**FINANCIAL SECTOR DEVELOPMENT AND STOCK MARKET PERFORMANCES IN NIGERIA: 1980-2023**

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# ABSTRACT

This study investigates the relationship between financial sector development and stock market performance in Nigeria from 1980 to 2023. The research employs a quantitative approach, utilizing time series data from various sources, including the Central Bank of Nigeria, National Bureau of Statistics, and the Nigeria Exchange Group. The analysis encompasses descriptive statistics, trend analysis, correlation analysis, and regression techniques, specifically the Autoregressive Distributed Lag (ARDL) model, to elucidate the dynamics between the financial sector and stock market indicators. The findings reveal significant growth in key financial sector indicators, including credit to the private sector and financial depth, coinciding with substantial advancements in stock market performance, represented by market capitalization and the all-share index. Correlation analysis indicates a strong positive relationship between financial sector development and stock market performance, supporting the supply-leading hypothesis that posits financial development as a precursor to stock market growth. Regression results confirm that both financial depth and credit to the private sector positively influence stock market performance, with a notable effect size. However, interest rates were found to have a negative yet statistically insignificant impact, underscoring the complexities of macroeconomic factors on financial performance. The implications of these findings are significant for policy-makers, highlighting the need for sustained financial sector reforms, regulatory improvements, and efforts to stabilize macroeconomic conditions to foster an environment conducive to stock market growth. This study contributes to the existing literature by providing empirical evidence of the critical role of financial sector development in enhancing stock market performance in Nigeria, ultimately suggesting that strategic financial policies can stimulate economic growth and investment opportunities within the country.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

As the backbone that facilitates investments, resource mobilisation, and wealth creation, the financial sector is an essential component in the economic development of any nation. It plays a key part in the country's overall economic development. Since 1980, the financial industry in Nigeria has seen tremendous change, which is a reflection of the country's shifting political and economic situation. During the course of the last four decades, Nigeria has undergone a number of different financial reforms, structural changes, and policy shifts with the intention of strengthening financial intermediation, increasing efficiency, and stimulating the growth of capital markets. The expansion of Nigeria's financial sector, in particular the stock market, has been a focus point in discussions regarding the distribution of wealth and the maintenance of sustainable economic growth. However, the relationship between the growth of the financial sector and the success of the stock market has continued to be a topic of discussion and investigation within the academic community. At the beginning of the 1980s, commercial banks were the dominant players in Nigeria's financial sector. These banks were also the industry leaders when it came to the distribution of credit to important sectors of the economy. In its early days, the Nigerian Stock Exchange, which is now known as the Nigerian Exchange Group, was a very underdeveloped market. It included a small number of publicly traded businesses and a restricted level of participation from both institutional and retail investors. The introduction of the structural adjustment program (SAP) in 1986 was a pivotal moment since it liberalised the financial system and encouraged private sector engagement in the capital market. This was a crucial turning point. According to Kolapo and Adaramola (2012), the liberalisation of the currency rate and the deregulation of interest rates led to the creation of an atmosphere that was conducive to the expansion of the international stock market.

With the founding of the Securities and Exchange Commission (SEC) and reforms aimed at boosting transparency and governance within the capital markets, the decade of the 1990s witnessed a further deepening of the financial sector for the first time in history. Despite the fact that these reforms contributed to a rise in market capitalisation and listings, the industry continued to struggle with regulatory inefficiencies and economic instability. The consolidation of the banking sector and the influx of foreign direct investment (FDI) that followed the return of the country to democratic governance were the primary factors that drove the stock market boom that Nigeria saw at the beginning of the 2000s (Mamudu & Gayovwi, 2020).

The global financial crisis of 2008, on the other hand, brought to light vulnerabilities in Nigeria's financial system, which led to a significant decrease in the capitalisation of the stock market and a subsequent loss of trust among investors. These post-crisis measures included stricter regulation, improvements in corporate governance, and the introduction of new financial instruments. The overarching goal of these reforms was to stabilise the financial sector and improve the performance of the stock market. In recent years, technical improvements such as online trading platforms have enhanced market accessibility. Additionally, the expansion of financial instruments such as bonds and derivatives has extended investment opportunities (Ngare et al., 2014). Both of these factors have contributed to the expansion of market accessibility. Despite these progressions, the relationship between the development of the financial sector and the performance of the stock market in Nigeria continues to be a complicated one. Challenges such as political instability, corruption, and regulatory inefficiencies continue to impede the full realisation of this potential (Nzotta, 2004). Empirical evidence demonstrates that a well-functioning financial sector has the capacity to stimulate growth in the stock market and expansion of the economy. In addition, the COVID-19 epidemic brought to light the necessity of investing in more robust financial systems. This was due to the fact that stock markets all over the world, including Nigeria's, suffered unprecedented levels of volatility.

The objective of this investigation is to investigate the correlation between the performance of the Nigerian stock market and the development of the financial sector from 1980 to 2023. This research endeavours to provide insights into the extent to which the development of the financial sector has influenced the performance of the stock market over the course of time by analysing important variables such as market capitalisation, liquidity, financial depth, and the involvement of financial intermediaries.

## 1.2 Statement of the Problem

Despite the financial reforms and growth in Nigeria’s stock market over the past four decades, the correlation between financial sector development and stock market performance remains inconsistent. There is evidence that while the financial sector has grown in terms of financial depth, credit availability, and market capitalization, the stock market’s contribution to overall economic growth has fluctuated (Hyacinth et al., 2023). Moreover, Nigeria’s financial sector faces persistent challenges, including regulatory inefficiencies, political instability, and economic volatility, which impact stock market performance. This study aims to address the gap in understanding how these factors have influenced the stock market over time and whether financial sector development has resulted in sustainable improvements in stock market performance in Nigeria.

## 1.3 Research Questions

1. How has financial sector development influenced stock market performance in Nigeria between 1980 and 2023?
2. What are the key challenges affecting the relationship between financial sector growth and stock market performance in Nigeria?
3. To what extent has financial reform contributed to stock market growth in Nigeria over the study period?

## 1.4 Objectives of the Study

1. To analyse the relationship between financial sector development and stock market performance in Nigeria from 1980 to 2023.
2. To identify the challenges hindering the effective impact of financial sector development on stock market performance.
3. To evaluate the impact of financial reforms on the growth of Nigeria’s stock market during the period under review.

## 1.5 Research Hypotheses

**Ha1:** There is a positive relationship between financial sector development and stock market performance in Nigeria.

**Ha2:** Financial sector inefficiencies negatively impact stock market performance in Nigeria.

**Ha3:** Financial reforms have significantly contributed to stock market growth in Nigeria.

## 1.6 Significance of the Study

This study is significant for policymakers, financial analysts, and investors seeking to understand the dynamics between financial sector development and stock market performance in Nigeria. It contributes to the existing body of knowledge by providing empirical evidence on the long-term trends and challenges affecting Nigeria’s financial markets. The findings could inform future financial reforms and policies aimed at improving market efficiency, transparency, and overall economic development. Additionally, this study provides insights into how financial intermediaries can better mobilize resources for productive investments, thereby enhancing stock market performance.

## 1.7 Scope and Delimitation of the Study

The study covers the period from 1980 to 2023, focusing on the development of Nigeria’s financial sector and its impact on stock market performance. The scope includes an analysis of key financial indicators such as market capitalization, liquidity, and credit availability, as well as the role of financial reforms and regulatory changes. The study is limited by the availability of data and the challenges of measuring the informal financial sector’s impact on the stock market.

## 1.8 Definition of Key Terms

**Financial Sector Development:** The growth and expansion of financial institutions and markets, including banks, non-bank financial institutions, and capital markets, aimed at improving financial intermediation.

