the private sector and financial depth on Real Gross Domestic Product between 2000 and 2023.

1.3 Research Questions

The study seeks to answer the following research questions:

1. To what extent does stock market capitalization affect the development of the Nigerian economy between 2000 and 2023?
2. What effect does credit to the private sector have on the development of the Nigerian economy between 2000 and 2023?
3. What effect does financial depth have on the development of the Nigerian economy between 2000 and 2023?

1.4 Objectives of the Study

The main objective of this study is to examine the contribution of the financial system to the development of the Nigerian economy. The specific objectives are to:

1. examine the effect of stock market capitalization on the development of the Nigerian economy between 2000 and 2023;
2. determine the effect of credit to the private sector on the development of the Nigerian economy between 2000 and 2023; and
3. assess the effect of financial depth on the development of the Nigerian economy between 2000 and 2023.

The following null hypotheses are formulated and will be tested at the 5% level of significance:

H0₁: Stock market capitalization has no significant effect on Real Gross Domestic Product in Nigeria.

H0₂: Credit to the private sector has no significant effect on Real Gross Domestic Product in Nigeria.

H0₃: Financial depth has no significant effect on Real Gross Domestic Product in Nigeria.

1.5 Significance of the Study

This study is expected to be useful to policymakers, financial institutions, investors, researchers and the general public. For policymakers, the findings may provide evidence for designing financial policies that can strengthen financial intermediation and promote economic development. Financial institutions may benefit from insights into the importance of credit provision and efficient resource allocation. Investors may gain a better understanding of the relationship between capital market development and economic performance. Researchers and academics may also find the study useful as a reference for further research on financial system development and economic development in Nigeria.

2.0 REVIEW OF RELATED LITERATURE

The conceptual framework examines how stock market capitalization, private-sector credit and financial depth influence Nigeria's economic development. RGDP serves as the proxy for economic development, with the framework assuming that financial system development promotes savings, investment, credit allocation and capital formation.

The conceptual relationship among the variables is illustrated below:

