ASSESSING THE IMPACT OF FINANCIAL POLICIES ON NIGERIA'S ECONOMIC GROWTH

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Abstract

The period 1981 to 2009 witnessed various financial developments meant to attract foreign capital inflows, promote the stability of the financial sector and to enhance the growth of the Nigerian economy. A review of extant literature on economic growth suggests positive relationships between financial activities and economic growth. Thus, this study sought to determine the extent to which the Nigerian economy has been impacted by financial developments arising mainly from the various financial policy measures in recent years. The aim was to assess the impact of financial policy measures on the growth of the national economy. This study covered the period 1981 to 2009. Using gross domestic product GDP as a proxy for economic growth and some financial variables as indicators of financial policy measures, it used the ordinary least square (OLS) estimation technique, Engle and Granger (1987) two-stage technique and the Granger causality tests to process a time series data set of 29-year range. The results show, in general, that financial policies have not significantly impacted economic growth in Nigeria. The study recommends, amongst others, some guided regulation of financial liberalization to ensure that the economy not only grows but develops to improve the wellbeing of the citizens. Furthermore, it calls for effective implementation and monitoring of financial policies as well as adequate supervision of the financial sector by the relevant authorities to avoid lopsided compliance with financial and monetary guidelines.

Keywords: Financial policies, Financial Liberalization, Financial developments, Economic growth, Guided regulations.

Introduction

There exist several theoretical and empirical evidences in the extant literature on the role of finance in economic growth and development. In the theoretical sphere, the early works of Begehot (1873), Schumpeter (1942), Hicks (1969) and the separate but concurrent works of Harrod (1939) and Domar (1946) and later Solow (1956), all provided early theoretical indications of the important relationship between financial developments and economic growth.

However, one of the most influential theoretical underpinnings of the finance and growth nexus was the early work of Lewis (1955). Although the main thrust of the theory was the structural transformation of subsistence economy that focused on the process of labour transfer for generating employment and growth in the modern sector, the model noted that the ease and speed of subsistence to modern economic transformation is contingent on the órate of industrial investment and capital accumulationô (Todaro & Smith, 2009: 116).

More recent works have further reinforced the importance of financial and investment activities on economic growth. Some of these include Saint-Paul (1992) that demonstrated the link between efficient financial markets, increased specialization, improved division of labour and economic growth; Bencivenga and Smith (1991), Obstfled (1994), Blackburn and Hung (1996), and Levine (1997) have all showed, from different perspectives, the usefulness and relevance of financial markets/developments to industrial and economic growth.

In the same vein, the empirical evidences that support the role and influence of financial developments on economic growth are no less formidable. From about the pioneering work of Goldsmith (1969) to early studies including Gupta (1984), and King & Levine (1993), the positive relationships between financial activities and economic growth have continued to receive strong empirical support in the literature.

Thus, there exist positive relationships between financial developments and economic growth even though the nature of causality can go in either or both directions (King and Levine, 1993; Rousseau & Wachtel, 1998; Levine & Zervos, 1998; Beck, Levine & Loayza, 2000; and Rousseau & Sylla, 2001; and Eke et al., 2003) and perhaps depending on the stage of economic development and the specific nature of the financial variables involved (Rousseau & Sylla, 2001). This is the nature of the relationships that we expect to exist between some financial policy variables and economic growth in Nigeria.

An Overview of Recent Financial and Economic Development in the Nigerian Economy

The Nigerian economy has undergone series of financial and structural economic changes since the early 1980ôs. Starting with the structural adjustment programme (SAP) in 1986 that brought about significant changes in the nationôs macroeconomic aggregates, other economic and financial developments included programmes like commercialization and privatization of public enterprises, financial liberalization and the reform of the Nigerian capital market. With SAP came economic and financial liberalization bringing about such changes as foreign exchange devaluation, massive inflow of portfolio investments and speculative capital, cuts in government expenditures, and removal of certain subsidies. There was also the issue of debt rescheduling and debt repayment of foreign debts in the mid 2000 which brought about significant reduction in the nationôs foreign debt stock. Within the same period, the banking reform brought about the recapitalization and reduction in number of Nigerian banks to 24 in the mid 2000. Lately, the global financial meltdown which had its root in the USA from the mid 2008 (and whose impact is still pervasive) also brought about significant changes in the Nigerian economic and financial systems with far reaching implications for sustainable growth and development.