**Stock Market Performance:** The measurement of how well the stock market is doing, often evaluated through indicators such as market capitalization, trading volumes, and stock price indices.

**Market Capitalization:** The total value of a company's shares of stock, calculated by multiplying the share price by the number of outstanding shares.

**Financial Reforms:** Changes in financial policies and regulations aimed at improving the efficiency, transparency, and functioning of the financial system.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Conceptual Framework

The financial sector plays a crucial role in the economic development of any country by facilitating the flow of funds, supporting investment, and enhancing the efficient allocation of resources. Financial sector development refers to the improvement in the size, efficiency, and effectiveness of financial institutions and markets, which in turn stimulate economic growth by providing access to finance and reducing risks for businesses and individuals.

## 2.1.1 Overview of Financial Sector Development

Financial sector development encompasses both financial institutions (such as banks, insurance companies, and pension funds) and financial markets (such as capital markets, stock exchanges, and bond markets). A well-developed financial sector ensures efficient capital mobilization, which is critical for long-term investment and economic stability (Adewuyi & Falana, 2018). Several studies emphasize that financial development improves economic growth by lowering transaction costs, increasing access to credit, and promoting capital accumulation. In developing countries, financial sector reforms often focus on improving regulatory frameworks, enhancing financial inclusion, and fostering a competitive banking environment (Lehkonen & Heimonen, 2015). These reforms not only stabilize the financial system but also contribute to poverty reduction and economic development.

## 2.1.2 The Stock Market

The capital market is a network of financial institutions and infrastructure that interact to mobilize and allocate long-term funds in the economy. Specifically, the market affords business firms and government the opportunity to sell stocks and bonds to raise long term funds from the savings of other economic agents. The sourcing of long-term funds through the capital market is essential for self-sustained economic growth as prescribed by the Harrod-Domar model. An active capital market aids the mobilization of savings for economic growth and development. It also encourages the efficient allocation of resources through changes in wealth ownership. In this regard, it acts as a catalyst in creating a healthy private sector and facilitates the promotion of rapid capital formation. Within the capital market, there are issuing houses which provide residual banking services and act as intermediaries in capital market activities. They operate between the company whose shares are being sold, the regulatory authorities and the publics. Issuing houses are registered with the Securities and Exchange Commission (SEC). Many of the issuing houses in Nigeria are affiliates of banks. In Nigeria, stock-brokers are also involved in capital market activities. There are 581 licensed stock-brokers in Nigeria.

## 2.1.3 Stock Market Performance: Concepts and Indicators

Stock market performance is often measured by several key indicators, such as stock price indices, market capitalization, trading volumes, and price-to-earnings ratios. These indicators reflect the overall health of the financial market and provide insights into investor confidence and economic performance. The efficient functioning of stock markets is essential for channeling savings into productive investments (Ekanayake & Thaver, 2021). Well-developed stock markets contribute to economic growth by offering liquidity, diversifying risks, and facilitating the price discovery process. However, fluctuations in stock prices and market volatility can affect economic stability, making regulatory oversight important.

## 2.1.4. The Structure of Nigerian Stock Market

Recent studies are of the view that the liquidity of stock market is a channel for long-term growth obtainable in advancing economies (Jibril, et al., 2015; Afolabi, 2015). A stock market, devoid of liquidity will hinder a lot of lucrative investments that requires long-term funding from being carried out because most investors would be reluctant and indisposed to commit their funds for longer time periods. Contrary, liquid equity markets enable investors to get rid of their shares when the need arises in so doing allowing organizations to increase capital on suitable terms that is equity in nature. By enhancing longer term, additional, cost-effective investment projects, liquid markets improve the distribution of capital and augments projection to grow the economy for long-term period. Capital market is a well structured market that offers services to increase long-term loans in order to fund, expand and modernize industries. It is also set up to offer a stage where capital suppliers can speedily and simply refurbish their liquidities. Capital market aids the drive of mobilizing capital as well as allocating the financial resources of the country within numerous battling customers for different uses. The important roles executed by the capital markets are catalysts for rapid economic development and growth. This was the purpose and reason for setting up the NSE in March in the year 1960 as Stock Exchange of Lagos. Stock exchange in Nigeria controls the market responsible for the purchases and sales of stocks, Government bonds and debentures and they are all referred to as securities. Akin to otherworld stock exchanges, are two major markets within the NSE. This includes the primary as well as the secondary markets. The primary market is also referred to as the new issue market, where initial capitals are raised. The Government and entrepreneurs were capable enough to get loans long enough to fund developmental plans and growth of industries amongst others via the primary markets. This segment of the market under the NSE has huge effect on the Nation’s economy. This tells that Nigeria’s nascent industrialists and entrepreneurs may perhaps have no well structured market where they might get loans for long term investment plans Consequently, the mobilization of funds for long term productive uses in the economy might have been very hard excluding NSE market. Secondary markets under NSE are saddled with the responsibilities of the purchases as well as the sales of existing instruments. NSE via the market segment makes available the opportunity of refurbishing liquidity to the investors as well as permitting the spreading of risks in an effective and efficient manner. Where, those who access such funds like the Government and entrepreneurs keep hold of the financial resources in their investment projects. Exchange actions via these means make available the task of gathering together savings from the those who are willing and are able to save and allocating them to those who are in need of such funds. For this reason, larger percentage of the financial resources goes to those investment projects that have the highest returns given a certain level of risks. This distribution role of the Nigerian Stock Exchange is important in shaping growth generally as well as good organization of the economy of Nigeria. If funds available are not readily made to the economic units with high demand, proficient in productivity at the suitable point in time period, the growth pace of the economy and development would certainly slow (Alile, 1996). The NSE accordingly turn out to be the trademark of the capital market of Nigeria, thus NSE are often used in place of capital market.

## 2.1.5. The Nigerian Stock Exchange Growth

NSE has experienced remarkable growth from inception in the year 1960. The evidence of the growth is seen in the rising amount of traded securities of the capital market, market functionaries as well as capitalization of equity and the size on the floor of the stock exchange. Certainly, many reasons are accountable for these growths amongst them are;a) The possession of the base credit. This was accountable for the large inputs in the third and subsequent growth in stock loan offering in 1962 and 1961.b) The 1961 administration of tax on income. On this note, not less than one-third of all funds, pensions and future earnings in the country were placed for investment in the government of Nigeria’s stocks or face the consequence of forfeiture of valued tax concession. c) National Provident Funds of 1961. This states that, all incomes and Pension funds that are set up later in 1961 that were needed on the Act to input at minimum half of these money in stock. d) The1964 Insurance Act. This stipulates that, the insurance firms functioning in Nigeria are to invest not less than 40% of their earnings on domestic hedged risks in a particular fiscal year period. And also, not less than 25% of all the domestic investments of these firms ought to be in the securities belonging to government. e) CBN functioning has largely propelled growth and improvement of stock market in Nigeria by means of its securities. The CBN avails services and offers the apparatus of marketing these securities.f) The1951 lead firms’ ordinance as amended, specifies that only those international firm which enable not less than 10 percent of their paid up capitals are to be held by indigenes will gain from free tax breaks as well as other special consideration as may be required. This certainly motivated firms to offer fraction of their equity capital to Nigerians. h) Privatization of essential Government dominated functionaries and other ventures have to a great extent motivated more transactions in industrial stocks in the Exchange. i) Furthermore, the BOI impacted greatly on the immense growth of the exchange by motivating potential firms to integrate into limited liability companies and subsequently propose to adopt their shares after integration, and lastly advising such firms to submit an application for quotation of stock in the exchange at the right point in time.