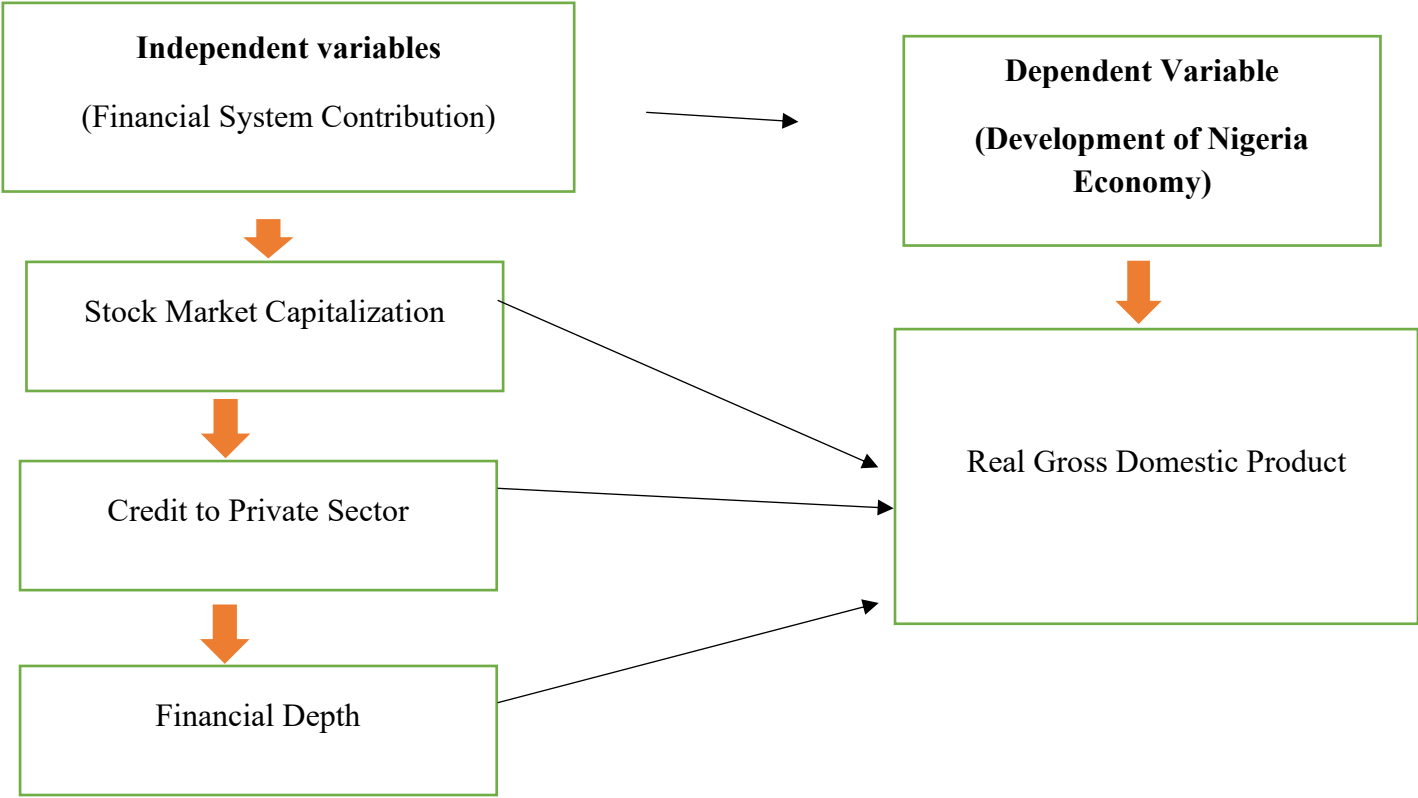
Independent Variable

Dependent Variable

Financial System Contribution (RGDP) —————> Development of the Nigerian Economy

- Stock Market Capitalization (SMC)
- Credit to the Private Sector (CPS)
- Financial Depth (FD)

The framework therefore postulates that improvements in stock market capitalization, credit to the private sector, and financial depth will enhance investment, productivity, and sustainable economic development in Nigeria.



Source: Researchers Compilation, 2026.

2.1 Conceptual Review

This section examines the major concepts relating to the dependent and independent variables of the study. The concepts covered are financial system, economic development, real gross domestic product, stock market capitalization, credit to the private sector and financial depth.

2.1.1 Economic Development

Todaro and Smith (2020) view economic development as an improvement in the economic, political and social well-being of a country's population. In the Nigerian context, Adegbite and Azeez (2022) explain it as continuous improvement in living standards through inclusive growth, infrastructure, employment and poverty reduction. This study adopts their view because it considers development beyond economic growth measured by GDP.

2.1.2 Financial System

A financial system consists of institutions, markets, instruments and regulations responsible for mobilizing and distributing financial resources between surplus and deficit units (Mishkin, 2021). It facilitates savings, investment, liquidity, risk management and effective allocation of resources. This study adopts Eze and Nwankwo's (2023) definition because it highlights the financial system's function of mobilizing and allocating resources for economic development.

2.1.3 Stock Market Capitalization

Stock market capitalization represents the total market value of shares quoted on a stock exchange. It reflects the size and level of development of the capital market, investor confidence and market performance, as well as the contribution of capital

markets to financing economic activities (Mishkin & Eakins, 2021).

2.1.4 Credit to the Private Sector

Credit to the private sector comprises loans and other financial resources extended by financial institutions to businesses and households for productive purposes. It promotes investment, entrepreneurship, production and employment and serves as an important indicator of financial intermediation (Beck et al., 2020).

2.1.5 Financial Depth

Financial depth describes the size and capacity of financial institutions and markets to mobilize and distribute financial resources within an economy. It is often measured through indicators such as broad money and financial assets relative to GDP and reflects the availability of credit and liquidity (Beck et al., 2020; Sahay et al., 2022).

