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The Impact of Financial Market Access on Economic Growth in Developing Economies: The Nigerian Experience

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Abstract
Financial market access plays a pivotal role in promoting the growth and development of financial market and overall economy in Nigeria. Hence, this study examined the impact of financial market access on economic growth in Nigeria using annual time series data spanning 1985 – 2024 within the dynamic ordinary least squares (DOLS) analytical framework given its attendant advantage of addressing endogeneity, serial correlation and small-sample bias in cointegrated time-series model. The study shows that financial market access has a positive and significant influence on economic growth. In the face of this strong empirical evidence which shows that financial market play a significant role in promoting economic growth in Nigeria, the study concludes that financial market access drives sustained long-run economic growth. The study recommends that government and regulatory authorities should focus on deepening Nigeria's financial markets by broadening the range of financial instrument and reducing/eliminating barriers to accessing financial products.

Keywords: Financial Market Access, Economic Growth, Financial Institutions, Inflation

1. Introduction

Financial development and economic growth are among the central themes of current macroeconomic literature. Financial development is essentially a complex phenomenon comprising the manner finance is handled in a country. Financial development has its roots in the work of early theorists such a Schumpeter (1911) [21]. These early theorists emphasized that financial intermediation plays a catalytic role in stimulating innovation and productivity. Financial development theory posits that financial institutions and markets play a central role in mobilizing savings and allocating them efficiently to productive investments, thereby fostering employment creation and output growth (Yusoff *et al*., 2025) [27]. The relationship between financial development and economic growth is a vital one considering the continuing effects on financial sector performance (CBN, 2023) [4]. The financial market is a cornerstone of economic development, providing the infrastructure for the efficient allocation of resources, investment opportunities and the promotion of economic growth. Financial development is an economic driver that relies on financial institutions and markets to provide financial resources. These institutions and markets require infrastructure and policies to strengthen their functions (Cihak *et al*. 2012) [5].

The features of financial development provide a broader understanding of the importance of the financial sector in contributing to economic growth. As a result, financial development indicators such as financial institutions access and markets access have established a strong foundation enabling them to contribute to economic growth (Sahay *et al*., 2015) [20]. There are key findings on how financial development affects economic growth. The first is through the savings rate, which leads to investment and capital accumulation. The second is through channel allocation, where financial development enhances efficient investment allocation thereby increasing productivity (Nayak, 2022) [15].

Several studies highlight the importance of a well-developed financial market in driving stock market performance (Yahaya, 2026; Ofori-Boateng *et al*., 2022; Odey *et al*., 2023) [26, 18, 17]. The Nigerian economy is no exception. Financial market reforms in Nigeria are undergoing a major overhaul, centered on bank recapitalization, foreign exchange, market liberalization and strict corporate governance. Despite the financial reforms, Nigeria's financial indicators remain weak by international and regional standards. For instance, credit to the private sector remains below 15% of GDP, far below the Sub-Saharan African average of about 30% and the emerging market average of over 50% (World Bank, 2021).

Owing to these dismal economic and financial imbalances, the objective of this paper is to examine the impact of financial

market access on economic growth in Nigeria. Thus, this study adopted the Dynamic Ordinary Least Squares (DOLS) estimator. The study will be significant in determining, designing sound macroeconomic and financial sector policy. The study will contribute to the existing body of knowledge by providing updated empirical evidence on the finance-growth relationship within the Nigerian context. The study will also inform policy decisions and assist policy makers to ascertain the appropriate economic measures to adopt to drive economic growth through financial development.

2. Literature Review

2.1 Conceptual Literature

2.1.1 Financial Development

Basically, financial development connotes a shift from less sophisticated and accessible financial system to mere advanced, inclusive, efficient and diversified financial market and institution that better mobilize savings, allocate capital and manage risk, reduce trans-action cost and enhancing access financial services. Financial development revolves around overcoming costs incurred in the financial system (Okeke, 2022) [19]. Financial development also has to do with the development of the size, efficiency and stability of financial markets along with increased access to the financial market that can have multiple effects on the economy (Guru & Yadav, 2019) [7].

2.1.2 Access to financial market

Access to financial market is an essential part of any financial system. It can be defined as the availability and equality of opportunities to access financial services (World Bank, 2014). Similar, it can be argued that improved access to financial systems enhances economic growth by facilitating efficient allocation of capital and encouraging productive investment (Levine, 2005) [11]. Limited access to financial market restricts the ability of households and firms to smooth consumption, manage risks and invest in future opportunities, thereby hindering overall economic stability and development (IMF, 2020) [9]. Therefore, access to financial markets is a crucial determinant in ensuring economic participation, poverty reduction and sustainable growth.