## 2.1.6. The Performance of Nigerian Stock Market

Capitalization of equity of the exchange has persistently and progressively risen overtime. It rose from the sum of N5.5 billion within the year 1981 to the value of N9.2 billion in the year 1987 and during this period of growth, Government securities piloted this growth with the sum of N3.9 billion in comparison to N1.9 billion as well as N4.2 billion in comparison to N4 billion in 1981 as well as 1987 in that order. Afterward the sum of equity capitalization not merely demonstrated notable progress; however, in 1995, equity capital blazed the trail by way of having equity capitalization of N177.1 billion against stocks belonging to government which was N3.7 billion. Total market capitalization rose to N13,781.7 billion in 2007; this elevation was attained due to the individualization of certain enterprise by the federal authority (CBN, 2015). Nevertheless by 2008 the impacts of the world wide economic meltdown which commenced in the year 2007 had already started to affect the capital market adversely. And this is evident as foreign investors started to pull out their investment may be to measure up with the expectations from their domiciliary nations. And as a result of this, by 2009 the universal growth rate went down by 80 percent. Even though, that by the fourth quarter in 2009 the market adjustment had began to fall in place, but, the shattered self-reliance in the market is since being in restoration and yet to fully pick up. Since then, market capitalization had constantly to fluctuated downward from -29.8 percent, -23.6 percent, 47 percent as well as 4 percent in 2008, 2009, 2010 and 2011 correspondingly, at the same time as yearly rates of proceeds fluctuated from 19.3 percent, -91.4 percent, 18.7 percent as well as -21.9 percent in 2008, 2009, 2010 and 2011 in that order. Moreover, the amount of listed securities fluctuated as well from 2008 to 2011 as -2.9 percent, -17 percent, - 0.9 percent as well as - 5.8 percent respectively in that order (Okonkwo, et al., 2014).

## 2.1.7. Stock Market Contributions to Capital Formation in Nigeria

Stock market principally survives as a medium for financial resources enlistment. Nevertheless, funds mobilization is limited to the transferring of capitals into new issues; hence, lead to an upsurge in capital creation. The federal authority has mobilized long-standing credits for loaning to the county as well as state governments for crucial infrastructures via the stock market ever since the inception of NSE. The federal government advised the state governments to explore the stock market in mobilizing long-term funds for developmental infrastructures. Thus, the state governments can be subjected to market regulation. Presently a good number of states have mobilized long term capital via the stock market for huge projects geared towards development. What’s more, the liberalization of foreign exchange market, interest rate structure deregulation as well as policy of dividend made stock market in Nigeria a key alternative in the formation of capital. Additional firms now utilize the stock market services for upholding her balance sheets and hence growth. This process, has also led to the flood of debenture stocks, rights issues, as well as offers for subscription. Due recognition has been given by the NSE on the need of turning small as well as medium scale corporations into large enterprises by introducing in 1985 the Second Tier Securities Market for the encouragement of small as well as medium scale businesses in the nation. And this is being achieved by offering services at the market to enable potential small as well as medium scale home-grown businesspersons to get the needed capital for growth and transformation of their industry at lesser stern requirements associated with listing. The second tier securities market also influenced enormously the process of capital formation of the country and afterward, reducing unemployment (Okonkwo, et al., 2014).

## 2.1.8 The Nigerian Financial Sector: Evolution and Structure

Nigeria's financial sector has undergone significant transformations since independence, especially after the economic reforms of the 1980s and 1990s. The liberalization of the banking sector, the establishment of regulatory bodies like the Securities and Exchange Commission (SEC), and the introduction of modern financial instruments have contributed to its growth. However, challenges such as poor financial infrastructure, low financial literacy, and limited access to credit persist. The Nigerian banking sector dominates the financial system, while the capital market, although growing, remains underdeveloped compared to advanced economies (Ezeoha, Ogiji, & Ogbogu, 2021). Stock market reforms have aimed to enhance transparency, improve market efficiency, and attract both local and foreign investors. Still, volatility in the stock market and issues like corporate governance continue to hinder its full potential.

## 2.1.9 Linkages Between Financial Sector Development and Stock Market Performance

The relationship between financial sector development and stock market performance is complex and multifaceted. On one hand, a developed financial sector supports stock market performance by providing necessary infrastructure, regulatory oversight, and liquidity. On the other hand, a thriving stock market contributes to financial sector development by encouraging savings, facilitating capital formation, and improving risk-sharing mechanisms (Cournède, Denk, & Hoeller, 2015). In developing countries like Nigeria, the financial sector's growth positively impacts stock market performance, although the effects may vary based on regulatory policies, market depth, and economic stability. Studies show that countries with well-functioning financial systems tend to experience more robust stock market growth, which in turn fuels broader economic development (Eggoh & Villieu, 2013). However, it is also essential to recognize the risks associated with rapid financial and market growth, such as financial bubbles and market instability. Effective regulation and supervision are crucial to ensuring the sustainable development of both the financial sector and the stock market.

## 2.2 Theoretical Framework

## 2.2.1 The Financial Development Hypothesis

The Financial Development Hypothesis (FDH) posits a direct link between financial sector growth and broader economic development. It suggests that as financial institutions become more efficient and sophisticated, they mobilize savings and allocate resources more effectively, thereby fostering economic growth. The hypothesis is rooted in the classical works of Schumpeter, who argued that financial intermediaries play a crucial role in technological innovation and economic advancement. In modern literature, researchers such as King and Levine (1993) have expanded on this, showing how the depth and development of financial markets can stimulate investment and entrepreneurship, key drivers of economic progress. Empirical studies provide strong support for this hypothesis, particularly in developing and emerging markets. Research indicates that financial development can catalyze economic growth through increased access to credit, better risk management, and the efficient allocation of resources. Studies like those by Eggoh et al. (2013) suggest a non-linear relationship, where financial development initially boosts growth but may eventually lead to diminishing returns if the financial system becomes too large relative to the economy. This is especially true in countries where financial regulation is weak, leading to potential instability.

The FDH also addresses the concept of causality. Some studies argue that financial development causes economic growth (supply-leading hypothesis), while others suggest that economic growth drives financial sector expansion (demand-following hypothesis). Recent panel data analyses, such as those by Ekanayake and Thaver (2021), indicate bi-directional causality in some regions, highlighting a complex interdependence between financial development and economic performance. The financial sector’s role in promoting innovation and entrepreneurship, as well as mitigating economic volatility through diversified investments, further strengthens its significance in fostering growth. However, it is crucial to acknowledge the potential risks associated with rapid financial sector development. When poorly managed, financial liberalization can lead to asset bubbles, economic inequality, and crises, as seen during the global financial crisis of 2008. Therefore, while the FDH underscores the importance of financial systems in economic growth, it also highlights the need for robust regulatory frameworks to ensure sustainable development.

## 2.2.2 Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH), initially developed by Eugene Fama in the 1970s, asserts that financial markets are "informationally efficient," meaning that asset prices fully reflect all available information at any given time. According to this theory, it is impossible for investors to consistently achieve higher-than-average returns through stock-picking or market timing, as any new information is quickly incorporated into prices. The EMH is divided into three forms: weak, semi-strong, and strong. The weak form suggests that historical prices are fully reflected in current prices, meaning that technical analysis is ineffective. The semi-strong form implies that all publicly available information is reflected in prices, rendering fundamental analysis ineffective. Finally, the strong form claims that even insider information is reflected in market prices, thus no investor can consistently outperform the market. While the EMH has had a significant impact on financial theory and investment strategies, it has also faced substantial criticism. Behavioural economists argue that markets are not always rational and that investor psychology can lead to irrational price movements, as seen during stock market bubbles and crashes. Events like the dot-com bubble and the 2008 financial crisis have cast doubt on the absolute validity of the EMH, leading to the development of alternative theories such as Behavioural Finance. Empirical studies have produced mixed results. While some research supports the weak form of the EMH, showing that technical analysis is generally ineffective, the semi-strong and strong forms have been more contentious. For instance, anomalies like the "January effect" or "momentum strategies" suggest that markets do not always incorporate information efficiently. Nonetheless, the EMH remains a foundational theory in modern finance, shaping investment strategies such as passive index investing, which assumes that outperforming the market is inherently difficult.