In particular, the financial liberalization measures included the deregulation of interest rate on savings and lending in the early 1990s but subsequently regulated in later years, the removal of credit controls and the abolition of sectoral credit allocation policy.

These also included the introduction of an auction system in the foreign exchange market as well as for treasury bills, the introduction of more stringent prudential guidelines for banks, the enactment of various Acts such as the Pension Reform Act, 2004 and the Investment and Securities Act 2004 that were meant to strengthen the financial sector and create the necessary regulatory environment for financial and investment activities to thrive. Other financial reforms included liberalization of international financial transactions meant to promote export trade in non-oil export and attract foreign direct investment; and the various banking reforms that introduced universal banking in the late 1990s but later abolished in mid 2000; and bank recapitalization and sanitization which started in the mid 2000 that have brought about financially stronger and healthier banks. Thus, the period 1981 to date have witnessed various financial developments (albeit some contradictory ones) meant to increase competition, attract foreign capital inflow, and promote the ability of the financial sector to óoil the engine of growthô in the domestic economy by stabilizing the economy and mobilizing domestic resources.

The question then is: To what extent has the economy of Nigeria been impacted by financial developments arising mainly from the various financial policy measures in recent years? This is the primary question this paper seeks to answer.

It is in the light of the above that this study seeks to examine the relationships between financial policy variables such as interest rates, money supply, foreign direct investment inflows, credit allocation by banks to the domestic economy, and market capitalization on the one hand, and macroeconomic growth variables such gross domestic product (GDP) in the Nigerian economy on the other. The aim is to assess the impact of these financial measures on the growth of the national economy and suggest further policy measures for stabilization and strengthening of the financial sector. The scope of this study spans over the period 1981 to 2009 and uses national data obtained from UN data bases.

A Review of Related Empirical Literature

In specific term, the relationships between changes in financial variables and macroeconomic variables have long been established in the financial and economic literature. Chen, Roll and Ross (1986) found that changes in aggregate production, inflation rate, short-term interest rate, the maturity risk premium and default risk premium are closely related to capital market index. Similarly, while inflation is generally known to be caused by increased money supply (Killick & Mwega, 1990, and Adam *et al.*1996), after economic liberalization, inflation outcomes have been found to be determined more by economic fundamentals (Durevall and Ndungâu, 1999). On the relationship between economic growth indicator such as GDP, Ragan and Zingales (1998) opined that savings rate affects financial sector development and economic growth. However, Levine and Zervos (1998), in a cross-country study, found no evidence of a significant relation between the private saving rate and the financial indicators. Same conclusions were reached by two studies by Levine, Loayza & Beck (2000) and Beck, Levine & Loayza (2000). They found significant impacts of financial intermediation indicators on real GDP growth and productivity but an ambiguous effect on physical capital growth and saving.

In the same vein, interest rates have been found to be closely related to bank credit to the domestic economy under financial liberalization. In a study of five Sub-Saharan Africa economies, Willem Naudé **(**1995) found out that financial liberalization creates a significant interest rate risk resulting in exceptionally high levels of interest rates as well as diverging

spreads between deposit and loan rates that might negatively affect the supply of credit by banks. In an empirical study of the Canadian economy, Yuan and Zimmermann (1999) concluded that monetary policy can do little to ease a credit crunch that arises because of increasing loan risk.

On the other hand, in a study in Korea, interest rates were found to have a strong predictive power for stock returns (and ultimately on market capitalization). That is, while a high interest rate attracts more savings, a reduction in the interest rate encourages higher capital flows to the stock market from investors desirous of a higher rate of return (Léon, 2008). In the same vein, Levine and Zervos (1998) and Choong et al. (no date) provide empirical evidence that stock market development has a significant positive long-run impact on economic growth. In the case of foreign direct investment (fdi), a number of studies have indicated a significant relationship with GDP (Oyaide, 1977; Borenztein *et al*., 1998; and Eke *et al*., 2003).