2.1.3 Economic growth

The concept of economic growth has garnered diverse definition from various scholars. Economic growth is a comprehensive measure covering the production of consumer goods and services, as well as government services and investment goods (Lewuiller *et al*., 2004) [12]. Balcerowicz *et al*. (2013) [3] describe economic growth as a process of quantitative, qualitative and structural changes with positive impact on the economy and on the population's standard of life, whose tendency follows a continuous ascendant trajectory.

2.2 Theoretical Review

Several theories explain the relationship between financial market development and economic growth. These theories provide a framework for understanding how financial market influence economic growth.

2.2.1 The financial development theory

The financial development theory, as postulated by Mckinnon (1973) [13] and Shaw (1973) [22], suggests that financial markets play a crucial role in promoting economic development by facilitating savings via mobilization and efficient resource allocation. In this theory, well-developed financial markets improve access to finance for individuals and firms which in turn fosters investment and economic growth. This theory emphasizes the importance of financial deepening in emerging economies like Nigeria, where stock markets are still evolving.

2.2.2 Efficient market hypothesis (EMH)

The efficient market hypothesis, introduced by Fama (1970) [6] states that stock prices reflect all available information, making it impossible to consistently achieve higher returns than the market average through stock picking of markets timing. According to EMH, well-developed financial markets should lead to efficient pricing of securities.

2.3 Empirical Literature

In Nigeria, the stock market has been the subject of debate, with some studies suggesting that the Nigerian stock market is not fully efficient due to issues such as Information asymmetry and poor regulatory oversight. Empirically, several studies have been carried out on the relationship between financial development and economic growth. For instance, Jibir *et al*., (2023) [10] examined the link between financial development and innovation-led economic growth in sub-Saharan Africa. The study argued that financial market in the region including Nigeria have a profound influence on innovation and entrepreneurial activity. The study stressed that regulatory reform is necessary to deepen financial markets, thereby promoting economic growth through enhanced Innovation. The study's findings are significant in the contest of Nigeria, where financial markets are still evolving, and capital access remains a critical barrier to business innovation.

Nnakee *et al*. (2024) [16] provide crucial insights into how liquidity and market capitalization drive economic growth In Nigeria. The study's findings suggest that market liquidity, represented by the turnover ratio, plays a significant role in driving economic performance. Ayeni *et al.* (2024) [2] examine the impact of financial development on economic growth in Nigeria covering 1986 to 2022.The autoregressive distributed lag model was employed and long run result reveals that interest rate, lagged value of broad money supply and domestic credit to private sector have positive impact on economic growth while current value of broad money supply has a negative impact on economic growth.

Zaheer *et al*. (2022) [28] investigated the effect of financial development on economic growth and economic inequality, using data from 44 countries classified according to income levels. The estimates are obtained through a panel Autoregressive Distributed Lag (ARDL) model for a period of 23 years (1995 – 2018). Results show that financial development contributes to economic growth in all income groups in the long-run. However, the contribution financial development makes to economic growth is more noticeable in the case of upper-middle income countries. Additionally, Granger causality test based on Vector Error Correction (VEC) showed two-way Granger causality between financial development and economic growth.

Okeke (2022) [19] investigated financial development and economic growth in Nigeria from 1986 to 2020, using ordinary least square regression analysis. The findings of the study revealed that money supply to GDP has positive and significant relationship with economic growth in Nigeria. While private sector credit to GDP and insurance premiums to GDP ratio had negative relationship with economic growth in Nigeria.

Haruna *et al*. (2025) [8] investigates the effect of market capitalization and trading volume on economic growth in Nigeria, utilizing time-series data from 2015 to 2023. The research adopts a causal-comparative design and employs various econometric techniques, including the Augmented Dickey-Fuller (ADF) test for stationarity, the Johansen Cointegration test to identify long-term relationships, and the Vector Autoregression (VAR) model to explore the dynamic interactions between the variables. The findings reveal that market capitalization has a significant positive impact on economic growth. However, trading volume was found to have an insignificant effect on economic growth. This study concludes that market capitalization plays a vital role in promoting economic growth in Nigeria. On the other hand, the insignificant relationship between trading volume and economic growth implies that simply increasing the volume of transactions on the stock market may not necessarily translate into economic growth.

Adegoke *et al*. (2025) [1] explored the impact of the stock market on economic growth in Nigeria over the period from 1996 to 2023, focusing on indicators such as market capitalization, the All-Share Index (ASI), total value of traded shares, number of listed securities, and number of deals. The research design employed an ex-post facto (causal-comparative) approach, analyzing pre-existing data to explore cause-and-effect relationships between stock market variables and GDP growth. The study used the Vector Error Correction Model (VECM) for time series analysis to assess both short-term and long-term dynamics. The findings revealed that in the long term, market capitalization (MCA) had a negative impact on economic growth. On the other hand, the All-Share Index (ASI) had a positive effect on economic growth. Similarly, the total value of shares traded (TVS) and the number of deals (NOD) were positively associated with GDP growth. However, the number of listed securities (NOS) showed a negative relationship.