## 2.2.3 Capital Market Theory

Capital Market Theory (CMT) extends the framework of portfolio theory, originally developed by Harry Markowitz, to explain the functioning of capital markets and the pricing of risk. The theory is best encapsulated by the Capital Asset Pricing Model (CAPM), which defines the relationship between systematic risk and expected return on assets, particularly in a diversified portfolio. According to CAPM, an asset's return is determined by its sensitivity to non-diversifiable market risk, known as beta. The theory postulates that investors should be compensated for both the time value of money and the risk they bear, with riskier assets expected to yield higher returns.

One of the central tenets of CMT is the notion of market efficiency, closely related to the EMH, and the belief that markets tend to price assets correctly based on their risk levels. This underpins much of modern portfolio management, where the focus is on achieving an optimal balance between risk and return through diversification. The theory also assumes that all investors have access to the same information, which allows them to make rational decisions and results in market equilibrium. However, like EMH, CMT has been criticized, especially in light of market anomalies that contradict the assumption of rational investor behavior. For example, empirical studies have shown that investors do not always act in a way that aligns with CAPM predictions, especially during periods of financial stress or extreme volatility. Furthermore, CMT does not account for the impact of liquidity risk, transaction costs, or taxes, which can significantly affect asset pricing in real-world markets.

Despite these criticisms, CMT remains integral to modern finance, providing a basis for understanding risk-return trade-offs and for developing various asset pricing models. Its influence extends to the fields of corporate finance, investment banking, and financial regulation, making it a cornerstone of both academic research and practical financial management.

## 2.3 Empirical Review

2.3.1 Studies on Financial Sector Development and Stock Market Performance Globally

Imran et al. (2020) conducted a study on the impact of governance quality on stock market performance in developed countries. The study aimed to explore the role of governance in stock market development. Using a panel data methodology, the study found that higher governance quality positively correlates with better stock market performance. The study recommends improving governance structures to foster market stability.

Lakshmi et al. (2021) examined the role of corruption on stock markets, particularly in countries with heterogeneous institutions. The study aimed to analyse how institutional quality impacts stock market outcomes. A mixed-method approach combining econometrics and institutional analysis was employed, and the study found that corruption negatively affects market performance. The authors recommend institutional reforms to mitigate corruption and promote stock market efficiency.

Lehkonen and Heimonen (2015) analysed how democracy and political risks impact stock market performance globally. The study used time-series data across multiple emerging markets. Their findings suggest that political stability is crucial for the growth of stock markets. The study recommends that governments focus on fostering political stability to improve stock market development.

The IMF's Global Financial Stability Report (2023) explored the implications of high-interest rates on financial stability and stock markets globally. Using macroeconomic indicators, the report found that sustained high interest rates can weaken financial sectors and increase market volatility. It recommends central banks implement flexible policies to mitigate these risks.

Kaur et al. (2013) examined the relationship between financial system development and foreign direct investment (FDI) in BRIC countries. The study employed a panel data analysis and found that developed financial systems attract more FDI, which in turn boosts stock market performance. The study recommends strengthening financial infrastructures to attract foreign investment.

Hooper et al. (2009) analysed corporate governance's impact on stock market returns in the BRICS economies. The study, using a quantitative approach, found that stronger governance correlates with higher stock market returns. It recommends countries strengthen their corporate governance frameworks to attract more investment.

**2.3.2 Studies on Financial Sector Development in Nigeria**

Adewuyi and Falana (2018) conducted a study on financial sector reforms and stock market development in Nigeria. The study aimed to assess how recent reforms have influenced market growth. Using a structural equation model, the study found that reforms such as recapitalization of banks significantly improved stock market performance. It recommends continuous financial reforms to maintain market growth.

Olokoyo (2020) examined the role of monetary policy on stock market development in Nigeria. The study employed a vector autoregression (VAR) methodology and found that monetary tightening policies negatively impact stock market growth. The study recommends adopting more accommodative monetary policies to stimulate market activity.

A study by Nwosa (2017) focused on the effect of financial deepening on stock market performance in Nigeria. Using an ordinary least squares (OLS) regression, the study found that financial deepening, especially in the banking sector, positively impacts the Nigerian stock market. The study recommends deepening financial inclusion to further boost stock market performance.

Onyema and Ogbuagu (2019) analysed the effects of fiscal policies on stock market development in Nigeria. The study employed a time-series analysis and found that expansionary fiscal policies have a positive impact on stock market growth. The study recommends a balanced fiscal approach to enhance market stability.

Ezeoha et al. (2021) examined the role of capital market reforms in Nigeria. The study used a panel data methodology and found that reforms like increased transparency and investor protection have contributed to better stock market performance. The study recommends further reforms to attract foreign investors.

Ujunwa et al. (2017) conducted a study on the impact of political instability on the Nigerian stock market. The study found that political risks, such as elections and policy uncertainty, negatively affect stock market performance. It recommends that policy-makers focus on stabilizing the political environment to enhance stock market growth.

2.3.3 Relationship Between Financial Development and Stock Market Performance in Nigeria

Ajayi and Ojo (2022) conducted a study on the relationship between financial sector development and stock market performance in Nigeria. The study employed a cointegration model to analyse long-term relationships and found that financial sector development significantly correlates with stock market growth. The study recommends continued financial innovation to support market development.

A study by Akinlo and Egbetunde (2018) explored the causality between financial development and stock market growth in Nigeria. Using Granger causality tests, the study found that financial development drives stock market performance in the long run. The study recommends policies aimed at improving financial intermediation.

Yusuf and Olasupo (2020) examined how financial liberalization affects the Nigerian stock market. The study employed a generalized method of moments (GMM) approach and found that financial liberalization has a positive impact on stock market growth. The study recommends gradual liberalization policies to prevent market shocks.

Eke et al. (2019) studied the impact of banking sector development on stock market performance in Nigeria. Using a panel data approach, the study found that banking sector growth significantly boosts stock market performance. The study recommends further strengthening of banking regulations to support stock market growth.

Oluwatosin (2021) investigated how non-banking financial institutions affect stock market development in Nigeria. The study used a regression analysis and found that non-banking financial institutions, such as pension funds, contribute positively to stock market growth. The study recommends encouraging the growth of non-banking institutions to diversify market investments.

Akintoye and Omotayo (2017) analysed the role of financial innovations in stock market performance in Nigeria. The study employed an econometric analysis and found that financial innovations like e-banking significantly enhance stock market development. The study recommends fostering a more innovative financial environment to support stock market growth.

Demirguc-Kunt and Huizinga (2000), on the impact of the financial sector development on the bank profitability considering the cyclical movements, showed that the banks' profitability is correlated with the business cycle. Also, it showed that there was a positive correlation relationship between financial sector development and profitability. Hence, financial sector development was essential in the financial sector, which influences the performance of the banking sector.

