Liberalization and Economic Growth in Nigeria

PETER IFEANYI OGBEBOR, ADESOLA RUKAYAT AWONUGA,
IFEOLUWA OLADAPO-DIXON
Department of Finance,
Babcock University,
Ilishan-Remo, Ogun State,
NIGERIA

Abstract: - This study looked at how Nigeria's financial markets, economic growth, and liberalization interacted between 1986 and 2020. To account for both the short-run and long-run effects, the study used an econometric model of autoregressive distributed lag modelling. To check the time series qualities, several diagnostic tests were carried out, including descriptive statistics, a correlation matrix, and a unit root test. Inferences were drawn at the 5% significant level. The study's findings confirmed that while trade openness had a statistically significant negative impact on economic growth [=-1.4391; P -value = 0.0000], foreign ownership of shares had a statistically favorable impact [= 0.3027; P -value = 0.0000]. Additionally, it was shown that during the studied years, inflation was negative but minor in relation to economic growth [= -0.0032; P-value = 0.5870]. Based on the study's findings, it was advised that an enabling macroeconomic environment be present to make use of the advantages that financial liberalization and the financial market have to offer. Financial liberalization requires a favorable macroeconomic climate, according to studies. Macroeconomic instability makes information asymmetry worse and makes the financial sector more vulnerable. If the macroeconomic indicators are stable, foreign investors will be more eager to make investments in Nigeria.

Key-Words: - Auto Regressive Distributed Lag, Economic Growth, Financial Markets, Gross Domestic products, Liberalization.

Received: January 2, 2023. Revised: May 21, 2023. Accepted: June 2, 2023. Published: June 13, 2023.

1 Introduction

Achieving a high degree of sustainable economic growth has been many developing and emerging nations' primary goal. Studies have developed numerous models and ideas to explain the phenomenon of economic growth in response to the demand to accelerate it. Economic growth, which is defined as a percentage increase in the volume of goods and services generated in the economy, occurs when a country's GDP increases. This shows that, regardless of whether the increase is happening more quickly or more slowly, economic growth is defined as a rise in national income that is reflected in the economy's capacity to generate goods and services.

[1], defines economic growth as an increase in a nation's rate of goods and services generated over a given time period. The increase in the real gross domestic product (GDP) or other measures of aggregate income, which are generally stated as the real GDP's annual rate of change, is what he went on to define as economic growth. Therefore, what drives economic growth is greater productivity, which includes creating more goods and services with the same inputs of labor, capital, energy, and materials. A relatively modest growth rate, poor industrial output, underdeveloped financial markets, and periodic balance-of-payment crises, on the other hand, have been recent characteristics of economic growth in developing economies, [2].

The stock market at the global level consolidates financial system expansion, enhancing the influence of the latter on economic growth. [3], asserts that establishing a financial market is crucial to achieving economic growth, particularly in developing nations. This suggests that financial market activities stimulate economic growth, primarily by facilitating easier access to credit, which boosts private sector investment. As a result, the effective transfer, allocation, and repatriation of financial resources is the main function of the financial market. But only a

properly operating and effectively regulated financial market can fulfill these duties.

[4], concur that mature financial markets can promote economic growth by improving the efficiency of resource allocation. A climate that is beneficial to investors can be fostered, especially in a robust financial market. Because of this, the financial market helps the economy thrive by increasing investable money, reducing portfolio risk, fostering entrepreneurship and innovation, and attracting foreign direct investment. In the financial sector, the phrase "financial market" is usually used to refer solely to marketplaces that are used to raise cash. The capital market, which comprises the stock and bond markets, is an example of a long-term market, while the money market is an example of a short-term market. According to [5], one of the major obstacles to economic growth in the majority of developing and emerging economies is the lack of financing for innovative ventures, which is why growth has remained stagnant in these economies for the most part.

According to [6], the 1986 implementation of the Structural Adjustment Programme (SAP) led to the opening of the formerly closed Nigerian economy through the sale of government ownership of enterprises and banking reforms. As a result, Nigeria's financial systems, particularly the stock market, were finally liberalized, allowing foreigners to participate in the trading of stocks and other securitized instruments. The reform encouraged a market-based credit allocation system, boosted competition, and improved the efficiency of the regulatory and supervisory environment in addition to liberalizing interest rates. Therefore, the impetus behind the adoption of the Structural Adjustment Programme (SAP) was the necessity to aggressively push Nigeria's banking industry and economy toward global competitiveness, [7].

Over the years, the Nigerian economy has grown slowly, with average growth rates of 1.90% in 2018, 2.26% in 2019, -1.94% in 2020, and 3.40% in 2021. The Gross Domestic Product (GDP) has grown slowly during the past few years. The economy has been characterized by fluctuating exchange rates, little private investment, limitations on foreign exchange, and high, ongoing inflation. The expansion and liberalization of the financial markets are said to significantly boost economic growth, [8].