2.1.6 Real Gross Domestic Product (RGDP)

Real Gross Domestic Product (RGDP) represents the value of final goods and services produced in an economy after adjusting for inflation. It shows changes in actual economic output and serves as the proxy for Nigeria's economic development in this study (Blanchard & Johnson, 2022).

2.2 Theoretical Review

The study is based on Financial Liberalization Theory, Modern Portfolio Theory and Financial Intermediation Theory. These theories provide explanations of how savings, investment, financial development and credit allocation may affect economic development.

2.2.1 Financial Liberalization Theory

Financial Liberalization Theory was developed by McKinnon (1973) and Shaw (1973). The theory proposes that reducing financial restrictions and permitting market forces to influence interest rates can encourage savings, investment, financial deepening and economic growth. However, inadequate regulation may result in financial

instability and increased borrowing costs. The theory is relevant to this study because it explains the possible contribution of financial development, credit availability and capital market development to Nigeria's economic development.

2.2.2 Modern Portfolio Theory

Modern Portfolio Theory (MPT), introduced by Markowitz (1952), explains that investors can improve returns and control risk through diversification. It provides a basis for balancing risk and return, thereby supporting efficient investment choices and capital market development. However, the theory depends on historical information, assumes rational investors and normally distributed returns, and pays limited attention to political and macroeconomic conditions.

2.2.3 Financial Intermediation Theory

Financial Intermediation Theory, developed by Gurley and Shaw (1960), explains the process through which financial institutions collect savings and direct funds towards productive investment. It stresses the importance of financial intermediaries in reducing transaction costs and information asymmetry, thereby encouraging investment and economic growth. However, the theory gives less attention to capital markets, financial technology, digital finance and systemic risks, especially where financial infrastructure and regulation are weak.

2.2.4 Underpinning Theory

This study is anchored on Financial Intermediation Theory developed by Gurley and Shaw (1960). The theory is considered most suitable because it explains how financial institutions mobilize savings from surplus units and transfer them to deficit units for productive investment. It further emphasizes that an effective financial system improves resource allocation, encourages capital formation, facilitates investment and contributes to economic development.

2.3 Empirical Review

Idris and Odi (2025) assessed the contribution of the financial system to Nigeria's economic development using an ex-post facto design and data covering 2000–2023. The ARDL results indicated that stock market capitalization had a negative and insignificant relationship with RGDP, while private-sector credit recorded a positive but insignificant effect. The study recommended greater market participation and affordable credit access for MSMEs.

Ogbonna, Mobosi and Ugwuoke (2020) investigated financial system development using data from 1981–2015 and the ARDL technique. Findings showed a positive and significant effect on the non-oil sector, but a negative and insignificant effect on the oil sector. The study recommended channeling financial resources into productive sectors.

Bank-Ola et al. (2023) examined the relationship between financial development and economic growth using data covering 1981–2020. The ARDL findings revealed that private-sector credit and broad money supply positively affected growth, whereas inflation exerted a negative effect. The study recommended improved financial intermediation.

Onyeoma and Oligbi (2020) studied financial development and economic growth using data from 1981–2018. The findings established a positive long-run relationship and recommended strengthening the banking, insurance and capital market sectors to promote sustainable economic growth.

3.0 METHODOLOGY

3.1 Research Design

This study adopted an ex-post facto research design. Ex-post facto research design is a non-experimental approach in which the researcher examines possible relationships between variables after the events have occurred, without manipulating the variables. Both pre-estimation and post-estimation tests were conducted, including descriptive statistics, correlation matrix, unit root test, normality test, multicollinearity test and ARDL estimation, which served as the main estimation technique for the study.

3.2 Nature and Sources of Data

The nature of the study required the use of secondary data. Secondary data were used because information relating to the variables examined in the study was obtained from the Central Bank of Nigeria Statistical Bulletin Data Repository. The source was considered reliable because the data were directly obtained from the CBN Statistical Bulletin covering 2000–2023.