Data Sources and Analysis Techniques

This study, conducted within the context of Nigeria, covers the period 1981 to 2009. Like in most prior studies, gross domestic product GDP is used as a proxy for economic growth while financial variables that are indicative of financial policy measures used in this study are interest rates (deposit and lending rates), money supply, credit allocation by banking sector to the domestic economy, foreign direct investment and market capitalization.

All data used in this study were obtained from World Bank data bases. To ensure all data are in the same scale and to avoid the problem of multicollinearity, all the variables were expressed in logarithmic form.

The study used the ordinary least square (OLS) estimation to analyze the relationships between financial policy variables and the proxy for economic growth in the Nigerian economy. This was preceded by the Phillips-Perron (PP) tests of stationarity. Tests for co-integration between the dependent variable and the independent variables were based on Engle and Granger (1987) two-stage technique. The non existence of co-integration relationship between our financial policy variables and GDP led us to conduct the pairwise Granger causality tests. EViews econometric software was used to process the time series data of 29-year range.

Model Specification

Econometrically, our economic growth regression model can be specified as follows:

$$GDP = \beta_0 + \beta_1 DRT + \beta_2 LRT + \beta_3 MSP + \beta_4 CRA + \beta_5 MCP + \beta_6 FDI + U$$

Where;
GDP = Gross domestic product,
DRT = Deposit rates,
LDR = Lending rate,
MSP = Money supply, $M_{2,}$
CRA = Credit allocation by banking sector to the domestic economy
MCP = Market capitalization,
FDI = Foreign direct investment, and
U = Error Term.

Theoretically, the model specifies that the rate of economic growth (GDP) in Nigeria is related (positively or negatively) to Deposit rates, Lending rates, Money supply, Domestic credit allocation by banks, Market capitalization, Foreign direct investment, and other likely variables not captured by our model.

Theoretical expectations of the parameters of the model are:

$\beta_0 > 0$; β_2, < 0 and β_1, β_3, β_4, β_5, $\beta_6 > 0$

Data Presentation, Results and Analyses

The reliability of results of ordinary least square (OLS) regression analysis depends on the assumption that the variables are stationary. To test for stationarity in this study, we used the Phillips-Perron (PP) unit root test that is appropriate where the series has serial correlation and time dependent heteroscendasicity. The Phillips-Perron test is a non-parametric procedure that is similar to the Augmented Dickey-Fuller (ADF) test but has an added advantage as it includes an automatic correction to the ADF procedure to allow for auto-correlated residuals (Brooks, 2008). The PP tests were conducted under the assumption of the existence of a unit root and non-stationary variable (H_0), against alternate hypothesis (Ha) - that the variable is stationary and does not contain a unit root. If the computed PP test statistic is greater than the critical value (absolute) at all levels of significance (1%, 5% and 10%), then H_0 (that is, the variable is not stationary) is rejected. The summary of the results of the unit root tests are contained in Table 1 below. From the table, all the variables except Money supply (MSP) are not stationary at levels. However, all other variables apart from gross domestic product (GDP) are stationary at their first difference. GDP is stationary at its second difference. Thus, the variables in our model are stationary, although at different levels of integration, and can be studied in their dynamic forms.

Table 1: Summary of Phillips-Perron Unit Root Test Results

VARIABLES	PP TEST STATISTIC	CRITICAL VALUE OF PP TEST STATISTIC	ORDER OF INTEGRATIO N
GDP	- 6.2555	-3.9228 at 1%	I(2)
DRT	-5.9500	-3.8877 at 1%	I(1)
LDR	-10.0441	-3.8877 at 1%	I(1)
MSP	-7.2316	-3.8572 at 1%	I(0)
CRA	-3.9512	- 3.8877 at 1%	I(1)
MCP	-4.3920	-3.8877 at 1%	I(1)
FDI	-4.0098	-3.8877 at 1%	I(1)

Source: Data Analysis by researcher, February, 2012.