Ukoh (2024) [23] examined stock market performance and economic growth of Nigeria using data from 2001 to 2022. The study used the autoregressive distributive lag model (ARDL). The result of findings show that value traded, all share index and market capitalization have a positive and significant long-run relationship with economic growth. Number of deals indicates an inverse and significant long-run relationship with economic growth in Nigeria.

A review of previous studies shows a dearth of studies on financial market access and economic growth in developing economies. This will essentially influence financial policy formulation and implementation that will drive economic growth in both long- and short-run.

3. Materials and Method

3.1 Model Specification

The study specifies an econometric model to examine the impact of financial market access on economic growth in economic growth. The model is constructed as a function of access to financial market with a common set of control variable namely inflation, industrialization, oil rents, urban population growth and agricultural productivity. This approach avoids multicollinearity among financial market indicators and allows for a clearer assessment of the individual contribution of each measure to economic growth.

The general functional form of the model is expresses as:

$$EG_t = f(FM_t^i, INF_t, IND_t, OIL_t, UPG_t, AGR_t)$$

Where EG_t denotes economic growth, FM_t^i represent financial market, INF_t is denotes inflation, IND_t represent industrialization, OIL_t represents oil rents, UPG_t is urban population growth, and AGR_t denotes agricultural productivity. The estimable linear model is specified below:

$$EG_t = \theta_0 + \theta_1 FMA_t + \theta_2 INF_t + \theta_3 IND_t + \theta_4 OIL_t + \theta_5 UPG_t + \theta_6 AGR_t + \varepsilon_t$$

Where all parameters are as previously defined, t denotes time, and ε_t represents the stochastic error term. This model specification enables the study to estimate the long-run impact of financial market access on economic growth in Nigeria using the Dynamic Ordinary Least Squares (DOLS) estimator.

3.2 Data and Variables

This study relies on secondary time series data to examine the impact of financial market access on economic growth in Nigeria. Annual data spanning the period 1985 to 2024 were employed in order to capture long-term impact of access to financial markets on economic growth in Nigeria. Data on economic growth, financial market access and control variables were obtained from the International Monetary Fund (IMF) Financial Development Indicators (FDI) and World Development Indicators (WDI), which provides reliable and internationally comparable data on financial development, economic and social indicators. Variables used and their measurements are presented in Table 1.

Table 1: Description, Measurement, and Sources of Data

Variable	Description	Measurement	Source
Economic Growth	Growth in overall economic activity	Log of real GDP (%)	WDI (2025), CBN (2025)
Financial Market Access	Ease of participation in financial markets	Index (0–1)	IMF FDI (2025)
Inflation	General price level changes	Consumer Price Index (%)	WDI (2025)
Industrialization	Level of industrial activity	Industry value added (% of GDP)	WDI (2025)
Oil Rents	Income from oil resources	Oil rents (% of GDP)	WDI (2025)
Urban Population Growth	Rate of urbanization	Annual growth rate (%)	WDI (2025)
Agricultural Productivity	Efficiency of agricultural output	Agriculture value added growth rate	WDI (2025)

Source: Author's Design

3.3 Estimation Technique

This study employed time series econometric techniques to examine the impact of financial market access on economic growth in Nigeria. The analysis started with the Augmented Dickey–Fuller (ADF) unit root test to establish the stationarity properties of the variables and to avoid spurious regression results. Given that the variables were found to be integrated of order one, the Johansen cointegration test was subsequently applied to ascertain the existence of a long-run

equilibrium relationship among economic growth, financial market access, and the control variables included in the model.

Upon establishing cointegration, the Dynamic Ordinary Least Squares (DOLS) estimator was adopted to estimate the long-run relationship between the variables. The choice of DOLS is justified by its robustness in estimating cointegrated systems, as it corrects for potential endogeneity and serial correlation by including leads and lags of the first differences of the repressors (Muye & Muye, 2017) [14]. This approach ensures unbiased and efficient parameter estimates, particularly in small sample settings. Additionally, DOLS provides reliable long-run coefficients and valid statistical inference, making it suitable for policy-oriented analysis. Overall, the use of ADF, Johansen cointegration, and DOLS techniques enables a comprehensive assessment of both the long-run relationship and the magnitude of the impact of financial development on economic growth in Nigeria.

4. Results and Discussion

4.1 Pre-estimations

Results from the descriptive analysis, Table 2 indicate that Economic growth which is proxied by the natural logarithm of GDP, which has a mean value of 26.736. This transformation is employed to stabilize the variance of the series, reduce the influence of extreme values, and allow the estimated coefficients to be interpreted as elasticities, thereby facilitating meaningful economic interpretation.