3.3 Techniques of Data Analysis

The study employed the Autoregressive Distributed Lag (ARDL) model as the main estimation technique to examine both the short-run and long-run effects of the variables. The ARDL model is suitable for small samples and can accommodate variables with different orders of integration, provided none is integrated of order two, $I(2)$. It can also provide useful estimates in the presence of some time-series diagnostic concerns. E-Views 12.0 econometric software was used for the analysis. Pre-estimation and post-estimation tests were also conducted to examine the time-series properties of the annual data. The tests included:

3.3.1 Pre-Estimation Test

Pre-estimation tests were carried out to examine the properties of the data and establish their suitability for the selected model. The tests include:

Descriptive Statistics: This summarizes the data using the mean, median, standard deviation, minimum and maximum values.

Correlation Matrix: This examines the direction and strength of relationships among the study variables and shows whether their associations are positive or negative.

Unit Root Test: This establishes whether the variables are stationary and determines their order of integration. The outcome assists in selecting an appropriate estimation technique.

Normality Test: This examines whether the residuals from the regression model follow a normal distribution.

Multicollinearity Test: This determines whether strong relationships exist among the independent variables, which could affect the reliability of the regression estimates.

3.3.2 Post-Estimation Test

To ascertain the adequacy of the estimated model, the following post-estimation test was conducted:

ARDL: The Autoregressive Distributed Lag (ARDL) model is an estimation technique used to examine short-run and long-run relationships among variables, particularly in time-series analysis.

3.3.3 Inferences

The study employed E-Views 12.0 statistical software for data analysis. The decision rule was based on a 5% level of significance. Consequently, the conclusions of the study were drawn in accordance with this significance level.

3.4 Model Specification

The model for examining the contribution of the financial system to the development of the Nigerian economy is consistent with the Financial Intermediation Theory discussed in Section Two. The theory explains that financial intermediaries, particularly banks, help reduce transaction costs and information asymmetry between savers and borrowers. They promote efficient resource allocation by pooling funds and managing financial risks. The model summarizes the effect of financial system development on the Nigerian economy. It was adopted and modified from studies such as Okoro and Ume (2024), Okafor and Udo (2024), Mwangi and Njoroge (2024), and Ali and Hassan (2023).

The structural form of the model is stated as equation 1:

$$Y = f(X) \dots\dots\dots (1)$$

Where:

Y = dependent variable
f = functional relationship
X = independent variables

The model was further expressed mathematically as:

$$RGDP_t = f(SMC_t, CPS_t, FND_t) \dots\dots\dots (ii)$$

To make the mathematical expression estimable, it was transformed as follows:

$$RGDP_t = \beta_0 + \beta_1 SMC_t + \beta_2 CPS_t + \beta_3 FND_t + \mu \dots\dots\dots (iii)$$

Where:

RGDP = Real Gross Domestic Product (Dependent Variable)
SMC = Stock Market Capitalization (Independent Variable)
CPS = Credit to Private Sector (Independent Variable)
FND = Ratio of broad money (M3) to GDP (Independent Variable)
 β_0 = Intercept
 $\beta_1 - \beta_3$ = Coefficients of the explanatory variables
 μ = Error term

3.5 Description of Model Variables

The variables employed in this study were selected based on the empirical studies reviewed and their relevance to examining the contribution of the financial system to the development of the Nigerian economy. Real Gross Domestic Product was used as the dependent variable, while the explanatory variables were stock market capitalization, credit to the private sector and financial depth. The variables used in the estimation are therefore described in the table below, including their measurements, sources and a-priori expectations.

Table 1: Variables Measurement and Description

S/N	Variable	Measure	Variable	Source	A-priori
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	Acronym		Type	Expectation
1	RGDP	Real Gross Domestic Product (RGDP) is measured by adjusting Nominal GDP for inflation using a base year's prices, allowing comparison of economic output across different periods.	Dependent	Gomes & Nil Pereira (2024)
2	SMC	Stock market capitalization is measured by multiplying the current share price of each listed company by the total number of its outstanding shares, then summing up the values for all listed companies in the market.	Independent	Ahmed & Positive Yusuf (2023)
3	CPS	Credit to the private sector is measured as the total financial resources provided by deposit money banks to the private sector.	Independent	Mwangi & Positive Njoroge (2024)
4	FND	Financial depth is commonly measured by the ratio of broad money (M3) to Gross Domestic Product (GDP), reflecting the size of the financial sector relative to the economy.	Independent	Ibrahim & Sani Positive (2022)

Source: Researcher compilation.