Based on the above results, we conducted co-integration tests to verify the existence of a long-run relationship between the financial policy variables and the economic growth variable, GDP.

The tests for co-integration are based on Engle and Granger (1987) two-stage technique. The co-integration tests were conducted on the residuals at levels. The null hypothesis, H_0, is that there is no co-integration between the variables, against the alternative hypothesis, Ha, that there is at least one co-integrating vector. Results of the tests are summarized in Table 3, below. The results show that the absolute value of PP test statistic (-3.1277) is less than the Mackinnon critical value (absolute) at 1% level of significance (-3.9635). Thus, the null hypothesis, H_0, that there is no co-integration cannot be rejected. Therefore, we conclude that there is no stable long-run relationship between the various financial variables ï DRT, LDR, MSP, CRA, MCP FDI and GDP (our measure of economic growth). Since the variables were not co-integrated, we could not use ECM (error correction model) to further evaluate values of the variables but proceeded to use Granger causality tests.

Table 3: Summary of Phillips-Perron Unit Root Test on ECM

PP Test Statistic	-3.127680	1% Critical Value*	-3.9635	
		5% Critical Value	-3.0818	
		10% Critical Value	-2.6829	
*Mackinnon critical value for rejection of hypothesis of a unit root.				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
ECM(-1)	-0.860488	0.276778	-3.108949	0.0083
C	0.004922	0.054799	0.089815	0.9298

Source: Data Analysis by researcher, February, 2012.

The non existence of co-integration relationship between our financial policy variables and GDP led us to conduct the pairwise Granger causality tests for the variables. Our aim was to determine statistically whether we could detect the direction of causality when temporally there is a leadï lag relationship between each pair of variables. For instance, it says, *Y is said to be granger-caused by X if X helps in predicting the value of Y.* That is, the lagged values of X are statistically significant. The test involves estimating a pair of regressions, for all the variables. For instance, the first pair of regressions of GDP (gross domestic product) and DRT (deposit rate) below illustrates our models:

$$GDP_t = \_k_{i=1}\alpha_i DRT_{t-i} + \_k_{j=1}\beta_j GDP_{t-j} + u1_t \quad \textbf{(1)}$$

$$DRT_t = \_k_{i=1}\lambda_i DRT_{t-i} + \_k_{j=1}\delta_j GDP_{t-j} + u2_t \quad \textbf{(2)}$$

Where $u1_t$ and $u2_t$ are the stochastic error terms; and k, the maximum lag length.

The null hypothesis, H_0, tested is that DRT *does not granger-cause GDP and GDP does not granger-cause DRT.* Two lagged terms were used in the regression models. The

results of the granger-causality tests involving each pair of regressions are contained in Table 4.

Table 1: OLS Regression Results

Dependent Variables	Independent Variables	Coefficient	Std. Error	t-Statistic	Probability
LNGDP	C	9.838645	3.954498	2.487963	0.0321
	DLNDRT	-0.045120	0.257345	-0.175330	0.8643
	DLNLDR	-0.006065	0.321352	-0.018874	0.9853
	LNMSP	1.015522	0.433951	2.340178	0.0413
	DLNCRA	-0.135909	0.112250	-1.210768	0.2538
	DLNMCP	0.105012	0.152979	0.686448	0.5080
	DLNFDI	-0.1252551	0.166847	-0.750689	0.4701
	AR(1)	0.417531	0.352015	0.186117	0.2630
	R^2	0.963679			
	Adjusted R^2	0.938255			
	S.E. of Regression	0.192561			
	F-statistic	37.90351			
	Prob (F-statistic)	0.000002			
	Durbin-Watson	1.749085			

Source: Data Analysis by researcher, Feb., 2012.