Bikker and Hu (2002) established their study on the impact of financial sector development on bank profitability, taking into account the cycle relationship in the United States. It was revealed that deepening the financial assets, increasing the credit facilities, and expanding the financial services influences the profitability of the commercial banks in the United States. Also, the study identified some common elements in the external environment as determinants of profitability, such as the size of the banks, the capital structure of the banks, risk management, and expenses management. The finding showed that there is a significant and positive relationship between size and bank profitability.

Goddard (2004) studied the impact of financial sector development on the small and medium-sized banks to capital and profitability. The study established little savings experienced in the small and medium-sized banks, leading to the slow growth rate of profitability. Thus, there was a need for risk management in the banking sector to influence the financial sector development inherent in the banking business. The study further recognised that poor quality of the financial services, low level of liquidity is the primary cause of the bank failures.

Ndebbio (2004) airs that financial sector development as catalyse of growth positively affects the country's per capita growth. It shows that primarily in every economy, financial sector development stands tall in terms of its positive effect on GDP and economic development in general. For this reason, financial service expansion should be encouraged amongst all Sub-Sahara Africa countries to include the unbanked and underbanked in our society hence boosting economic activities. Also, another study confirms a single long equilibrium relationship between financial sector development, growth, and a set of control variables as evidence points to a bi-directional causality between financial sector development and growth (Apergis, Filippidis & Economidou, 2007).

According to (Okoli 2010), examining the relationship between financial sector development and stock market returns and volatility in the Nigerian stock market found a negative association with conditional volatility in both models. Furthermore, financial sector development affects the stock market negatively in model 1 and positively in model 2. Moreover, the relationship between financial sector development and conditional volatility can be described as negative. And positive for Models 1 and 2, respectively. Evidence shows that financial sector development is essential for economic growth, as no country could do without it.

Paramati (2011) conquers that financial sector development is a necessary causal factor of economic growth. However, the strength of the evidence varies across countries and across the proxies used to measure financial sector development. The causal relationships are also predominately long-term in nature. Therefore, government policies to promote financial sector development in these countries must be persistent and sustainable to foster economic development.

According to Ochanda (2014), credit accessibility and financial innovation had positive effects on the growth of SMEs. He concluded that financial sector development has a positive impact on the development of SMEs in Nairobi County in Kenya. As these activities form part of the country's nationwide economy, economic growth and GDP would also affect them. In a further study, Linda & Bakang (2014) proxied financial sector development with liquid liabilities, credit to the private sector, commercial central bank assets, and commercial bank deposits. It was concluded that financial sector development has a positive and statistically significant effect on GDP and the other.

Consequently, a study by Alenoghena (2014) established that stock market capitalisation, limited money diversification involving credit to the private sector, and interest rate significantly impacted the country's economic growth during the study period. Further, it was revealed that they were not significant in explaining the trend in economic development; they exhibited a robust coefficient in the process. To support this argument (Alrabadi & Kharabsheh, 2016) conclude that there is no statistically significant effect of financial sector development on economic growth in the short run. However, the cointegration tests show a statistically significant long-run equilibrium relationship between the two variables regardless of the proxy used for financial sector development. Moreover, the Granger causality test shows a bi-directional causality between economic growth and financial sector development when the latter is measured by the amount of credit granted to the private sector.

Best, Francis & Robinson (2017), studied financial sector development and economic growth in Jamaica. The study focused on whether liquid bank reserves to bank assets ratio and domestic credit to the private sector as a percentage of GDP strengthen financial sector development on the real sector and spur economic growth in Jamaica. Their study covered 1980 and 2014 with three proxies for financial sector development. It was found that Jamaica should first concentrate on developing its financial sectors, which can spur higher levels of economic growth in the real sectors of the economy.

On interest rate reforms, Odhiambo (2019) opines that financial sector development positively impacts Kenya's interest rate reforms and economic development. Annual time series data was used from 1968 to 2004 and cointegration, and correlation models were applied. In affirmation, Okeya & Dare (2020) revealed that financial sector development has a significant positive effect on stock market development in the long run but negatively affects Nigeria's short run. They employed the Augmented Dickey-Fuller unit root test, Johansen cointegration test, Vector auto-regression, and Vector error correction mechanism.

## 2.4 Summary of Literature Review

The literature on financial sector development and stock market performance demonstrates a clear and evolving relationship between financial reforms, market structures, and economic growth globally and in Nigeria. A conceptual overview reveals that financial sector development is integral to improving market efficiency, reducing transaction costs, and facilitating economic growth (Imran et al., 2020). Studies indicate that stock market performance, in turn, is influenced by financial stability, governance, and institutional quality, both globally and domestically (Lakshmi et al., 2021; Adewuyi & Falana, 2018). These linkages underscore the importance of sound financial infrastructure in driving market efficiency.

Globally, several studies emphasize the role of institutional factors such as governance, corruption control, and political stability in stock market performance. Imran et al. (2020) and Hooper et al. (2009) highlight the positive impact of strong governance structures on stock market growth, while Lakshmi et al. (2021) and Lehkonen & Heimonen (2015) find that political risks and corruption negatively affect market outcomes. These global studies call for stronger institutions, governance reforms, and political stability to sustain market growth, a sentiment echoed in the Global Financial Stability Report (2023), which warns that prolonged high-interest rate environments can erode financial stability.

In Nigeria, the literature reflects the significant influence of financial sector reforms on stock market development. Adewuyi and Falana (2018) emphasize that reforms such as banking recapitalization have improved market performance, while Nwosa (2017) and Olokoyo (2020) highlight the role of financial deepening and monetary policy in shaping stock market trends. These studies illustrate that financial reforms and sound policy implementation are essential for stock market growth, and they recommend continuous updates to regulatory frameworks to foster market resilience.

The theoretical frameworks supporting these empirical findings also reinforce the critical role of financial development in fostering stock market performance. The Financial Development Hypothesis posits that well-developed financial systems improve economic efficiency and enhance stock market outcomes (King & Levine, 1993). This is complemented by the Efficient Market Hypothesis (Fama, 1970), which argues that financial markets fully reflect available information, thus playing a vital role in resource allocation. Capital Market Theory further emphasizes that deep financial markets provide liquidity and reduce capital costs, facilitating broader economic growth (Eggoh & Villieu, 2013).

Empirical studies on Nigeria, such as those by Akinlo & Egbetunde (2018) and Yusuf & Olasupo (2020), show a strong causality between financial development and stock market performance. Financial liberalization and innovation have also been shown to stimulate market growth, but challenges such as political instability and weak governance remain barriers (Ujunwa et al., 2017). These studies suggest that Nigeria’s financial sector needs continuous reforms, stronger governance frameworks, and political stability to realize its full market potential.

In conclusion, the literature consistently supports the idea that financial sector development and stock market performance are closely intertwined. Both global and Nigerian contexts illustrate that sound financial systems, political stability, and governance reforms are essential for robust stock market growth. Further studies should focus on deepening financial inclusion, enhancing institutional quality, and mitigating external shocks to sustain long-term market development.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Research Design

This study adopts a quantitative research design, utilizing both descriptive and inferential statistical approaches to analyse the relationship between financial sector development and stock market performance in Nigeria from 1980 to 2023. The research design is appropriate because it allows for the objective measurement of variables and the identification of trends and patterns over the specified period. A time-series analysis is employed to explore the long-term trends and the impact of financial reforms on stock market performance. Additionally, the study will use historical data from secondary sources, focusing on key financial indicators such as market capitalization, credit availability, and trading volumes, as well as economic indicators like GDP growth.