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

The data for this study were presented in two various forms. This includes the raw data as were gotten from Central Bank of Nigeria statistical bulletin and World Bank Data Repository and the logged data as presented below:

Table 2: Raw Data

YEAR	RGRDP ('N' Billion)	SMC ('N' Billion)	CPS ('N' Billion)	FND (%)
2000	26658	472.30	530.37	12.44
2001	28957.7	662.50	764.96	15.41
2002	31357.1	764.90	930.49	13.09
2003	33984.8	1,359.30	1,096.54	14.41
2004	37161.5	2,112.50	1,421.66	11.76
2005	40984.2	2,900.06	1,838.39	11.41
2006	45206.6	5,120.90	2,290.62	12.50
2007	49856.1	13,181.69	3,668.66	14.79
2008	54612.3	9,562.97	7,899.14	21.63
2009	57511	7,030.84	9,889.58	22.29
2010	62980.4	9,918.21	10,518.17	20.01
2011	68492.5	10,275.34	9,600.02	19.82
2012	74765	14,800.94	13,293.64	21.35
2013	80092.6	19,077.42	14,461.41	23.14
2014	86076.8	16,875.10	16,753.00	22.65

2015	89043.6	17,003.39	18,688.42	21.94
2016	85387.6	16,185.73	21,025.24	23.65
2017	87884.4	21,128.90	22,459.18	24.90
2018	91026	21,904.04	22,646.33	23.07
2019	95089	25,890.22	25,676.87	23.52
2020	91841	38,589.58	29,030.01	23.36
2021	94382.6	42,054.50	32,845.67	22.93
2022	99000	51,188.87	39,012.34	23.95
2023	104000	75,202.90	52,884.78	27.09

Source: CBN Statistical Bulletin (2023)

4.2 Data Analysis

This part discussed the descriptive statistics and various pre and post estimation test that was conducted by this study.

4.2.1 Descriptive Statistics

Table 3: Descriptive Statistics

Variable	OBS	Mean	Std. Dev.	Max	Min
RGDP	24	4.7919	0.1908	5.0170	4.4258
SMC	24	3.9565	0.6121	4.8762	2.6742
CPS	24	3.8903	0.6071	4.7233	2.7245
FND	24	1.2779	0.1207	1.4328	1.0572

Source: E-View 12.0 Output, 2026.

The RGDP recorded maximum and minimum values of 5.0170 and 4.4258 respectively, with a standard deviation of 0.1908. SMC recorded a mean of 3.9565, with maximum and minimum values of 4.8762 and 2.6742 respectively and a standard deviation of 0.6121.

CPS had a mean value of 3.8903, with maximum and minimum values of 4.7233 and 2.7245 respectively, while its standard deviation stood at 0.6071. FND recorded a mean of 1.2779, with maximum and minimum values of 1.4328 and 1.0572 respectively and a standard deviation of 0.1207. Generally, the results show that the variables experienced variations over the study period.

The summary statistics of the dependent and independent variables are presented in table 4.2.1 below. The mean represents the average value of the variables whilst standard deviation indicates how variables are distributed around their mean values.

4.2.3 Correlation Matrix

The correlation analysis was used to determine the existence, direction and strength of relationships among the variables. The relationship may be positive, negative or zero, depending on the correlation coefficient. The decision rule states that a correlation is significant where the t-statistic exceeds 2.5 and the p-value is below 0.05. In such a case, the alternative hypothesis is accepted while the null hypothesis is rejected. The correlation coefficient measures the linear association between the dependent and independent variables, as well as among the independent variables. The results are presented in Table 4.