The attraction of foreign investment and the end of capital flight, however, show that the local economy has not grown impressively despite the required liberalization. How come this is the case? In Nigeria, liberalization causes significant short-term financial booms and busts, but these booms and busts have not grown more severe over time. As a result, Nigeria still has a problem with how liberalization, the financial system, and economic growth interact.

It is still unclear how these policies have impacted the economic development of Nigeria. Liberalization and financial sector reform were intended to boost savings through higher real deposit rates and private investment in high-priority sectors. The purpose of the study is to determine how different liberalization indices influence Nigeria's economic growth. Various specific measures, all of which attempt to in some manner increase economic growth, are included in financial market reforms.

2 Literature Review

2.1 Economic Growth

GDP, which is used to assess economic growth, is defined by the World Bank as "the total output of goods and services for ultimate use occurring within a given country's domestic territory, regardless of the allocation to domestic and international claims." The gross domestic product at market prices is the sum of all the gross value contributed by all domestic and foreign producers, plus any taxes, less any subsidies that are not a component of the product value. It is calculated without taking into account the depreciation of manufactured assets or the depletion and degradation of natural resources.

The routes via which economic growth is transmitted are capital accumulation and factor productivity. According to [9], the transfer of factor productivity is more significant than the transmission of capital accumulation. The author claims that economies in nations with comparable levels of capital investment exhibit only marginally significant variations in economic growth. The potential of the financial sector to affect advances in factor productivity can partially account for these variations. As a result, the financial sector, which is how capital accumulation and factor productivity are communicated to economic growth, includes the bond and stock markets.

Economic growth is described by [2], as an increase in the number of goods and services generated in an economy, as shown by gains in a country's gross domestic product. Economic growth is

defined as a gain in national income as represented by the capacity to produce goods and services, regardless of whether the increase is the consequence of a faster or slower rate of population growth. According to Robert Solow, referenced in [10], economic growth is a sustained increase in a country's level of output of commodities and services.

According to [1], economic growth is the increase in the GDP per capita or other measures of total income, which is typically stated as an annual rate of growth. Economic growth is primarily driven by productivity gains, which entail creating more goods and services using the same inputs of labor, capital, energy, and materials.

Economic growth is defined as an increase in an economy's capacity to generate goods and services when contrasted over time, [11]. Economic growth is a rise in a nation or economy's output or production. This description covers all facets of an economy, including wages, taxes, and wages-related factors like output rate. The only way to determine economic growth, given the statement above, would be to calculate it as a numerical figure. As a result, a rise in the Gross Domestic Product of a particular economy expressed as a percentage can be used to measure economic growth. A country's economic activity is thought to be growing continuously, as evidenced by its Gross Domestic Product (GDP).

2.2 Liberalization

Financial liberalization is removing or easing governmental restrictions on the domestic financial market. Financial liberalization, according to [12], comprises deregulating the stock market, local financial sector, and capital account of foreign sectors. According to their definition, comprehensive financial liberalization happens when at least two of the three sectors have been fully liberalized while the third has only been somewhat liberalized. According to [13], financial liberalization is a combination of operational changes and policy initiatives aimed at deregulation and transforming the financial sector and its structure to establish a liberalized market-oriented system within the appropriate regulatory framework. The term "financial liberalization" refers to steps taken to lessen or eliminate regulatory monitoring of the institutional frameworks, resources, and activities of agents in different financial sector segments; these steps might be linked to either internal or external legislation, [14].

Financial liberalization also places a strong emphasis on removing barriers to commerce and using market forces (the combination of supply and demand dynamics) to set prices for financial services. [15], asserts that liberalization is the decrease of restraints, either exogenous or endogenous, in which case they are said to as being influenced or imposed from without. The Author went on to clarify that financial market liberalization is the process of applying the broad concepts of liberalization to financial markets and systems, which encompass both the capital and money markets. According to [8], [15], "liberalization" refers to the deregulation of the internal financial system, which will promote economic growth and stability by letting the market decide on interest rates and capital regulations (credit).

A further elegant explanation of the liberalization thesis may be found in major publications, [17]. According to the author, financial liberalization can promote economic growth by increasing investment and productivity. Financial liberalization may be good if it decreases the cost of capital and results in more savings, [15]. The hypothesis predicts that financial liberalization will raise real interest rates and promote saving. In return, it would be expected that higher savings rates would finance higher investment rates, which would lead to stronger economic growth.