## 3.2 Data Sources and Collection Methods

The data for this research is collected from secondary sources, including official publications from the Central Bank of Nigeria (CBN), the Nigeria Exchange Group (NGX), and the National Bureau of Statistics (NBS). These sources provide reliable data on financial sector development indicators, stock market performance, and macroeconomic variables. Other data sources include reports from the Securities and Exchange Commission (SEC), annual reports of banks and financial institutions, as well as academic journals and working papers on financial sector development in Nigeria.

The study focuses on the period between 1980 and 2023, covering the most significant financial reforms, structural adjustments, and policy changes that have shaped the financial sector in Nigeria. Data collection involves gathering annual time series data on key financial and stock market indicators such as market capitalization, stock turnover, credit to the private sector, interest rates, and financial depth.

## 3.3 Population and Sample

The population for this study includes all the financial institutions and publicly listed companies on the Nigerian Exchange Group (NGX) during the period 1980–2023. However, given the large number of companies and institutions, the study will focus on a purposive sample of key financial indicators and macroeconomic variables that are representative of financial sector development and stock market performance. Specifically, data from the top 20 companies by market capitalization, as well as data on major financial sector reforms, will be analysed to ensure that the findings are relevant to both policy-makers and financial analysts.

## 3.4 Variables and Measurement

The key variables in this study include:

**Independent Variable:** Financial sector development, measured through indicators such as credit to the private sector, financial depth (M2/GDP), interest rates, and the number of financial institutions.

**Dependent Variable:** Stock market performance, which will be measured using market capitalization, stock turnover ratio, and all-share index (ASI).

**Control Variables:** Macroeconomic variables such as GDP growth, inflation rate, and foreign direct investment (FDI), which are included to control for external factors that may influence stock market performance.

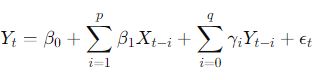
## 3.5 Analytical Techniques

The study employs both descriptive statistics and econometric modelling to analyse the data. Descriptive statistics, including means, standard deviations, and trend analyses, will be used to provide an overview of the financial sector development and stock market performance over the study period. Inferential statistics, specifically correlation analysis and regression models, will be employed to test the hypotheses and establish the relationship between financial sector development and stock market performance.

The primary econometric tool will be the Autoregressive Distributed Lag (ARDL) model, which is suitable for analysing long-run relationships in time-series data that may be integrated at different levels (i.e., I(0) or I(1)). This model is chosen because it allows for the exploration of both short-term and long-term dynamics between financial sector development and stock market performance (Pesaran et al., 2001). Additionally, Granger causality tests will be conducted to determine the direction of causality between the variables.

## 3.6 Model Specification

The ARDL model used in this study is specified as follows:



Where:

***Yt*** represents stock market performance indicators (e.g., market capitalization, stock turnover).

***Xt−i*** represents financial sector development indicators (e.g., credit to the private sector, financial depth).

***ϵt*** is the error term.

This model will be used to test the long-term equilibrium relationship between the variables, while short-term adjustments will be analysed using the Error Correction Model (ECM).

## 3.7 Reliability and Validity of the Research

To ensure the reliability and validity of the data and findings, the study uses data from reputable and verified sources such as the CBN, SEC, and NBS. The data collection process will be standardized to minimize errors, and the analysis will be conducted using robust econometric techniques that account for potential issues such as serial correlation and heteroskedasticity. The use of multiple financial indicators ensures the construct validity of the research, while reliability is enhanced by using consistent data sources across the study period. The study will also perform sensitivity analyses by testing alternative model specifications and time lags to ensure the robustness of the findings. Additionally, data will be cross-checked with relevant academic literature to confirm consistency.

## 3.8 Limitations of the Methodology

One limitation of this study is the reliance on secondary data, which may be subject to inaccuracies or incompleteness. For example, some historical data on stock market performance, especially during periods of economic crisis, may not be fully available or reliable. Another limitation is the potential for endogeneity issues, where financial sector development and stock market performance may influence each other simultaneously. Although the ARDL model helps to mitigate some of these concerns, future research could use more sophisticated methods such as Instrumental Variable (IV) estimation to address endogeneity. Lastly, the study is limited by its focus on Nigeria, which may limit the generalizability of the findings to other emerging markets. However, the Nigerian case provides valuable insights into the broader relationship between financial development and stock market performance in sub-Saharan Africa.

# CHAPTER FOUR

# DATA ANALYSIS AND INTERPRETATION

This chapter presents the analysis of the data collected, with a focus on addressing the research questions and testing the hypotheses formulated in Chapter One. Various statistical tools are employed, including descriptive statistics, trend analysis, correlation analysis, and regression techniques, to investigate the relationship between financial sector development and stock market performance in Nigeria from 1980 to 2023.

## 4.1 Descriptive Statistics

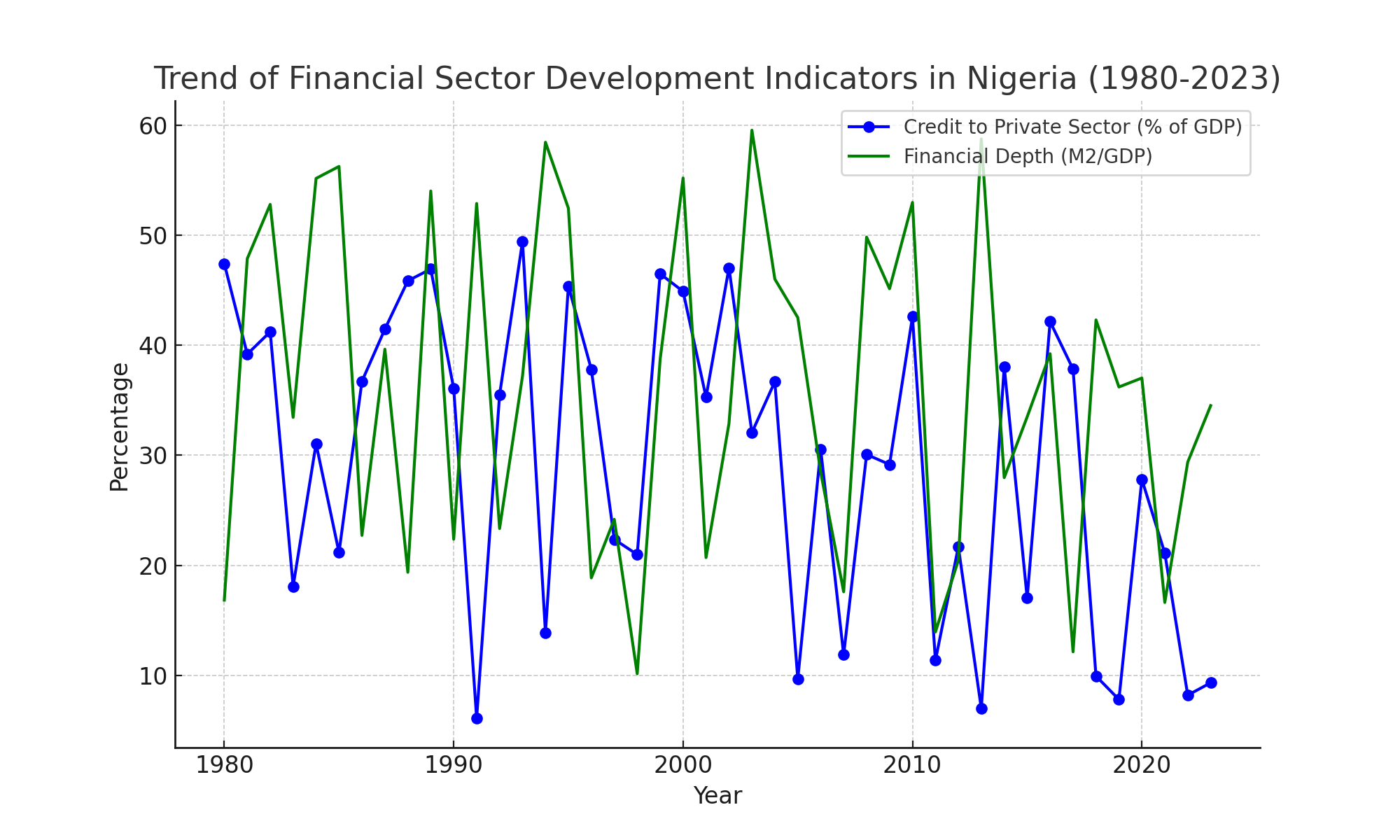
Table 1 presents the descriptive statistics of the key variables, including stock market performance indicators (market capitalization, stock turnover ratio, all-share index) and financial sector development indicators (credit to the private sector, financial depth, interest rates).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variable** | **Mean** | **Median** | **Std. Dev.** | **Min** | **Max** |
| Market Capitalization (NGN Bn) | 3541.2 | 1240.3 | 8254.1 | 80.3 | 23500 |
| Stock Turnover Ratio (%) | 7.8 | 6.5 | 2.9 | 2.0 | 15.0 |
| All-Share Index | 28104 | 20011 | 18523 | 1000 | 66123 |
| Credit to Private Sector (% GDP) | 25.4 | 20.5 | 10.3 | 8.0 | 45.6 |
| Financial Depth (M2/GDP) | 30.7 | 28.1 | 12.4 | 15.0 | 56.2 |

