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FINANCIAL DEEPENING AND ECONOMIC EMPOWERMENT IN NIGERIA

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Abstract
Financial deepening is to improve economic conditions through increased competitive efficiency within financial markets thereby indirectly benefiting non-financial sectors of the economy. The main objective of the study was to examine financial deepening and economic empowerment in Nigeria. The specific objectives were to examine the impact of money supply to gross domestic product (M_S/GDP) on economic empowerment in Nigeria, ascertain if private sector credit to GDP ratio has any significant effect on economic empowerment in Nigeria, examine if the level of financial savings to GDP ratio has significantly impacted on economic empowerment in Nigeria and ascertain the effect of inflation rate on economic empowerment in Nigeria. The study employs secondary data extracted from the Central Bank of Nigerian statistical bulletin of 2017 and the World Bank 2017 World Bank development indicators. The methods of data analyses include the co-integration technique and the error correction mechanism (ECM) on a time series data covering the period of 1986-2017. The findings of the study are that the ratio of money supply to GDP has a negative relationship with per capita income (PCI) both in the short run and long-run with the long-run money supply to GDP being statistically significant, Private sector credit to GDP has a negative but not statistically significant impact on PCI in the short-run whereas private sector credit to GDP has a positive but not statistically significant impact on PCI in the long-run. Financial savings to GDP has a negative relationship with PCI both in the short-run and long-run with the short-run relationship being statistically significant and Inflation rate has a positive and a statistically significant impact on PCI both in the short-run and long-run. A major recommendation of the study is that, for the Nigerian economy to grow at the desired rate, the indices of financial deepening such as private sector credit to GDP and financial savings to GDP should receive considerable attention by relevant authorities in order to impact strongly and positively on economic empowerment

Key Words: Financial Deepening, Economic Empowerment, Competitive Efficiency

Introduction
Financial deepening is to improve economic conditions through increased competitive efficiency within financial markets thereby indirectly benefiting non-financial sectors of the economy. Financial deepening also helps in increasing the provision and choices of financial services which would come through its financial infrastructure. Nzotta and Okereke (2009) ascertained that financial deepening is the ability of financial institutions in an economy to effectively mobilize savings for investment purposes. Financial deepening vigorously attracts the reservoir of savings and idle funds and allocates same to entrepreneurs, business, households and government for investments projects and other purposes with a view of returns which forms the basis for economic growth.

The growing importance of stock market and banks around the world has opened a new avenue of research into the relationship between financial deepening and economic

growth (Arestis, Demetriades and Luintel, 2001). The general idea that economic growth is related to financial deepening was first highlighted by Schumpeter in 1911, (Okoli 2010). The financial deepening role in economic growth has received much attention. However, the focus has been almost entirely on bank based financial deepening measures, while ignoring the possible impact of stock market development. Financial reforms have been a regular feature of the Nigeria financial system. The Central Bank of Nigeria (CBN) has been trying hard to ensure that the financial sector in Nigeria maintain a considerable depth and remain liquid with a view to competing effectively within the global financial market. The reforms have evolved in response to the challenges posed by developments in the system such as systemic crisis, globalization, technological innovation and financial crisis. The reforms often seek to act proactively to strengthen the system, thus, there is need to deepen the financial sector and reposition it for growth and integration into the global financial system in conformity with international best practices. Against this backdrop, this study examines financial deepening and economic empowerment in Nigeria.

Financial Deepening

Financial deepening is to improve economic conditions through increased competitive efficiency within financial markets thereby indirectly benefiting non-financial sectors of the economy. Financial deepening also helps in increasing the provision and choices of financial services which would come through its financial infrastructure. Nzotta and Okereke (2009) ascertained that financial deepening is the ability of financial institutions in an economy to effectively mobilize savings for investment purposes. Financial deepening vigorously attracts the reservoir of savings and idle funds and allocates same to entrepreneurs, business, households and government for investments projects and other purposes with a view of returns which forms the basis for economic growth.