2.3 Measures of Liberalization

2.3.1 Foreign Ownership of Shares

Foreign ownership is defined as when a corporation has its headquarters outside the nation or when non-citizens run and own a company there. The most typical ways that foreign ownership of shares of stock happens are through foreign direct investment or acquisitions, which are long-term investments made in a foreign country by multinational firms that operate in numerous nations. Therefore, when a global corporation acquires at least 50% of a business, the multinational corporation changes into a holding company, and the business that received the foreign investment becomes a subsidiary, [17]. If a foreigner buys domestic property, they may also get shares. The specific criterion employed in this study to determine foreign ownership of shares is the percentage change in foreign ownership of shares of locally incorporated companies listed on the Nigerian Exchange (NGX) (NSE).

2.3.2 Trade Openness

Trade openness measures a nation's involvement in the world trading system. Usually, it is determined by dividing the sum of exports and imports by GDP. To reduce the appeal of international trade, a government may implement a severe tariff policy, which may discourage other nations from both importing into and exporting to that nation. The World Bank defines trade openness as the proportion of an economy's total imports and exports to its GDP. Trade restrictions, which are an indication of a lack of trade openness, can hurt the economy by stifling both economic development and growth, according to widely accepted economic theory. Greater technology transfer, increased talent transfer, factor productivity, economic growth, and development are only a few of the alleged economic advantages of open trade. Having a low cost of doing business, which is an abstraction of the costs related to transportation, tariffs, subsidies, taxes, and non-tariff obstacles, is what, [18], defines as having an open global trading system.

[19], asserts that trade openness is the difference between earning foreign currency through exports and saving foreign currency through import substitution. The flow of foreign direct investment, capital, goods, and services to host countries or areas is facilitated by openness to international commerce. The advantages of openness include increased trade in commodities and services as well as improved domestic technology, [20]. However, [21], showed that trade openness had a beneficial effect on economic growth.

Trade openness enables countries to take hold of new markets, increase their market share, and strengthen their competitiveness, [22]. One important consequence of trade openness is the transfer of technology from the source country, which is often developed, to the destination country, which is typically a developing country, [23]. Trade openness has been evaluated using a variety of indicators, [24]. First, trade shares (outcome openness measure), which is computed as exports + imports divided by GDP and is utilized by numerous research that demonstrate a substantial and positive association between openness and growth, are the most basic indicator of openness. The second group includes trade barrier indicators (also known as policy openness measures). These non-tariff barriers (NTBs), which measure how trade-restrictive a region is, include average tariff rates, export taxes, levies on foreign trade, and NTB measures, [25].

Depending on factors like technology, culture, science, inward and outward orientation, and others, a country may choose to be fully or partially open to the capital or financial market, according to [26]. Trade openness is a multidimensional concept. A nation can also choose to be open in some sectors, like trade, while closed off in others, like foreign direct investment, to restrict foreign ownership of shares. They conclude that there is no perfect degree or type of openness that applies to all countries at all times. In actuality, a country's commercial openness is neither open nor closed.

2.3 Theoretical Framework

The liberalization idea serves as the foundation for this investigation. The fundamental papers by [16], [27] established the theory of financial liberalization. According to these academics, financial deregulation can boost productivity and investment, which in turn can boost economic growth. Financial liberalization may also be beneficial if it increases savings, decreases the cost of capital, and promotes the adoption of better governance practices and claims, [28]. Theoretically, financial liberalization should raise real interest rates and promote saving. The expectation is that higher savings rates will finance higher investment rates, which would subsequently result in better economic growth.

According to the financial liberalization idea, allowing the market to set interest rates and manage capital, or credit, will enhance macroeconomic stability and regional economic growth. The improvement of the effectiveness, scope, and quality of financial intermediary services is referred to as financial development. Financial development refers to the efficiency of financial markets and intermediaries in this context, and it is determined by the financial structure of the economy. Financial development is facilitated, in accordance with [16], [27], when all limitations and constraints that result in financial repression are lifted. As a result, effective supervision and a strong regulatory framework can be used to regulate both domestic and foreign investors as well as the transfer of resources produced by new savings to effective investments.

[29], explained that when a financial system is operating efficiently, changes to it result in better distribution of financial resources. The ease of borrowing money at cheaper rates helps businesses grow in this environment. The most prosperous projects may also receive funding from financial

intermediaries. This is also expected to improve financial intermediary services' effectiveness, quantity, and quality. Additionally, according to [30], liberalization includes official government policies that stress-reducing restrictions on international financial activities, deregulating interest rates and credit controls, and removing barriers to entry for foreign financial firms. Because of this, liberalization theory has both internal and global dimensions. The establishment or improvement of the market's pricing mechanism and increased market competition are the main goals of market liberalization, which promotes economic growth.

