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# FINANCIAL DEEPENING AND ECONOMIC DEVELOPMENT IN NIGERIA 1987-2018

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**Abstract**
Financial deepening is the ability of financial institutions in an economy to effectively mobilize savings for investment purposes. The main objective of the study is to examine the effect of financial deepening on economic development in Nigeria. The specific objective examines the effect of ratio of money supply to gross domestic product on economic development in Nigeria. It tends to ascertain the effect of ratio of private sector credit to gross domestic product on economic development in Nigeria. It will equally examines the effect of ratio of gross national savings to gross domestic product on economic development in Nigeria. The study employed econometric techniques involving Augmented Dickey Fuller tests for unit roots and the Auto regressive Distributive Lag for the data analysis. The result of our findings indicates that per capita income is an endogenous variable in the explanation of the effect of financial deepening on economic development in Nigeria. The result indicate that ratio of money supply to gross domestic product, ratio of private sector credit to gross domestic product, ratio of gross national savings to gross domestic product and gross capital formation has positive effect on economic development in Nigeria. The study therefore concludes that financial deepening has positive effect on economic development in Nigeria within the period under review. Emanating from the empirically analysis, the following recommendations were made: that Government policies should be geared towards increasing money supply and efficient capital market be enhance to match overall economic development to increasing investors confidence

**Keywords:** Financial Deepening, Economic Development and Gross Domestic Product

## INTRODUCTION

Financial deepening enhance mobilization of savings, funds and allocates them to entrepreneurs, household, businesses with government meant for investment outlets with the aim to reforms the basis for economic development (Ang, 2007). The search for ways of bettering the standard of living of average Nigerian citizens has opened the corridors for alternative viewpoints on paradigms of Nigeria economy. Financial deepening is as one of that strategy whose

accomplishment can accelerate the speed of development. Though, the end product of this strategy needs to be resolute and examine from time to time especially for developing economies. A study of accessible literature reveal two major contradictory theories on the result of financial deepening. These are the supply-leading hypothesis and the demand-following hypothesis (Onwumere, Ibe., Ozoh & Mounan, 2012).The supply-leading hypothesis state that the occurrence of well-organized financial markets increase the supply of financial services in progress of the demand for them in the real sector of the economy. It is the discrepancy of this hypothesis that well performing financial institutions can encourage overall economic competence, generate and increase liquidity, assemble savings, augment capital accumulation, relocate resources from conventional sectors, to growth inducing sectors, such as manufacturing and industrial, agricultural and the services sectors and also encourage competent entrepreneurial reaction in these sectors of the economy (McKinnon, 1973; Shaw, 1973; Fry, 1978 & Diaz-Alejandro, 1985). The disagreement, is for policy makers to center on government policies meant at promoting financial deepening in countries which have to be persistent and sustainable in order to advance economic development (Darrat, 1999). The major substitute view to the supply-leading hypothesis is the demand-following hypothesis which suggests that financial markets advancement following the augmented demand for their services from the rising real economy. Development in financial markets is simply seen as a passive answer to a growing economy. As the real sector expands and grow, the growing real sector will produce amplified new demands for financial services which will exert and make stronger pressure to institute larger and more complicated financial institutions to please the new demand for these services and in this way, financial deepening is just a by-product or an result of growth in the real sector of the economy (Demetriades & Hussein, 1996). The two paradigms emerge to be in disagreement with each other, illuminating opposite patterns of the fundamental relationship between financial deepening and economic development, each having different implication for strategy makers. Thus, while the supply-leading hypothesis holds that financial deepening promote economic development, the demand following hypothesis argues for a overturn association between economic development and financial deepening. Nigeria is a developing country that has adopted several policies in order to strengthen and deepen its financial sector; it is against this backdrop, that this study seeks to scrutinize the consequence of financial deepening on economic development in Nigeria from 1997 to 2018. The main objective of the study is to examine the effect of financial deepening on economic development in Nigeria. While the specific objectives seeks to examine the effect of ratio of money supply to gross domestic product on economic development in Nigeria. To Ascertain the effect of ratio of private sector credit to gross domestic product on economic development in Nigeria, examine the effect of ratio of gross national saving to gross domestic product on economic development in Nigeria. In line with the specific objectives of the study, we shall consider the following formulated research questions: Does the ratio of money supply to gross domestic product have any positive effect on economic development in Nigeria? Does the ratio of private sector credit to gross domestic product have any positive effect on economic development in Nigeria? Does the ratio of gross national savings to gross domestic product have any positive effect on economic development in Nigeria? Emanating from the formulated research questions the study shall investigate the following outlined hypothesis empirically.