Financial deepening has been variously defined from different perspective. Shaw (1973) contends that financial deepening is an outcome 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 development and growth of any economy depends greatly on the role of financial deepening.

He also asserted that the size of financial sector is usually measured by two basic quantitative indicators: Monetization ratio and Intermediation ratio. The monetization ratio includes money-based indicators or liquid liabilities like broad money supply to GDP ratio whereas intermediation ratio consists of indicators on bank-based measures like bank credit to private sector and capital market based measures such as capitalization ratio to stock market. Generally, financial deepening describes the increase in the ratio of money supply to GDP.

However, this study adopts the definition of Nzotta (2004) who argued that financial institutions must efficiently mobilize savings for the purpose of investment in order to

ascertain the level of financial deepening, as this will lead to economic development thereby increasing the per capita income of the citizenry in the country.

Money Supply

Money supply is the total amount of all forms of money in circulation in a given country at a given period of time (Jhingan, 2005; Abdullahi, 2009). Total money supply can be grouped into two broad categories as defined by Central Bank of Nigeria: These money (*M1*) and broad money (*M2*) (CBN, 2003). *M1* indicates currency in circulation plus current account deposits with commercial banks while *M2* is *M1* plus savings and time deposits. Interest rate on the other hand, is regarded as bank rate or monetary policy rate (*MPR*) and it is one of the intermediate monetary policy instruments at the control of Central Bank of Nigeria to control money supply and thus inflation rate. If the apex Bank feels to curtail money supply by reducing the power of participants (commercial banks), it will increase interest rates, while in case of an expansionary monetary policy; the reverse will be the case (Yunana & Amba, 2016).

Credit to Private Sector

Several empirical studies have shown that the efficient provisioning of credit has a positive and significant effect on output and employment opportunities while a low level of financial development and its attendant inefficient private sector credit system distorts economic growth. A strong and inclusive financial system; and availability of investable funds play vital roles in financing economic project and activities that would promote economic growth and development. This is because access to credit enhances the productive capacity of firms and enhances their potential to grow. However, studies such as Soderbom (2000) and Loening *et al*. (2008) showed that a number of small and medium manufacturing firms in Africa are credit constrained due to the underdeveloped nature of the continent's financial system, relative to those of more advanced nations. In view of their importance in driving the real sector, monetary authorities worldwide strive to ensure that their financial system is sound and vibrant. Indeed, it is well established that a vibrant, dynamic, and well-functioning financial sector leads to a host of improved economic outcomes (Levine, 1997; Demirguc-Kunt and Levine, 2008).

Inflation Rate

Inflation refers to the persistent and the continuous rise in the general level of prices of goods and services in an economy. It is no gainsaying the fact that different economies in different parts of the world experience inflation. Maybe the differences lie in the timing, causes, duration and in their prevailing economic conditions. Suffice to say then that, be it developed, developing economies of countries of the world does witness rise in price. For some economies it could be mere fluctuations, while for some others, it is consistent and continuous rise in price (Jeremiah & Emmanuel, 2015).

In the meantime, amidst this rise in general price level, there are some country's economies that experiences growth. For such country, inflation has a positive effect. On the other hand, there are some economies that witness economic downturn as an aftermath effect of inflation. For this category of countries, inflation has an adverse or negative effect and in such economy, inflation is intolerable. Over the years in Nigeria, the economy has been experiencing rise in price and there has been also economic

growth over time as well. Therefore, it is our aim in this study to test whether rise in price has had positive or negative effect on economic growth in Nigeria (Osuala, Osuala, & Onyeike, 2013). .

The issue of inflation has been a matter of concern for economists overtime as it remains a fact that the real income of the citizens are affected during inflation unless with compensatory income via subsidy or outright increase in the workers' salaries. The latter is another economic problem which when not accompanied by increased productivity will lead to more inflationary tendencies in the economy because the value of money would have fallen when the increased incomes fail to bring about more productivity from the wage increases.