Table 2: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max
Economic Growth	39	26.736	.277	25.972	27.034
Financial market access	39	.437	.084	.25	.51
Inflation	39	19.253	16.999	5.388	72.836
Industrialization	39	25.201	.092	24.976	25.345
Oil Rents	39	11.967	5.966	2.684	28.705
Urban Population Growth	39	4.596	.556	3.794	5.748
Agricultural Productivity	39	23.731	3.737	18.02	36.965

Source: Author's Computation from STATA output

For the key variables, financial market access has a high mean of .437. This access is not matched by sufficient market depth, limiting the role of market in mobilizing long term finance.

Table 3 shows the stationarity test results carried out for the outcome variable; economic growth, the main predictors; financial market access, and the control variables; inflation, agriculture productivity, oil rents, industrialization, and urban population growth. The decision rule for the ADF test is that the p-value of the estimates should be significant at 0.05 level of significance as conventional used. Or, in absolute terms, the coefficient of the ADF test statistic should be greater than the value of ADF critical value. From the output in table 2, all variables are stationary only after first differencing. This shows that the OLS cannot be used to estimate the relationships among the variables, hence, the Dynamic OLS is used.

Table 3: Stationarity Test Using the Augmented-Dicker Fuller (ADF) Technique

Variables	ADF @ 1st Difference		Order of Int.	Remarks
	Test Stat	5% Crit. Value		
Economic Growth	-6.082993	-3.540328	I(1)	Stationary at 1st Difference
Financial market access	-5.734118	-2.943427	I(1)	Stationary at 1st Difference
Inflation	-4.561529	-2.963972	I(1)	Stationary at 1st Difference
Agriculture Productivity	-6.941598	-2.945842	I(1)	Stationary at 1st Difference
Oil Rent	-7.127682	-2.945842	I(1)	Stationary at 1st Difference
Industrialization	-4.854650	-2.945842	I(1)	Stationary at 1st Difference
Urban Population Growth	-5.588559	-2.943427	I(1)	Stationary at 1st Difference

Source: Author's Computation.

Table 4a: Cointegration Test for financial market access

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05Crit. Value	Prob.**
None *	0.897340	215.7512	125.6154	0.0000
At most 1 *	0.672029	133.8034	95.75366	0.0000
At most 2 *	0.667499	93.66945	69.81889	0.0002
At most 3 *	0.492669	54.02943	47.85613	0.0118
Trace test indicates 4 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Source: Author's Design from E-views output

Table 4b: Financial Markets Access and Economic Growth in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Financial Markets Access	3.843034	0.984598	3.903148	0.0029
Industrialization	2.223202	0.586001	3.793851	0.0035
Inflation	0.012124	0.004794	2.528854	0.0299
Oil Rents	0.022314	0.008384	2.661513	0.0238
Agricultural Productivity	-0.012404	0.013077	-0.948516	0.3652
Urban Population Growth	0.022757	0.079445	0.286445	0.7804
C	-31.31119	15.16148	-2.065180	0.0658
R-squared	0.947794	Mean dependent var		26.76782
Adjusted R-squared	0.822499	S.D. dependent var		0.228065
S.E. of regression	0.096086	Sum squared resid		0.092325
Long-run variance	0.006741			

Source: Author's Design from E-views output

4.2 Regression results

Table 4a shows the cointegration test result carried out to ascertain whether a long run relationship exists between access to the financial market and other variables in the study. From the results in table 4, the Johansen test output shows the presence of cointegration. The Trace test indicates 4 cointegrating equations, showing that the series have a long run relationship among themselves. Thus, the DOLS estimation technique can be implemented.

The DOLS results carried out to ascertain the impact of access to the financial market as an aspect of financial development, on economic growth is presented in table 4b. From the results, access to the financial market has a positive and significant effect of economic growth in Nigeria. This means that access to the financial market is crucial for economic growth in Nigeria.

5. Conclusion

The study examined the impact of financial market access on economic growth in Nigeria using time series data covering the period 1985 – 2024. The findings provide strong empirical evidence that financial market access plays a significant role in promoting economic growth in Nigeria. The existence of a long-run relationship among the variables further underscores the important financial market access for sustained long-term economic performance. The results suggest that financial market drives economic growth through efficient intermediation and improved access to finance. Overall, the study reinforces the relevance of the finance-growth nexus and highlights the need for continuous financial market reforms especially in the area of accessibility to financial products in order to support stainable economic development in Nigeria. Based on the study's findings, it is recommend that government and regulatory authorities should focus on deepening Nigeria's financial markets by broadening the range of financial instruments and reducing/eliminating barriers to accessing financial products.

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