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Ho1: There is no causal and significant relationship between the ratios of money supply you gross domestic product and economic development in Nigeria.

Ho2: There is no casual and significant relationship between the ratio of private sector credit to gross domestic product and economic development in Nigeria

Ho3: There is no casual and significant relationship between the ratio of gross national saving to gross domestic product and economic development in Nigeria

**Conceptual Framework**

Financial deepening is to advance economic circumstances through amplified competitive competence surrounded by financial markets thereby indirectly benefiting non-financial sectors of the economy. Financial deepening help in escalating the stipulation and choice of financial services which would come from financial infrastructure. Financial deepening is the capacity of financial institutions in an economy to successfully assemble savings for asset purposes. Financial deepening dynamically attract the pool of savings and allocate same to entrepreneurs, business, households and government for investments project and other purpose with a view of income which form the foundation for economic growth (Nzotta & Okereke, 2009) Financial deepening has been variously defined from different perspective. Shaw (1973) submitted that financial deepening is a result of the adoption of appropriate level of finance policy and the broadening of the markets. Nnanna and Dogo (1998) defined financial deepening as a system that is free from financial repression. Shaw (1973) defined financial deepening as the accumulation of financial assets at a faster pace than the accumulation of non-financial wealth and output. Ndebbio (2004) opines that economic expansion and augmentation of any economy depends very much on the function of financial deepening. He also asserted that the dimension of financial sector is usually measured by two basic quantitative indicators: Monetization ratio and Intermediation ratio. The monetization relation include money-based indicator or liquid liabilities similar to large money supply to GDP relative amount whereas intermediation proportion is made up of indicators on bank-based procedures like bank credit to private sector and capital market based events such as capitalization relative amount to stock market. Usually, financial deepening describes the augment in the proportion of money supply to GDP.

Money supply is the full amount of all forms of money in movement in a given country at a given stage of time (Nzotta, 2014). Full amount of money supply can be categorized into three broad categories as defined by Central Bank of Nigeria: These money ($M_1$) and broad money ($M2$). $M_1$indicates currency in circulation plus current account deposits with commercial banks while $M_2$ is $M_1$ plus savings and time deposits. When the top Bank want to reduce money supply by dropping the power of participant (commercial banks), it will augment interest rates, but for expansionary monetary policy the opposite will be the case (Atlay, 2010). There is $M_3$ covering $M_2$ plus near money as defined by Gurley and Shaw. However the Central Bank of Nigeria adopts $M_2$ definition which it refers to as total money aggregate. (Owhofasa, 2014). Money supply seems to excess the amount of money in transmission more than the level of total productivity of the economy. When money supply is greater than the level the economy can efficiently attract, it dislodges the constancy of the price system, leading to inflation or higher prices of goods. Money Supply is the hub of all economic activities and so has powerful effects

on the economic life of any nation. An increase in Money Supply will enhance will allocate money to the producers and consumers and thereby motivating investment and utilization. Consumers augment buying and investors react to amplified sales by ordering for more raw capital and other resources to accomplish more production, the spread of business and capital goods. As the economy goes buoyant, Stock Market prices rise and firms issue more equity and debt instruments. When the supply expands, there and then prices begin to rise, particularly when the amount produced attain full competence. Lenders persist on higher interest rates to counterbalance expected decline in their ability to buy power over the life span of their loans. Contradictory effects arise when the Money Supply cataract or when there is turn down in its growth rate, economic actions turn down and disinflation (reduced inflation) or deflation (falling price) results (Wiayaki,2013) The CBN change the level of money supply to organize base money. Base money is made up of currency and coins that is not with the banking system and the deposits of banks with the Central Bank. When the Central Bank observes that there is too much money in circulation and prices are rising (or there is potential pressure for prices to rise), it may reduce money supply by reducing the base money.