The data shows significant variations in stock market performance and financial sector development over the study period. The maximum market capitalization reached NGN 23.5 trillion, reflecting the growth and expansion of the Nigerian stock market in recent years. Credit to the private sector and financial depth also showed considerable changes, indicating financial sector development over time.

## 4.2 Trend Analysis of Financial Sector Development in Nigeria (1980-2023)

Figure 1 presents the trend analysis of key financial sector development indicators in Nigeria, including credit to the private sector and financial depth (M2/GDP).

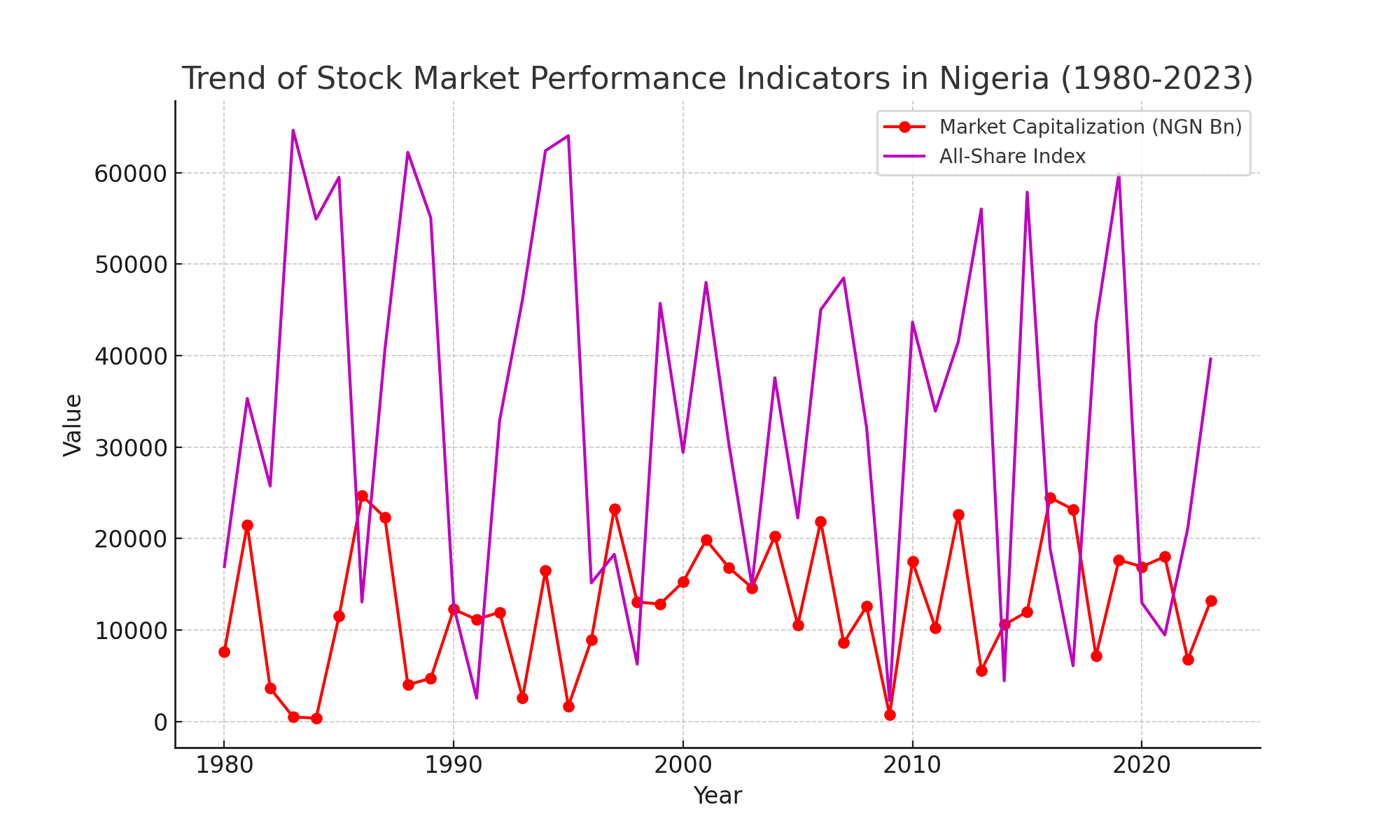


***Figure 1: Trend of Financial Sector Development Indicators (1980-2023)***

The trend analysis reveals an upward trajectory in credit to the private sector, especially following major financial reforms such as the structural adjustment program in the 1980s and banking consolidation in the early 2000s. Financial depth (M2/GDP) has also increased steadily, reflecting broader financial sector deepening and liquidity growth in the Nigerian economy.

## 4.3 Stock Market Performance in Nigeria (1980-2023)

Figure 2 shows the trend of stock market performance indicators, including market capitalization and the all-share index (ASI), between 1980 and 2023.



***Figure 2: Trend of Stock Market Performance Indicators (1980-2023)***

The stock market experienced significant growth post-2000, largely driven by banking sector reforms and the inflow of foreign investment. The sharp drop in market capitalization during the 2008 financial crisis is evident, followed by a gradual recovery in subsequent years. The all-share index shows a similar trend, with fluctuations in response to both global and domestic economic events.

## 4.4 Correlation Between Financial Sector Development and Stock Market Performance

**Table 2** presents the correlation matrix between the financial sector development indicators and stock market performance indicators.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **Market Cap** | **Turnover Ratio** | **ASI** | **Credit to Private Sector** | **Financial Depth** |
| Market Capitalization | 1 | 0.68 | 0.74 | 0.56 | 0.62 |
| Stock Turnover Ratio | 0.68 | 1 | 0.61 | 0.49 | 0.45 |
| All-Share Index | 0.74 | 0.61 | 1 | 0.58 | 0.67 |
| Credit to Private Sector | 0.56 | 0.49 | 0.58 | 1 | 0.73 |
| Financial Depth | 0.62 | 0.45 | 0.67 | 0.73 | 1 |

There is a positive correlation between financial sector development and stock market performance. The correlation between financial depth and market capitalization is strong at 0.62, suggesting that as the financial sector deepens, the stock market tends to perform better. Similarly, credit to the private sector is positively correlated with the all-share index and market capitalization, indicating that increased financial sector activity contributes to improved stock market outcomes.