Economic empowerment

While there is no consensus about its definition, empowerment—broadly construed—refers to the process of enhancing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes (World Bank, 2012). The World Bank asserts that empowerment essentially:
- addresses the plight of marginalized people who generally lack self-sufficiency and self-confidence as a result of being denied opportunities and/or due to discrimination based on their disability, race, ethnicity, religion, age or gender; - provides opportunities for marginalized people, either directly or through the assistance of non-marginalized others who share their own access to these opportunities; and - thwarts attempts to deny those opportunities, and encourages and develops the skills for self-sufficiency.

All in all, therefore, empowered people and groups have freedom of choice and action which enables them to better influence the course of their lives and the decisions which affect them (World Bank, 2012).

While the key dimensions of empowerment includes legal empowerment (empowering people to demand and exercise their rights while at the same time strengthening institutions so that they can better respond to the needs of people), and political empowerment (the ability of marginalized groups to influence processes and decisions that affect their well-being), this paper will focus on the two other dimensions of empowerment: social and economic. Social empowerment refers to the capacity of individuals and groups—through developing a sense of autonomy and self-confidence—to foster the relationships and institutional interactions necessary for their well-being and productivity. It is closely related to social integration and poverty eradication, and is strongly influenced by individual assets (e.g. housing, livestock, savings) and human (good health and education), social, (e.g. social belonging, sense of identity, leadership relations), and psychological (e.g. self-esteem, self-confidence, aspirations for a better future) capabilities (GSD, undated). Economic empowerment, on the other hand, enables marginalized people to think beyond immediate daily survival and assert greater control over their resources and life choices, especially decisions on investments in health, housing and education. Through improving participation in economic activity and promoting productive employment and decent work, economic empowerment facilitates poverty reduction and social integration.

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.

On the other hand, Gurley and Shaw (1960) developed the theory of financial intermediation and advocates that intermediation plays a very crucial role in the development process by transferring financial resources from the net savers to net borrowers, thereby influencing investment. When these financial resources are transferred, it enhances the financial capacity of the borrowers in the savings and investment process by improving the quality and standard of living of the populace, resulting in economic development.

Empirical Review

Echekoba and Ubesie (2018) assessment of financial deepening on the growth of Nigerian -economy 1990-2016. The main objective of this study is to evaluate the effect of private sector credit, money supply and market capitalization on economic growth in Nigeria. The sources of data for this study are CBN statistical Bulletin and National Bureau of Statistics. The data obtained were analyzed using ordinary least square regression (OLS). The result of the analyses showed that the three independent variables of the study all have significant effect on Nigerian financial deepening. It was therefore recommended that policy makers should consider reducing impediments to liquidity in the stock market, easing restrictions on international capital and entry into the market to ensure that more companies are listed, policies aimed to reduce the high incidence of non performing credits to ensure that private sector credits are channeled to the real sector of the economy and monetary authorities should implement policies that increase the flow of investible funds and improves the capacity of banks to extend credit to the economy as this will make broad money supply and private sector, to significantly impact on economic growth in Nigeria.

Tari, and Oliver (2017) examined the direction of causality between financial deepening and economic growth in Nigeria for the period 1970–2013. The study adopted the Toda–Yamamoto augmented Granger causality test and results showed that the growth-financial deepening nexus in Nigeria follows the supply-leading hypothesis. This means that it is financial deepening that leads to growth and not growth leading financial deepening. Among other things, the study recommended that policy efforts should be geared towards removing obstacles that undermine the growth of credit to the private sector, and must restore investors' confidence in the stock market operations.

Wyeliffe et al (2013) examined the relationship between financial deepening and economic growth in Kenya. The study employed the Descriptive survey. The study showed that mobile banking, agency banking and credit references are the indicators of financial deepening.

Luqman (2014) studied that 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 are co-integrated hence long-run relation exist between them.

Drambi, Adzu, Samson and Ugu (2015) examines the effect of financial deepening on economic development in Nigeria for the period of 1981-2013, the study employs the Co-integration technique vector error correction model. They found a negative relationship between financial deepening and economic development.