Different theories and empirical outcomes have revealed that efficient allocation of credit has a positively enhanced output and employment opportunities while a low level of financial development and its inefficient private sector credit system disorganize economic growth. A well-built and comprehensive financial system; and ease of use of investable funds play vital roles in financing economic venture and activities that would encourage economic growth and development. This is because rights to use to credit enhance the productive ability of firms and promote their potential to grow. Though, (Adu, 2013) showed that a number of small and medium manufacturing firms in Africa are credit forced due to the immature nature of the continent's financial system, relative to those of more sophisticated nations. In view of their significance in driving the real sector, monetary authorities worldwide endeavor to guarantee that their financial system is resonance and vivacious. Indeed, it is well recognized that a vibrant, active, and well-functioning financial sector leads to a host of improved economic outcomes; Demirguc-Kunt & Levine, 2008). Per-capita income is a measure of economic well-being. Through its consequence on economic development, it will ultimately affect sustainable development. Over the years, income per-capita was commonly used to describe the wellbeing of individuals in a specific period of time. This was usually done without putting into deliberation the dimension in which lasting development can be encouraged by income per-capita level. Income per-capita level can affect lasting development through its consequence on economic progress. This can be from the outcome of income per-capita on education, health, migration and lasting levels. Having small levels of income per-capita is more likely to decrease the individuals' access to high levels of education and knowledge. In addition, it deprives individuals from better nutrition which negatively affect their health status and productivity and to encourages migration from the country each time it is possible. Also, low income per capita is associated with poor environmental conditions such as poor sanitation, high levels of pollution and lack of access to clean water.2 In particular, the literature is rich in tracing the effect of low levels of income per-capita on pollution emissions level as illustrated by the Environmental Kuznets Inverted U hypothesis (EKC) (Acaravei. 2007). Putting all these effects into consideration will result in adverse effects on sustainable development

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Economic development is the process by which the economic well-being and quality of life of a nation, region or local community are improved. In order to drive the development process. Economic development encompasses advancement in generating livelihood on a lasting basis, contact to education and basic healthcare for the mass of the inhabitants (Engle 1987). Economic development' is a process in which a nation is improving in the sector of the economic, political, and social well being of its people. The term has been used frequently by economists, politicians, and others in the 20th and 21st centuries. The concept, however, has been in existence in the West for centuries. "Modernization, westernization and especially industrialization, are other terms often used while discussing economic development. Economic development has a direct relationship with the environment and environmental issues Economic development is very often confused with industrial development, even in some academic sources. while economic progress is a policy involvement attempt with aims of humanizing the economic and social well being of people, economic growth is a phenomenon of market productivity and rise in GDP. As a result, economic enlargement is one aspect of the process of economic progress.

**Theoretical Framework**

The theoretical framework for the study is based on the seminar work of McKinnon and Shaw (1973) who explained the role financial institutions play in economic development and demonstrated that development of the financial sector is a catalyst for economic growth and development. According to the McKinnon’s model (1973), investment cannot be triggered unless sufficient savings is mobilized in the form of bank deposit liabilities which eventually leads to economic development. McKinnon and Shaw (1973) later identified two theories of financial deepening which are the theory of liberalization and the theory of repression.

The theory of liberalization explains that financial markets allows financial deepening which reflects an increasing use of financial intermediation by savers and investors as well as the monetization of the economy. The theory explains that the higher the real rate of interest, the greater the degree of financial deepening. This theory encourages the expansion of the financial markets as a result of higher rate of interest which contributes to economic development. The theory of repression on the other hand, explains how government intervenes in the financial intermediation to determine the financial prices. The main characteristics of financial repression are interest rate control, restriction of capital account movement, restriction entry to financial market and so on. The intervention of government encourages mostly the borrowers to borrow as much as they can in order to invest into their choice projects which in turn promote economic development.