Table 1 contains the ordinary least square (OLS) regression results. The regressant, GDP, was regressed on the regressors ï deposit rate (DRT), lending rate (LDR), money supply (MSPS), credit allocation to the domestic economy (CRAI), market capitalization (MCP) and foreign direct investment (FDI) at their various orders of integration. Using EViews econometric package, the ordinary least square (OLS) regression equation for a time series data of 29-year range, 1981 to 2009 indicated the absence of autocorrelation with DW=1.75 and $R^2 = 0.96$ with adjusted $R^2 = 0.94$

Thus, the regression equation became:

GDP = C + Ŭ$_1$ LNDRT + Ŭ$_2$ LNLDR + Ŭ$_3$ LNMSP + Ŭ$_4$LNCRA + Ŭ$_5$ LNMCP + Ŭ$_6$LNFDI + g;

(9.839) (-0.045) (-0.006) (1.016) (-0.136) (0.105) (-0.125)

Given that the coefficient of determination, R^2, is 0.96, it can be concluded that the independent variables explain over 96% of the systematic variations in Gross domestic product within the period of study. With an adjusted R^2, of 0.94, it implies that where other relevant but excluded explanatory variables are included in the model, the explanatory variables in the model would still account for about 94% of changes in the dependent variable. Thus, the model represents a good fit. The F-statistic (with a value of 37.90) is

significant at 1% level, showing overall good fit of the model. The Durbin Watson statistic (DW) is 1.75 (approx 2.0). This indicates the absence of autocorrelation among the explanatory variables in the model. All these suggest that the results of the OLS regression are reliable and that the joint influence of the explanatory variables on the dependent variable in this study is significant.

Interpretation of OLS Results

The relationship between GDP and money supply (MSP) is positive and statistically significant at 5%. The sign conforms with apriori expectation and result which agrees with previous studies is an indication that money supply to the national economy within the period under study has been adequate and has promoted economic growth. On the other hand, the relationships between GDP and DRT, LDR, CRA, MCP and FDI respectively are not statistically significant in this study. While the signs of DRT and LDR are negative and in accordance with apriori expectations, their respective relationships are not statistically significant. This suggests that the interest policies of monetary authorities over the period of study have not impacted significantly on the growth of the national economy. It appears that the Interest rate policies vis-à-vis savings mobilization and lending to the productive sector pursued by the CBN are either faulty in formulation or weakly in implementation. In the same vein, the relationship between GDP and CRA, GDP and MCP, and GDP and FDI are not statistically significant. The sign of the relationships is positive in the case of GDP and MCP in conformity with apriori expectation. This implies that the growth of the Nigerian capital market has positively impacted national economic growth even though the level of such contribution is not statistically significant. However, the sign of the individual relationship between GDP and Credit allocation (CRA) on the one hand and GDP and FDI on the other is negative. The latter are contrary to apriori expectations. These are strong indications that in the short run credit allocation to the domestic sector cannot be expected to have any significant positive impact on economic growth. It may well be that credit allocations to domestic sector are either not properly channeled to the productive sector or are being rationed (due to shortage of savings) to a few large borrowers to the detriment of majority of small to medium investors. The same conjecture could be made for the relationship between GDP and FDI. In the short run, the impact of FDI on GDP may even be negative as unregulated FDI could harm national economic growth if the dualist tendencies of many multinational corporations are not checked.

Table 4: Pair wise Granger Causality Tests

Null Hypothesis	Obs	F-Statistic	Prob.
LNDRT does not granger cause LNGDP	17	0.04180	0.95920
LNGDP does not granger cause LNDRT		10.7302	0.00213*
LNLDR does not granger cause LNGDP	17	2.60276	0.11510
LNGDP does not granger cause LNLDR		0.06567	0.93678
LNMSP does not granger cause LNGDP	17	5.74786	0.01775*
LNGDP does not granger cause LNMSP		0.08921	0.91525
LNCRA does not granger cause LNGDP	17	1.02418	0.38845
LNGDP does not granger cause LNCRA		0.57063	0.57979
LNMCP does not granger cause LNGDP	17	1.63352	0.23581