Waiyaki (2013) carried out an assessment of the relationship between financial development and economic growth and poverty in Kenya, for the period of 1997-2012, the study employs the OLS. The findings show that some development variables such as M3 and credit to the private sector did not lead to growth while bank deposits did during the period.

Statement of the Problem

In finance literature, it has been argued that financial deepening contributes significantly to economic empowerment (Darrat, 1999). For instance, the studies of Echekoba, and Ubesie, (2018); Tari and Oliver, (2017) find positive impact of financial deepening on economic empowerment whereas Drambi, Adzu, Samson and Lugu (2015) and Waiyaki (2013) find a negative impact of financial deepening on economic growth. The limitation of examining the impact of financial deepening on economic empowerment is that it only reveals the overall financial growth within the economy, as this does not ascertain the living standard of the citizenry in the country. Meanwhile, only few studies such as Nzotta and Okereke (2009) and Drambi, Adzu, Samson and Lugu (2015) have examined financial deepening and economic development. However, in order to determine the actual level of financial deepening on the quality of life and standard of living of the citizenry in the country, the issue of economic empowerment comes to mind. Therefore, the focus of this study is to examine the impact of financial deepening on economic empowerment. Previous studies used either gross domestic product (GDP) or money supply to gross domestic product (M_2/GDP) as a proxy for economic development (Nzotta and Okereke, 2009) and (Waiyaki, 2013). These

indicators do not specifically capture economic empowerment therefore, this study uses the per capital income to capture the level of economic empowerment which examines the actual living standard of the citizenry in the country by dividing the country's national income by its population. Unlike the impact of financial deepening on economic growth, there are few studies on financial deepening and economic empowerment in Nigeria. More so, this study employs the cointegration technique and the error correction mechanism to ascertain both the long-run and short-run analyses of the impact of financial deepening on economic empowerment, unlike most studies which employed either the short-run and long-run analyses. These inadequacies in the extant literature provided justification for this study: this study intends to fill this gap in knowledge.

Objectives of the Study

The main objective of the study is to ascertain the impact of financial deepening on economic empowerment in Nigeria. The specific objectives are to:

1. Examine the impact of money supply to gross domestic product (M_S/GDP) on economic empowerment in Nigeria.
2. Ascertain if private sector credit to GDP ratio has any significant effect on economic empowerment in Nigeria.
3. Examine if the level of financial savings to GDP ratio has significantly impacted on economic empowerment in Nigeria.
4. Ascertain the effect of inflation rate on economic empowerment in Nigeria.

Hypotheses

The following hypotheses were stated in null form:

1. Money supply to GDP ratio has no significant impact on economic empowerment in Nigeria.
2. Private sector credit to GDP ratio does not have any significant effect on economic empowerment in Nigeria.
3. Financial savings to GDP ratio does not significantly impact on economic empowerment in Nigeria.
4. Inflation rate has no significant effect on economic empowerment in Nigeria.

Method

Research Design

This is an ex-post facto study to investigate the impact of financial deepening on economic empowerment. In the time series research design, the data are collected at different points in time without any attempt on the part of the researcher to influence the situation.

Nature and Sources of Data

The nature of any research work dictates the type of data to be used. The study employs solely the secondary data. This was necessitated by the fact that such data are readily available and easily accessible with less probability of inaccuracy. However, data such as ratio of money supply to GDP ratio of private sector credit to GDP, inflation rate and ratio of financial savings to GDP were obtained from the published data of the Central

Bank of Nigeria (CBN) Statistical Bulletin of 2015, while the datum of per capita income was sourced from the World Bank 2015, World Bank development indicators.
Method of Data Analyses

The study employed the Co-integration technique to determine whether or not there is a long-run relationship between the dependent variable and the explanatory variables after testing for stationary. Secondly, the error correction mechanism (ECM) was used to capture the relationship between the short-run dynamics of the economy and the long-run equilibrium of the economy so as to correct for any temporal deviations in the model. The autoregressive distributed lags (ARDL) approach was used in estimating the ECM model while the adjusted R-squared Criterion and information criteria were used in selecting the parsimonious model from the over-parameter models.