Table 4: Correlation Matrix

Covariance Analysis: Ordinary

Date: 04/12/25 Time: 20:35

Sample: 2000 2023

Included observations: 24

Covariance t-Statistic Probability	RGRDP	SMC	CPS	FND
RGRDP	0.034910 ----- -----			
SMC	0.108096 17.36439 0.0000	0.359139 ----- -----		
CPS	0.109920 32.57268 0.0000	0.344894 18.17071 0.0000	0.353283 ----- -----	
FND	0.019814 9.511339 0.0000	0.059250 7.150496 0.0000	0.065070 11.49297 0.0000	0.013981 ----- -----

Source: E-VIEW 12.0 Output, 2026.

Stock Market Capitalization (SMC) vs Real Gross Domestic Product (RGDP)

The correlation analysis indicates positive and statistically significant relationships between RGDP and the three financial system indicators. SMC recorded a correlation coefficient of 0.1081, CPS 0.1099, and FND 0.0198, with all the variables having p-values of 0.0000. Since the p-values are below the 5% significance level, the relationships are statistically significant. Hence, the null hypotheses are rejected, indicating positive associations between

stock market capitalization, private-sector credit, financial depth and Nigeria's economic development.

4.2.4 Stationarity Test

The unit root test was conducted to determine the stationarity status of the variables used in the study, including the dependent and independent variables. A variable is considered stationary when the absolute value of its t-statistic is greater than the corresponding critical value. The probability value must also be below the chosen significance level at the relevant order of integration, either at level or at first difference.

Table 5: Summary of Unit Root Results (ADF Test)

Variables	t-statistics	Critical Values @5%	Order of Integration	Prob.	Remarks
RGDP	(4.078552)	(2.998064)	I(0)	0.0048	Stationary
SMC	(3.977737)	(3.004861)	I(1)	0.0063	Stationary
CPS	(3.092341)	(3.004861)	I(1)	0.0420	Stationary
FND	(3.009316)	(3.012363)	I(1)	0.0503	Stationary

Source: E-view computation, 2026.

As presented in Table 5, the first column lists the variables, the second contains the t-statistics, the third presents the critical values at the 5% significance

level, the fourth indicates the order of integration at levels and first difference, while the fifth gives the probability values and the final column presents the

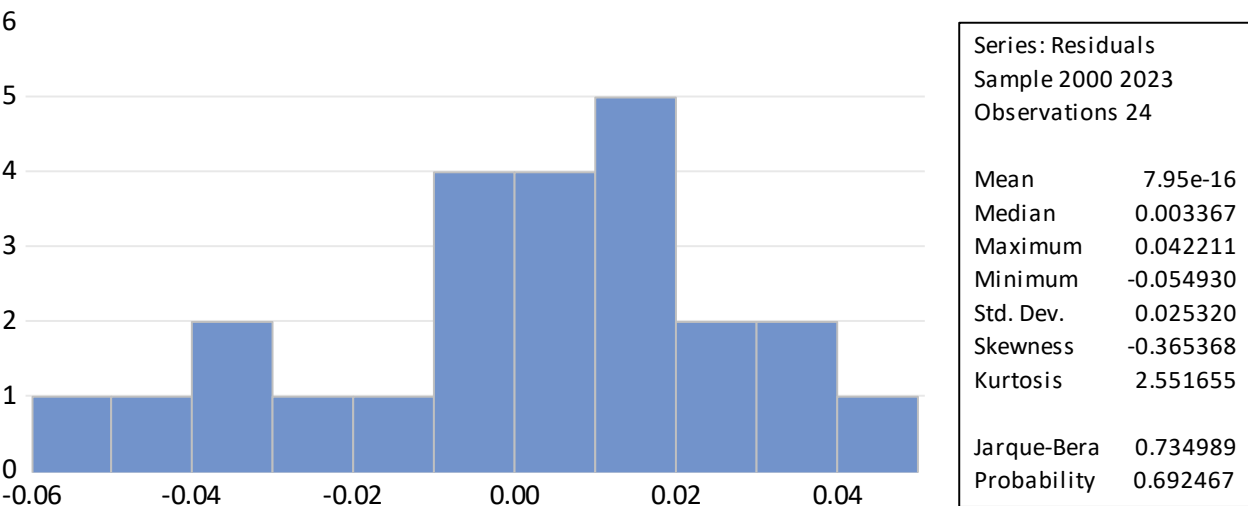
remarks. The results indicate that the variables are stationary at levels and first difference. Based on this outcome, the study adopted the Autoregressive

Distributed Lag (ARDL) model as the main estimation technique for testing the hypotheses.