LNGDP does not granger cause LNMCP		0.86493	0.44575
LNFDI does not granger cause LNGDP	17	1.63352	0.23581
LNGDP does not granger cause LNMCP		0.86493	0.44575
LNLDR does not granger cause LNDRT	17	0.22608	0.80098
LNDRT does not granger cause LNLDR		0.22090	0.80498
LNMSP does not granger cause LNDRT	17	5.65147	0.01865*
LNDRT does not granger cause LNMSP		3.74087	0.05462**
LNCRA does not granger cause LNDRT	17	0.41455	0.66974
LNDRT does not granger cause LNCRA		0.36335	0.70274
LNMCP does not granger cause LNDRT	17	0.87570	0.44158
LNDRT does not granger cause LNMCP		0.62245	0.55309
LNFDI does not granger cause LNDRT	17	0.42813	0.66130
LNDRT does not granger cause LNFDI		2.69628	0.10787**
LNMSP does not granger cause LNLDR	17	0.24520	0.78637
LNLDR does not granger cause LNMSP		0.13002	0.87930
LNCRA does not granger cause LNLDR	17	0.34144	0.71743
LNLDR does not granger cause LNCRA		0.39076	0.68485
LNMCP does not granger cause LNLDR	17	0.98047	0.40327
LNLDR does not granger cause LNMCP		2.41978	0.13095
LNFDI does not granger cause LNLDR	17	4.10069	0.04393*
LNLDR does not granger cause LNFDI		0.23237	0.79614
LNCRA does not granger cause LNMSP	17	0.17380	0.84254
LNMSP does not granger cause LNCRA		1.06301	0.37581
LNMCP does not granger cause LNMSP	17	0.70788	0.51215
LNMSP does not granger cause LNMCP		1.30498	0.30704
LNFDI does not granger cause LNMSP	17	0.30425	0.74320
LNMSP does not granger cause LNFDI		0.45205	0.64673
LNMCP does not granger cause LNCRA	17	0.30326	0.74390
LNCRA does not granger cause LNMCP		2.93427	0.09174**
LNFDI does not granger cause LNCRA	17	0.16100	0.85310
LNCRA does not granger cause LNFDI		0.14762	0.86430
LNFDI does not granger cause LNMCP	17	1.52832	0.25628
LNMCP does not granger cause LNFDI		2.78005	0.10184**

Source: Data Analysis by Researcher, Feb., 2012

(a) In the Granger causality tests in Table 4 above, estimates for all variables except GDP and MSP were achieved using first differences of integrated variables. Estimates for GDP used second differences of integrated values while MSP used level values.

(b) The signs * and ** denote significance of results at the 5 and 10 percent levels respectively.

In general terms, the results show that our measure of economic growth (GDP) has a short-run causal relation with only two of the financial measures while five pairs of financial intervention variables also indicate a short-run linkage with each other. Generally, causality is unidirectional except in one instance where causality runs in both directions.

Specifically, the results show that our economic development variable (GDP) granger cause deposit rate (DRT) in the same vein that money supply (MSP) also granger cause GDP. That is, the relationship between GDP and deposit rate (DRT) is demand-following, economic growth (indicated by GDP) leads financial policy variable, deposit rate (DRT). This relationship is highly significant at 1% level. The only financial intervention variable that leads economic growth (GDP) is money supply (MSP). This is statistically significant at 1% level.

Other results from the study, except in one instance, indicate mainly unidirectional short run links amongst financial policy variables. Particularly, deposit rate (DRT) leads foreign direct investment (FDI), while foreign direct investment (FDI) leads lending rate (LDR) at 10% and 5% levels of significance respectively. Similarly, Credit allocation to the domestic economy (CRA) leads market capitalization (MCP) while market capitalization (MCP) leads foreign direct investment (FDI) both at 10% levels. The only bi-directional relationship exists between money supply (MSP) and deposit rate (DRT), two of the financial intervention variables. The relationships are significant at 1% and 5% levels respectively.