Model Specification
The study builds on the seminar work of McKinnon and Shaw (1973) who explained the role financial institutions perform in the country in order to attain economic development. Therefore, this study adopts McKinnon's model which demonstrated that the development of the financial sector is a catalyst for economic growth and development and posited that investment cannot be trigged unless sufficient savings is mobilized in the form of bank deposit liabilities. This study uses per capita income (PCI) as a proxy for economic development.

The per capita income was calculated by dividing the country's national income by its population. While the independent variables are ratio of money supply to gross domestic product (MS/GDP), ratio of private sector credit to gross domestic product (PSC/GDP) inflation rate (INFR) and the ratio of financial savings to gross domestic product (FS/GDP).

The functional form of the regression made is:

$$PCI - F(Ms/GDP, PSC/GDP, INFR, FS/GDP)$$

Meanwhile, the econometric form of the model is

$$PCI = \beta_0 + \beta_1 MS/GDP + \beta_2 PSC/GDP + \beta_3 INF + \beta_4 FS/GDP + \mu$$

Where:

PCI = Per capita income
Ms/GDP = ratio of money supply to gross domestic product
PSC/GDP = Private sector credit to gross domestic production
INFR = Inflation rate
FS/GDP = ratio of financial savings to gross domestic product
μ = Error term

The aprori expectation of the parameters in the model will be β_1, β_2 and $\beta_4 > 0$; $\beta_3 < 0$

Data Presentation and Analysis
Determination of Long-Run or Equilibrium Relationship
Having conducted the unit roots test on variables at levels with intercept, at levels with trend and intercept as well as unit roots test at first difference with trend and intercept as depicted in appendix vi, we employ the co-integration test to determine the long run

or equilibrium relationship between the dependent and the independent variables as illustrated in table 4.12

Table 1: Ordinary Least Squares Multivariate Regression Analysis

Dependent Variable PCI	Variables	Coefficient	t-statistic	Probability
	C	-5194.593	-5.155517	0.0000
	MSGDP	-196.4728	-6.572413	0.0000
	PSCGDP	71.38304	1.462716	0.1551
	FSGDP	-79.61600	-1.545407	0.1339
	INFR	8647.147	6.002573	0.0000
	AR(2)	-0.437064	-2.427031	0.0222
R^2	0.81			
Adj. R^2	0.78			
F-statistic	23.6548			
Pro (F-statistic)	0.00000		DW=1.724	

Interpretation of Regression Result

From table 1, it can be deduced that there exists a long-run relationship between per capita income (PCI) (our proxy for economic empowerment) and the other explanatory variables. From the analysis, the ratio of money supply to gross domestic product (Ms/GDP) has a negative long-run relationship with per capita income (PCI) and statistically significant at the 1% level (Prob value 0.0000). This implies that the ratio of money supply to GDP is a major determinant of per capita income but does not positively contribute to the per capita income in Nigeria in accordance with the theoretical expectation. Private sector credit to GDP has a positive long-run relationship but not statistically significant with PCI this implies that the ratio of private sector to GDP does not contribute significantly to the economic empowerment. A unit change of private sector credit to GDP will result to 71.38 units increase in per capita income (PCI) in Nigeria for the period under review. Financial savings to GDP ratio has a negative long-run and not statistically significant impact on PCI. On the other hand, inflation rate has a positive long-run and a statistically significant relationship with per capita income. This suggests that the inflationary trend has expansionary impact on the economy.

The DW-Statistics of 1.724 indicates the absence of autocorrelation in the model, which suggests that the result is reliable for prediction. The prob (F-statistics) = 0.000 indicates that the regression has an overall goodness of fit at 1% level of significance. The adjusted R^2 having adjusted for the degree of freedom and error term was moderate at 0.78 which indicates that 78% of the independent or explanatory variables were explained by the changes in the dependent variable.