4.2.5 Normality Test

The normality test was carried out to determine whether the data set followed a normal distribution. The result of the test is presented in Table 6.

Table 6: Summary of Normality Test Result



Source: Survey; from E-view computation, 2026.

The normality test result presented in Table 6 shows a Jarque-Bera value of 0.734989 with a corresponding probability value of 0.692467. Since the probability value is greater than 0.05, the null hypothesis is rejected and the alternative hypothesis that the data are normally distributed is accepted. The negative skewness value of -0.365368 indicates that the distribution is slightly skewed to the left.

4.2.6 Multicollinearity Test

The multicollinearity test was conducted to determine whether there was a strong linear relationship among the predictor variables, as presented in Table 7. The centered Variance Inflation Factor (VIF) was used to assess the presence of multicollinearity. A VIF value greater than 10 indicates the presence of multicollinearity.

Table 7: Summary of Multicollinearity Result

Variable	Coefficient Variance	Centered VIF	Remarks
C	0.010478	NA	NA
SMC	0.002313	1.703728	Absence of Multicollinearity
CPS	0.004954	5.696912	Absence of Multicollinearity
FND	0.025993	1.182972	Absence of Multicollinearity

Source: Survey; from E-view computation, 2026.

Table 7 presents the coefficient variances, centered VIF values and remarks for the study variables. The results indicate that the VIF values for all the variables are below 10, showing that there is no evidence of multicollinearity among the variables included in the model.

4.2.7 ARDL Long-Run Form and Bounds Test

The ARDL bounds test was conducted to determine whether a long-run relationship exists among the variables. The null hypothesis states that there is no level relationship among the variables. The F-statistic

or the absolute value of the t-statistic is used to determine whether the null hypothesis should be rejected or not. Specifically, the null hypothesis assumes that the coefficients of the long-run equation are jointly equal to zero, indicating the absence of

cointegration. The alternative hypothesis states that the coefficients are not jointly equal to zero, implying the existence of a long-run relationship among the variables.

Table 8: Summary of Bounds Test Result

Significance	Lower bound Value	Upper bound value	F-Statistics value	Null Hypothesis
10/%	2.17	3.19	6.615108	No cointegration
5%	2.72	3.83		No cointegration
2.5%	3.22	4.5		No cointegration
1%	3.88	5.3		No cointegration

Source: E-view computation, 2026.

sH_0 : There is no cointegration

H_1 : There is cointegration

Decision Rule

Probabilities > 0.05 accept the null hypothesis

Probabilities < 0.05 reject the null hypothesis

The results for the Bounds test in Table 8 above reveals that there is a long run relationship among the variables. This is because the F-statistics value (6.615108) is greater than upper Bounds critical values at 5% level of significant, and thus the null hypothesis of no cointegration is rejected.

4.2.8 Summary of ARDL Estimates

Table 9 ARDL Estimation Result

Variable	Coefficient	Std. Error	T-Statistic	Prob.*
Short run Estimate				
LOG_SMC	0.259349	0.085030	3.050104	0.0554
LOG_CPS	-0.329465	0.081664	-4.034382	0.0274
LOG_FND	0.845654	0.219979	3.844255	0.0311
C	0.303240	1.328802	0.228206	0.8342
Long run Estimate				
LOG_SMC	-1.237960	2.227563	-0.555746	0.6171
LOG_CPS	1.000380	1.701991	0.587770	0.5980
LOG_FND	3.390979	4.525855	0.749246	0.5081

Source: Authors: Computations using E-views 12.0, 2026.