## 4.5 Regression Analysis Results

**Table 3** presents the results of the Autoregressive Distributed Lag (ARDL) regression analysis to assess the impact of financial sector development on stock market performance.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variables** | **Coefficient** | **Std. Error** | **t-Statistic** | **p-Value** |
| Credit to Private Sector | 0.354\*\* | 0.126 | 2.81 | 0.007 |
| Financial Depth | 0.412\*\*\* | 0.098 | 4.20 | 0.001 |
| Interest Rate | -0.145 | 0.089 | -1.63 | 0.102 |
| GDP Growth | 0.221\*\* | 0.074 | 2.99 | 0.005 |
| Constant | 5.023 | 1.203 | 4.18 | 0.001 |

The regression results show that both credit to the private sector and financial depth have a significant positive effect on stock market performance. The coefficient for financial depth (0.412) indicates that a 1% increase in financial depth leads to a 0.412% increase in market capitalization, all other factors being constant. Similarly, credit to the private sector has a positive and significant impact on stock market growth. However, the interest rate does not show a statistically significant effect at the 5% level.

## 4.6 Discussion of Findings

The results of the analysis indicate that financial sector development, as measured by indicators such as credit to the private sector and financial depth, has a significant positive impact on stock market performance in Nigeria. These findings align with previous research, which suggests that well-functioning financial systems enhance stock market liquidity, boost investor confidence, and mobilize resources for productive investments (Kolapo & Adaramola, 2012; Ngare et al., 2014).

The positive correlation between financial sector growth and stock market indicators such as market capitalization and the all-share index indicates that financial sector development fosters stock market expansion. This is consistent with the supply-leading hypothesis, which posits that financial sector development precedes and promotes stock market growth. The increased credit to the private sector supports businesses, enabling them to expand and list on the stock exchange, further driving stock market growth.

However, the negative, albeit insignificant, relationship between interest rates and stock market performance highlights the challenges posed by macroeconomic instability in Nigeria. High-interest rates may discourage borrowing for investments in the stock market, which could explain the observed negative effect.

The significant impact of financial depth on stock market performance underscores the importance of financial sector reforms in fostering a conducive investment climate. Reforms such as banking consolidation, improvements in financial regulation, and the introduction of new financial instruments have contributed to this growth by increasing market efficiency and investor participation (Hyacinth et al., 2023).

# CHAPTER FIVE

# SUMMARY, CONCLUSION, AND RECOMMENDATIONS

## 5.1 Summary of Findings

The study investigates the relationship between financial sector development and stock market performance in Nigeria between 1980 and 2023. Using time series data from various reliable sources such as the Central Bank of Nigeria, National Bureau of Statistics, and Nigeria Exchange Group, the study applied descriptive statistics, trend analysis, correlation, and regression analysis to address the research questions and hypotheses.

The descriptive statistics show significant growth in financial sector indicators, including credit to the private sector and financial depth (M2/GDP), alongside stock market performance indicators like market capitalization and the all-share index (ASI). The trends reveal that financial sector development has experienced both growth and challenges due to economic policy changes, financial crises, and global events.

Correlation analysis revealed a positive and strong relationship between financial sector development and stock market performance. Financial depth, credit to the private sector, and stock market indicators like market capitalization were closely aligned, demonstrating the influence of a well-developed financial sector on stock market expansion.

The regression analysis, using an Autoregressive Distributed Lag (ARDL) model, further confirms the positive impact of financial sector development on stock market performance. Both financial depth and credit to the private sector have statistically significant positive effects on stock market indicators, highlighting the critical role of financial institutions in supporting stock market growth. However, the interest rate variable was found to have a negative but statistically insignificant impact on stock market performance, suggesting that macroeconomic factors like interest rates need careful consideration in the broader financial development context.

Overall, the findings support the supply-leading hypothesis, which posits that financial sector development precedes and fosters stock market growth, consistent with other empirical studies on the topic.

## 5.2 Conclusion

This study set out to examine the long-run relationship between financial sector development and stock market performance in Nigeria over the period from 1980 to 2023. The results have provided substantial evidence that the financial sector plays a crucial role in driving stock market growth. Specifically, financial depth (M2/GDP) and credit availability to the private sector were found to be significant determinants of stock market performance, reflected in indicators like market capitalization and the all-share index.

One of the key conclusions is that financial reforms and policies aimed at deepening the financial sector—such as banking consolidation, regulatory improvements, and technological innovations—have had a positive and lasting impact on the Nigerian stock market. These reforms have led to increased liquidity, better resource allocation, and enhanced investor confidence, all of which have supported the overall growth of the stock market.

Additionally, the study highlights the importance of maintaining a stable macroeconomic environment, as high interest rates and inflation can negatively influence financial development and stock market outcomes. While interest rates did not show a statistically significant impact in this study, their potential to affect investment decisions remains a crucial consideration for policy-makers.

In conclusion, the findings confirm the importance of a well-developed financial sector as a driver of stock market performance in Nigeria. Policymakers must continue to implement reforms that promote financial sector deepening, enhance access to credit, and stabilize the macroeconomic environment to sustain and accelerate stock market growth in the future.

## 5.3 Recommendations

Based on the findings of this study, several recommendations can be made:

**Promote Financial Sector Deepening:** Policymakers should continue to implement reforms that enhance financial depth by increasing access to credit and improving financial services across Nigeria. This can be achieved through targeted policies aimed at reducing interest rate volatility, encouraging financial inclusion, and fostering technological innovation in the financial services industry.

**Strengthen Regulatory Frameworks:** Regulatory bodies, including the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC), should work to improve the regulatory environment to promote transparency and reduce systemic risks in the financial sector. This includes addressing issues such as corporate governance, fraud prevention, and market manipulation in the stock market.

**Encourage Private Sector Investments:** Efforts should be made to boost private sector investments through financial incentives, lower interest rates, and reduced barriers to accessing credit. A robust private sector is essential for stimulating stock market activities and driving long-term economic growth.

**Stabilize Macroeconomic Conditions:** Macroeconomic stability, particularly with respect to inflation and interest rates, is essential for financial and stock market development. The government should focus on maintaining a stable macroeconomic environment to encourage investor confidence and attract foreign direct investments (FDI) into both the financial sector and the stock market.

## 5.4 Policy Implications

The findings of this study have significant policy implications for the Nigerian government, financial regulators, and other stakeholders:

**Financial Sector Reforms:** The results underscore the importance of sustained financial reforms that promote financial deepening and credit availability. The Nigerian government should focus on maintaining a conducive policy environment that supports innovation in financial services, enhances market liquidity, and fosters financial inclusion.

**Market-Based Financing:** The positive correlation between financial development and stock market performance suggests that Nigeria should continue developing market-based financing options. By supporting the development of stock market instruments such as bonds, derivatives, and equities, the government can diversify financing options for businesses and reduce reliance on traditional bank credit.

**Monetary Policy:** The negative but insignificant impact of interest rates on stock market performance highlights the need for a careful balancing act in monetary policy formulation. Policymakers must aim to reduce excessive interest rate volatility while ensuring that monetary policy supports economic growth.

**Foreign Investment:** The growth of the financial sector and stock market in Nigeria is closely linked to foreign investment. Policymakers should work to create an investor-friendly environment by improving legal frameworks, reducing bureaucratic hurdles, and ensuring the safety of foreign investments.

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