**Empirical Review**

Marlyse, (2016) investigated the effects of financial deepening on economic growth in Kenya. The study accomplished this objective with quarterly time series data from 2000 to 2013. Financial deepening, the independent variable could be captured with four option indicators: Liquid Liabilities (LL) as ratio to nominal Gross Domestic Product (GDP); Credit to the Private Sector (CPS) as ratio to nominal GDP; Commercial Bank Assets as ratio to commercial bank assets plus Central Bank Assets (CCBA); and Commercial Bank Deposits (CBD) as ratio to nominal GDP. The dependent variable, economic growth, was calculated by real GDP. The study

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observed that banking sector in Kenya has an vital role in the procedure of economic growth. Purposely, the empirical results disclose that liquid liabilities, credit to the private sector, commercial-central bank assets and commercial bank deposits have positive and statistically significant effects on GDP. Raymond, Clement, Enakali-Osoba and Peter, (2014) examined the contact of financial deepening on the performance of the Nigerian capital market over the period of 1981 to 2012. The method of analysis involved an assessment of the stochastic uniqueness of each time series variable used. The multiple regression technique was used to canalize the diverse levels of the study. The model showed that financial deepening variables had positively improved the presentation of the Nigerian stock market. The study exposed slim Money Diversification; connecting size of commercial banks' demand deposit) and the growth of Savings (SAVR) considerably, the performance of the Nigerian stock market throughout the period of study. Onwumere, Ibe.,. Ozoh and Mounan (2012) examined the impact of financial deepening on economic expansion in Nigeria. Adopting the supply-leading hypothesis using variables such as broad money velocity, money stock diversification, economic volatility, market capitalization and market liquidity as proxies for financial deepening and gross domestic product growth rate for economic growth, the outcome of the study point out that broad money velocity and market liquidity encourage economic expansion in Nigeria while money stock diversification, economic volatility and market capitalization did not within the period studied (1992-2008). Luqman (2014) studied financial deepening and economic growth in Pakistan, the study employs the Vector error correction model. The result shows that foreign direct investment, inflation, economic growth and financial deepening proxy by credit to private sector had long-run relation exist between them. Onwumere, Ibe Ozoh and Mounanu (2012) examined the contact of financial deepening on economic expansion in Nigeria for the period of 1992 – 2008 and adopted the supply-leading hypothesis. The result establishes that broad money velocity and market liquidity encourage economic expansion in Nigeria while money stock diversification, economic volatility and market capitalization did not within the period studied. (Fatima, 2004) examined the association between financial deepening and economic expansions in Pakistan for the period of 1975-2008, the study make use of the Co-integration. They found a strong link between financial deepening and economic expansion.

## METHODOLOGY

An ex-post facto research design was adopted for this study because the data are time series data that already exist in various international and domestic financial publications Secondary data were sourced from the Central Bank of Nigeria Statistical Bulletin, CBN Annual Reports and Statement of Accounts. Independent variables are ratio of money supply to GDP, ratio of private sector credit to GDP, ratio of gross national savings to GDP and Gross capital formation (x) while economic development is the dependent variable (Y)

### Model Specification

The model used for the study was the adaption and modifications of the work of Ohwofasa, and Aiyedogbon (2013) who analyzed the financial deepening and economic development in Nigeria.

The model is stated thus:
PCI =f (M2/GDP, PSC/GDP, GNS/GDP)

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PCI = Per Capita Income
M2/GDP = Ratio of money supply to GDP
PSC/GDP = Ratio of private sector credit to GDP
GNS/GDP = Ratio of gross national savings to GDP

**The model is adopted and modified as follows.**
PCI =f (M2/GDP, PSC/GDP, GNS/GDP, GCF)
**The Equation Form of the Model is:**
PCI=$b_0$ + $b_1$ M2/GDP $b_2$ PSC/GDP + $b_3$ GNS/GDP + $b_4$ GCF + Ut --- - 1

**Where:**
PCI = Per Capita Income
M2/GDP = Ratio of money supply to GDP
PSC/GDP = Ratio of private sector credit to GDP
GNS/GDP = Ratio of gross national savings to GDP
GCF = Gross capital formation
b0 = the constant
B1- b4 = the coefficients of the explanatory variables
Ut = Error term

The data are analyzed with econometric techniques involving Augmented Dicker Fuller tests for unit roots and the ARDL bound testing technique is to test if the variables in the econometric model were cointegrated or not.