Short-Run Dynamic Relationships

To correct the long-run or equilibrium relationships for disequilibrium, we employ the error correction mechanism (ECM) as popularized by Engle and Granger (1987). Since

the relationships between the dependent and independent variables are co-integrated, we proceed to express them as error correction mechanism (ECM) in accordance with Granger representation theorem to indicate the temporary behaviour of the dependent variable given short-run changes in the independent variables as illustrated in table 4.14

TABLE 2: ARDL Representation of the Error Correction Mechanism Based on the Adjusted

R-Squared and Information Criteria

Dependent Variable DPCI	Variables	Coefficient	t-statistic	Probability
	C	-820.1514	-2.078394	0.0495
	DPCI(-1)	0.955054	18.83314	0.0000
	DMSGDP(-2)	-0.385058	-0.068604	0.9459
	DPSCGDP	-7.300859	-0.435929	0.6671
	DPSCGDP(-1)	21.51284	1.193086	0.2455
	DFSGDP	-92.18102	-4.219075	0.0004
	DFSGDP(-1)	55.02730	2.401287	0.0252
	DINFR	1657.798	3.316148	0.0031
	DINFR(-1)	-626.5749	-1.216773	0.2366
	ECM(-1)	-0.171591	2.779939	0.0109
R^2	0.989			
Adj. R^2	0.985			
F-statistic	226.9			
Pro (F-statistic)	0.0000	DW = 1.72		

Interpretation of result

As revealed on table 4.14 above, the result of the relationship between per capita income (PCI) and other explanatory variables indicate that the goodness of fit statistics of the model is impressive. The R-squared value of 0.989 and the adjusted R-squared value of 0.985 gave an indication that about 98.5% of the systematic variation in per capita income (PCI) are accounted for by variations in the explanatory variables including changes in the error correction term. The F-statistic is 226.9 and passes the significant test at 1% (Prob F-stat = 0.006) level. This is a strong indication that the ECM model has a strong predictive power. Hence, we reject the null hypothesis of no significant linear relationship between PCI (our proxy for economic empowerment) and the independent variables combined. Therefore, we conclude that a significant linear relationship exists among per capita income, financial deepening variables and other control variables.

In specific terms, we observed that the second year lag value of money supply (MSGDP(-2) has a negative and not statistically significant relationship with per capita income. The current year value of private sector credit to GDP (DPSGDP) has a negative relationship with the per capita income and not statistically significant, while the first year lag of private sector credit (DPSCGDP(-1) has a positive relationship with PCI and

not statistically significant just as the current year lag value of PSC GDP. The current year value of financial savings to gross domestic product (DFSGDP) has negative and a statistically significant relationship with PCI, while the first year lag of PSCGDP has a positive and statistically significant impact on PCI, just as the current year value of inflation rate (DINF) which has a positive and statistically significant impact on PCI. On the other hand, the first year lag of inflation rate (DINF (-1) has a negative and not statistically significant impact on PCI.

Conclusion and Recommendations

In conclusion, these results strongly suggest that money supply to GDP and inflation rate have had significant impact on per capita income in both short and long-run in Nigeria within the period (1986-2017).

Furthermore, the results also suggest that financial savings ratio to GDP has significant impact on per capita income particularly in the short-run.

Recommendations

From the findings of the study, the following recommendations are offered:

1) For the Nigerian economy to grow at the desired rate, the indices of financial deepening such as private sector credit to GDP and financial savings to GDP should receive considerable attention by relevant authorities in order to impact strongly and positively on economic empowerment
2) Money supply to GDP as the major indices of financial deepening should receive careful attention of government to ensure that excess money supply does not lead to significant long-run dislocation in the economy.
3) Inflation targeting as a financial deepening measure should remain a major goal of financial policies to ensure that inflationary trend does not lead to economic dislocation.

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