Summary and Conclusion

This study sets out to examine the impact of financial policy on economic growth in Nigeria. Using deposit rate (DRT), lending rate (LDR), money supply (MSP), credit allocation to domestic economy (CRA), market capitalization (MCP) and foreign direct investment (FDI) as financial policy variables and gross domestic product (GDP) as proxy for economic growth for the period 1981 to 2009. The variables were stationary, although at different levels of integration. The Phillips-Perron unit root test on ECM shows there was no co-integration between the various financial variables and our measure of economic growth leading us to the conclusion that there is no stable long-run relationship between the various financial policy variables and GDP (our measure of economic growth).

Thus, the resultant pairwise Granger causality tests show that economic growth (GDP) has a short-run causal relation with only two of the financial measures - money supply (MSP) and deposit rate (DRT).

Money supply (MSP) granger cause GDP. Indeed, the results of the OLS regression indicate a positive and statistically significant relationship between GDP and money supply (MSP) in conformity with apriori expectation. This is an indication that money supply to the national economy within the period under study has been adequate and has promoted economic growth. On the other hand, however, GDP granger cause deposit rate (DRT). This suggests that national economic growth leads deposit rate policy. When this result is juxtaposed with OLS regression results that reveal a non-statistically significant but negative relationship (contrary to apriori expectation) between GDP and deposit rate (DRT), it points to one basic direction. That is, that the desired level of growth in the national economy determines the deposit rate that is fixed by the monetary authority. This is a clear attestation of the regulation of deposit interest rates in Nigeria. Apart from the early 1990s when deposit interest rates were deregulated, there has been a regulated interest rate regime

in Nigeria. Thus, interest rate does not appear to influence economic growth in Nigeria but the level of economic growth determines interest rate.

Other financial policy variables in this study ï lending rate (LDR) and market capitalization (MCP) do not granger cause GDP and not significantly related to the later.

However, given the correct relevant apriori sign of the variables, the implication is that the policy measures in respect of market capitalization and lending interest rate have positively impacted national economic growth even though the levels of such impact are not statistically significant. The same cannot be said for Credit allocation to the domestic sector (CRA) and FDI whose signs are negative and contrary to apriori expectations. This suggests that in the short run credit allocation to the domestic sector and foreign direct investment did not make any significant positive impact on national economic growth. One possible explanation is that credit allocations to domestic sector by banks are either not properly channeled to the productive sector or are being rationed (due to shortage of savings) to a few large borrowers to the detriment of majority of small to medium investors. In the same vein, the impact of FDI may be harmful to national economic growth in the short run if the dualist tendencies of some multinational corporations are not being checked.

Furthermore, there exist some short-run linkages between the financial variables. Such as the relationships between deposit rate and foreign direct investment; foreign direct investment and lending rate (LDR) on the one hand; and those between Credit allocation to the domestic economy and market capitalization; market capitalization and foreign direct investment; and money supply and deposit rate (with the later two having bi-directional relationships). These cross-interactions amongst financial policy variables may well combine to have some beneficial impacts on the growth of the nationôs economy. The general conclusion of this study is that financial policies have not significantly impacted economic growth in Nigeria.

Policy Recommendations

Financial and fiscal policies remain ready tools in the hands of the managers of the national economy to mobilize resources for economic growth and stabilize the economic and financial systems. This study assesses the impact of only the financial aspect of these tools.

The results show in general that financial policies have not significantly impacted economic growth in Nigeria. Thus, it expected that financial and monetary authorities would work assiduously to promote the financial development and stability of the national economy. While financial liberalization that could lead to financial deepening is ultimately desired, some guided regulations will remain necessary to ensure that the economy not only grow but leads to economic development for the nation. For example, the highly regulated deposit interest rate does synchronize with the supposedly regulated (but obviously unregulated) lending rate. The implications of very low deposit interest rate and apparently high lending rate (official or unofficial) do not mean well for savings mobilization, investment and growth of the economy. Similarly, while foreign direct investments (equity and portfolio investments) should continue to be encouraged, the need to guide against their harmful side-effects must be stressed.

In this regard, we call for effective implementation and monitoring of financial policies as well as adequate supervision of the financial sector by the relevant authorities to avoid lopsided compliance with financial and monetary guidelines.

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