4.3 Test of Hypotheses

The hypotheses were tested using the ARDL results presented in Table 9 at the 5% level of significance.

Hypothesis I: Stock Market Capitalization (SMC) exerted a positive but statistically insignificant effect on RGDP in the short run ($p = 0.0554$), while its long-run effect was negative and insignificant ($p = 0.6171$). Therefore, the null hypothesis was accepted in both the short and long run.

Hypothesis II: Credit to the Private Sector (CPS) had a negative and significant effect on RGDP in the short run ($p = 0.0274$), but recorded a positive and insignificant long-run effect ($p = 0.5980$). Thus, the null hypothesis was rejected in the short run but accepted in the long run.

Hypothesis III: Financial Depth (FND) exerted a positive and significant effect on RGDP in the short run ($p = 0.0311$), but its long-run effect was positive and insignificant ($p = 0.5081$). Therefore, the null hypothesis was rejected in the short run but accepted in the long run.

4.4 Discussion of Findings

4.4.1 Effect of Stock Market Capitalization on the Development of the Nigerian Economy

The study revealed that stock market capitalization had a positive and significant effect on RGDP in the short run, but its long-run effect was negative and insignificant. This suggests that stock market development may stimulate economic activity in the short term, while its contribution to Nigeria's long-term economic development remains limited.

The result differs from the a-priori expectation and contradicts Ahmed and Yusuf (2023), who found a significant positive relationship between stock market capitalization and economic growth.

4.4.2 Effect of Credit to the Private Sector on the Development of the Nigerian Economy

The study revealed that credit to the private sector had a negative and significant effect on RGDP in the short run, whereas its long-run effect was positive but insignificant. This implies that private-sector credit may contribute to economic development over time, although the observed long-run effect was not statistically significant.

The finding differs from the a-priori expectation and is inconsistent with Ali and Hassan (2023), who reported a significant positive relationship between private-sector credit and economic development.

4.4.3 Effect of Financial Depth on the Development of the Nigerian Economy

The study found that financial depth had a positive and significant effect on RGDP in the short run, but a positive and insignificant effect in the long run. This suggests that greater financial depth supports economic activities in the short term, although its long-run contribution was not statistically significant.

The finding is inconsistent with the a-priori expectation and differs from Gomes and Moreira (2023), who reported a significant relationship between financial depth and economic development.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This study examined the contribution of the financial system to the development of the Nigerian economy between 2000 and 2023. Stock market capitalization, credit to the private sector and financial depth were used as indicators of financial system development, while RGDP served as the proxy for economic development.

The findings revealed that stock market capitalization had a negative and insignificant long-run effect, while credit to the private sector recorded a positive but insignificant long-run effect on economic development. The results indicate that the expansion of the financial system has not yet translated into significant improvements in Nigeria's real economic activities.

The study therefore concludes that stronger financial intermediation, improved access to credit, greater capital market efficiency and effective financial sector policies are required to enhance the contribution of the financial system to Nigeria's economic development.

5.2 Recommendations

Based on the findings of the study, the following recommendations are made:

1. **The government and capital market regulators should strengthen the stock market** by improving market efficiency, transparency and investor confidence, since stock market capitalization showed a positive and significant effect on RGDP in the short run but a negative and insignificant effect in the long run.
2. **Financial institutions should review their private-sector lending practices** and ensure that credit is directed towards productive investments, as credit to the private sector had a negative and significant short-run effect but a positive and insignificant long-run effect on RGDP.
3. **Financial institutions and policymakers should deepen the financial system** by expanding access to financial services and improving the availability of financial resources, since financial depth had a positive and significant short-run effect but a positive and insignificant long-run effect on RGDP.
4. **Financial sector reforms should focus on achieving sustainable long-term impacts** rather than only short-term improvements. This is necessary because the three financial system indicators did not produce statistically significant long-run effects on RGDP.
5. **The Central Bank of Nigeria and other relevant regulatory authorities should strengthen financial intermediation and financial inclusion** to ensure that mobilised financial resources are efficiently channelled into productive economic activities capable of supporting sustained economic development.

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