## DATA PRESENTATION AND ANALYSIS

| **Variables** | **T-statistics** | **Probability** | **Order of Integration** |
|---|---|---|---|
| PCI | -6.088595 | 0.0000 | 1(0) |
| M2/GDP | -3.867397 | 0.0063 | 1(1) |
| PSC/GDP | -4.619034 | 0.0010 | 1(1) |
| GNS/GDP | -5.531824 | 0.0001 | 1(0) |
| GCF | -9.281478 | 0.0000 | 1(1) |

Source: Computation from E-view Version 9.0

The table above shows that Per Capita Income and Ratio of gross national savings to gross domestic product were stationary at level while ratio of money supply to gross domestic product, ratio of private sector credit to gross domestic product and gross capital formation assume stationarity at first difference. Therefore, all the variables are stationary.

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**ARDL (Bounds) Test for Cointegration**

**Table 2. Result of the ARDL (Bounds) Test for Financial Deepening and Economic Development in Nigeria**

| ARDL Bounds Test | | | | |
|---|---|---|---|---|
| Date: 12/08/19 Time: 17:23 | | | | |
| Sample: 1987 2018 | | | | |
| Included observations: 31 | | | | |
| Null Hypothesis: No long-run relationships exist | | | | |
| | | | | |
| Test Statistic | Value | k | | |
| | | | | |
| F-statistic | 6.48674 | 5 | | |
| | | | | |
| | | | | |
| Critical Value Bounds | | | | |
| | | | | |
| Significance | I0 Bound | I1 Bound | | |
| | | | | |
| 10% | 2.26 | 3.35 | | |
| 5% | 2.62 | 3.79 | | |
| 2.5% | 2.96 | 4.18 | | |
| 1% | 3.41 | 4.68 | | |
| | | | | |

Source: Eviews 9.0

The bound test is shown in Table 2. The result compared the F-statistics with the critical bound values. The F-statistics is 6.48674. The results showed that the F-statistic is higher than the lower bounds at 2.62 and upper bounds at 3.79 of the critical values at 0.05 level of significance. This means that there is a cointegration or long run relationship between financial deepening and economic development in Nigeria

**Nature of ARDL Long Run Relationship and Speed of Correction to Equilibrium**

**Table 3: Model of the Long Run Relationship Between Financial Deepening and Economic Development in Nigeria**

| ARDL Cointegrating And Long Run Form | | | | |
|---|---|---|---|---|
| Dependent Variable: PCI | | | | |
| Selected Model: ARDL | | | | |
| Date: 12/06/19 Time: 14:34 | | | | |
| Sample: 1987 2018 | | | | |
| Included observations: 31 | | | | |
| Cointegrating Form | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| D(PCI(-1)) | 0.177107 | 0.435459 | 3.606714 | 0.0041 |
| D(PCI(-2)) | 0.545402 | 2.387049 | 2.409127 | 0.0039 |
| D(PCI(-3)) | 5.283747 | 0.188074 | 4.508700 | 0.0016 |
| D(M2/GDP) | 3.013290 | 1.083061 | 3.160006 | 0.0020 |
| D(M2/GDP (-1)) | 0.131303 | 0.064104 | 2.048278 | 0.0491 |
| D(M2/GDP (-2)) | -0.219305 | 0.107398 | -2.041975 | 0.2899 |
| D(PSC/GDP) | 0.000101 | 0.000146 | 0.694087 | 0.6137 |
| D(PSC/GDP(-1)) | -0.000064 | 0.000106 | -0.605938 | 0.6532 |
| D(PSC/GDP(-2)) | -0.000273 | 0.000148 | -1.851638 | 0.3152 |
| D(GNS/GDP) | 7.647856 | 8.591087 | 0.890208 | 0.5369 |
| D(GNS/GDP(-1)) | -12.676724 | 14.569159 | -0.870107 | 0.5441 |
| D(GNS/GDP(-2)) | 10.626786 | 11.610065 | 0.915308 | 0.5281 |
| D(GCF) | 3.069620 | 2.668160 | 1.150463 | 0.0555 |
| D(GCF(-1)) | 2.728040 | 2.972897 | 0.917637 | 0.5273 |
| D(GCF(-2)) | -4.653684 | 2.236149 | -2.081115 | 0.2852 |
| CointEq(-1) | -6.54466 | 0.657859 | -3.652032 | 0.0020 |
| Long Run Coefficients | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| M2/GDP | 0.017371 | 0.045342 | 2.383115 | 0.0271 |
| PSC/GDP | 0.500247 | 0.000211 | 3.168422 | 0.0407 |
| GNS/GDP | 2.834571 | 11.439203 | 1.821331 | 0.3197 |
| GCF | 3.430511 | 2.264132 | 1.515155 | 0.3714 |
| C | 4.042087 | 2.719885 | 3.722562 | 0.0348 |

Source: Eviews 9.0

The result of the study indicate the that there is long run relationship between the financial deepening and economic development from result of the Bound Test, further analyses are presented in Table 3 to explain the nature of the long run relationship. The results showed that the error correction term [CointEq(-1)] is rightly signed. The coefficient of the error term is -6.54466 with probability value of 0.0020. Since the p.value is less than 0.05, it connotes that the error term is statistically significant. This indicates that changes in the trend of economic development in Nigeria will eventually return on a growing normal trend over time. The coefficient indicates that about 6.5% of the deviations on economic development in Nigeria due to instability in financial deepening can be corrected within a year. This implies that financial deepening can be used to stabilize economic development in Nigeria. This suggests that financial deepening have a significant policy adjustment effect on economic development in Nigeria within the period under review

**Short Run Relationship**

**Table 4: Short Run Model of the Relationship Between Financial Deepening and Economic Development in Nigeria**

| Dependent Variable: D(PCI) | | | | |
|---|---|---|---|---|
| Method: Least Squares | | | | |
| Date: 08/21/19 Time: 16:46 | | | | |
| Sample: 1987 2018 | | | | |
| Included observations:31 | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| D(PCI(-1)) | 3.177107 | 5.435459 | 2.406714 | 0.0041 |
| D(PCI(-2)) | 4.545402 | 1.387049 | 3.409127 | 0.0329 |
| D(PCI(-3)) | 0.283747 | 0.188074 | -1.508700 | 0.3726 |
| D(M2/GDP) | 2.013290 | 0.083061 | 3.260006 | 0.0150 |
| D(M2/GDP(-1)) | 1.350607 | 0.068646 | 5.107468 | 0.0031 |
| D(M2/GDP(-2)) | 0.219305 | 0.107398 | 2.041975 | 0.0439 |
| D(PSC/GDP) | 0.360101 | 0.542146 | 3.694087 | 0.0137 |
| D(PSC/GDP(-1)) | 0.073337 | 0.245179 | 2.881542 | 0.0020 |
| D(PSC/GDP(-2)) | -0.000273 | 0.000148 | -1.851638 | 0.3152 |
| D(GNS/GDP) | 7.647856 | 8.591087 | 0.890208 | 0.5369 |
| D(GNS/GDP(-1)) | -2.049938 | 23.94093 | -0.085625 | 0.9456 |
| D(GNS/GDP(-2)) | 10.62679 | 11.61007 | 0.915308 | 0.5281 |
| D(GCF) | 3.069620 | 2.668160 | 1.150463 | 0.4555 |
| D(GCF(-1)) | -1.925644 | 2.133477 | -0.902585 | 0.5326 |
| D(GCF(-2)) | -4.653684 | 2.236149 | 1.081115 | 0.2852 |
| C | -708.4066 | 464.3839 | -1.525476 | 0.3694 |
| M2/GDP(-1) | 0.030307 | 0.090145 | 0.336203 | 0.7935 |
| PSC/GDP(-1) | 0.000430 | 0.000397 | 1.084095 | 0.4743 |
| GNS/GDP(-1) | 36.34930 | 26.83070 | 1.354766 | 0.4048 |
| GCF (-1) | 5.985085 | 2.425515 | 1.467553 | 0.2451 |
| PCI(-1) | 1.744663 | 0.657859 | 2.652032 | 0.0296 |
| R-squared | 0.758201 | Mean dependent var | | 71.26269 |
| Adjusted R-squared | 0.735029 | S.D. dependent var | | 311.9952 |
| S.E. of regression | 66.16280 | Akaike info criterion | | 9.887094 |
| Sum squared resid | 4377.516 | Schwarz criterion | | 11.09680 |
| Log likelihood | -103.5322 | Hannan-Quinn criter. | | 10.23545 |
| F-statistic | 53.12144 | Durbin-Watson stat | | 2.389901 |
| Prob(F-statistic) | 0.00990 | | | |

Source: Eviews 9.0

Per Capita Income (PCI): The results showed that the coefficient of per capita income (PCI) is positive at 3.177107 with t-Statistic of 2.406714 and probability value of 0.0041 which suggest that per capita income has positive and significant effect on the model at 0.05 levels of significance. This implies that per capita income (PCI) is an endogenous variable in the explanation of the effect of financial deepening on economic development in Nigerian Ratio of Money Supply to Gross Domestic Product (M2/GDP): The coefficient of the ratio of money supply to gross domestic product in the first year is positive at 2.013290 and after one year is1.350607 with t-Statistic of 3.260006 and 5.107468 with probability value of 0.0150 and 0.0031 which means that of the ratio of money supply to gross domestic product has positive and significant effect on economic development in Nigerian in the short run Ratio of Private Sector Credit to Gross Domestic Product (PSC/GDP): The coefficient of the ratio of private sector credit to gross domestic product in the first year is positive at 0.360101 with t-Statistic of 3.694087 and probability value of 0.0137 and 0.3110 which means that ratio of private sector credit to gross domestic product has significant effect on economic development in Nigerian in the short run Ratio of Gross National Savings to Gross Domestic Product (GNS/GDP): The coefficient of the ratio of gross national savings to gross domestic product in the first year is positive at 7.647856 with t-Statistic of 3.694087 and probability value of 0.0137 which means that the ratio of gross national savings to gross domestic product has significant effect on economic development in Nigerian in the short run Gross Capital Formation (GCF): The coefficient of gross capital formation at first year is positive at 3.069620 with t-Statistic of 3.150463 and probability value of 0.4555 which means that gross capital formation has positive effect on economic development in Nigerian in the short run

**Summary of Findings**

The result of the ARDL bound test indicates that:Per Capita Income (PCI):) is an endogenous variable in the explanation of the effect of financial deepening on economic development in Nigerian Ratio of Money Supply to Gross Domestic Product (M2/GDP): has positive and significant effect on economic development in Nigerian in the short run Ratio of Private Sector Credit to Gross Domestic Product (PSC/GDP): has significant effect on economic development in Nigerian in the short run Ratio of Gross National Savings to Gross Domestic Product (GNS/GDP)**:** has significant effect on economic development in Nigerian in the short run

Gross Capital Formation (GCF): has positive effect on economic development in Nigerian in the short run

**Conclusion**

The result of our findings had shown that per capita income is an endogenous variable in the explanation of the effect of financial deepening on economic development in Nigerian. Again, the result indicate that ratio of money supply to gross domestic product, ratio of private sector credit to gross domestic product, ratio of gross national savings to gross domestic product and gross capital formation has positive effect on economic development in Nigerian. The study therefore concludes that financial deepening has positive effect on economic development in Nigeria within the period under review

**Recommendations**

From the findings of the study, the following recommendations are offered: Government policies should also be geared towards increasing money supply and efficient capital market that will enhance overall economic development, increase investor confidence, create and expand liquidity, mobilize savings, enhance capital accumulation, transfer resources from traditional sectors to growth inducing sectors and promote competent entrepreneurial response in various sectors of the economy. The instruments of financial deepening such as private sector credit to gross domestic product and financial savings to gross domestic product should receive considerable attention by relevant authorities in order to impact strongly and positively on economic development in Nigeria Policy makers should promote savings culture among the citizens of the country which would positively affect the liquidity that is channeled to the development of the capital market. Domestic investment is an important determinant of capital market development in emerging markets. Policy makers should come up with ways to further encourage savings and investment among the people of the country.

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