Other critics of this thesis, including, [31], [32], [33], said that financial liberalization frequently yielded unsatisfactory outcomes and sporadically led to economic and financial catastrophes. First, [31], pointed out that the issue of asymmetric knowledge that can impede financial intermediation from being more efficient in a liberalized market is not addressed by financial liberalization in and of itself. Similarly to this, financial liberalization may exacerbate problems with the information. As financial markets become more open and competitive, relationship lending may become less common, offering borrowers additional options and motivating them to look for the least expensive financing solution for their investment. But as relationship lending declines, knowledge capital is lost as well, increasing information asymmetries. According to [32], more competition in the financial market may also result in decreased profit margins and increased financial fragility for financial intermediaries like banks. [33], noted that liberalization reduces the franchise value of banks, making them more vulnerable to financial instability and increasing risk-taking to increase profits in the face of shrinking interest rate margins. When loan margins are low, banks may be more likely to employ a gambling strategy, putting less attention on risk and more emphasis on profit. They might also be more willing to cut back on screening and monitoring expenses. Therefore, if increasing competition fosters excessive risk-taking, financial deregulation may result in crises.

This theory is important to the study because it explains how letting the domestic financial market set interest rates and manage capital will help countries' economies flourish and remain macroeconomically stable. The hypothesis is pertinent to the current study since it holds that financial market liberalization drives economic growth.

2.4 Empirical Review

Nigeria's market liberalization and economic expansion were looked at by [30]. The results show that, over the long term, the current level of economic growth responds to disequilibrium from past levels of real GDP, stock market development, foreign direct investment, trade openness, inflation, and banking sector development. A wide range of econometric techniques, such as unit root test, co-integration, vector error correction model, and granger causality, were used to support the findings. The study also revealed that historical real GDP, foreign direct investment, and trade openness are all favorable for short-term economic growth. In both the short and long terms, the study found that there are bi-directional causal links between the dependent and explanatory factors. The study's conclusions suggest that for Nigerian authorities to favorably influence economic growth, they should concentrate more on elements that can boost foreign direct investment, trade openness, inflation, and banking sector development.

This article analyses Nigeria's financial liberalization and economic growth from 1981 to 2012 using the McKinnon-Shaw paradigm. Co-integration analysis and the ordinary least squares method were both used in the study, [34]. The results show that financial deregulation and private investment have a strongly favorable effect on Nigeria's economic growth. However, it was discovered that real lending rates (LDR) had a bad correlation with Nigeria's economic growth over the study period. According to the study's findings, Nigeria's monetary authorities and decision-makers must support the liberalization process by creating supplementary policies and financial sector reform measures that would boost the process's favorable economic consequences.

Co-integration and error correction were used by [35], to analyze quarterly data from 1974 Q1 to 2013 Q2 and evaluate how economic liberalization affected Bangladesh's growth. The results show that economic liberalization has had a detrimental effect on Bangladesh's economic growth because the real interest rate is negative and considerable. [36], reviewed the literature on the connection between finance and growth to assess the relationship between financial liberalization and economic growth in Turkey from 1975 to 2004. Based on the theory of co-integration and the representation of co-integrated variables with error correction, the empirical research is conducted in a vector auto-regression framework.

The study's empirical findings demonstrate a bidirectional causal relationship between financial development and economic growth (bi-directionally). [37], discovered that an increase in interest rates during the years following the banking sector's deregulation caused a rise in savings, which had a positive effect on Ghana's GDP growth. The ordinary least square (OLS) regression analysis was used to find this. It demonstrated how financial liberalization increased capital utilization effectiveness and accelerated capital accumulation, two factors crucial for economic growth. Similar to this work, [6], used time series data and OLS estimation techniques to investigate the association between financial liberalization and stock market development in Nigeria. The study concludes that financial deregulation has affected the expansion of the Nigerian stock market. The conclusion reached was that additional efforts should be made to maintain the pace of financial liberalization in Nigeria, and further encouragement of market opening should be supported.

Additionally, [38], used annual data from 1971 to 2007 to investigate the connection between Pakistan's financial liberalization index and economic growth. The Phillips Perron unit root test was used to assess the level of integration after the Auto-Regressive Distributed Lag (ARDL) method was used to calculate the long-run and short-run coefficients. The empirical results showed a favorable correlation between the financial liberalization index and short-term economic development. On the other hand, the real interest rate has a detrimental and statistically significant impact on economic growth, but the financial liberalization index has a statistically inconsequential long-term impact. This suggests that a real interest rate increase of one unit results in a decrease in GDP.

3 Methodology

3.1 Research Design

The research methodology was ex-post facto. Ex-post facto research design allows the use of variables that already exist when investigating whether a causal relationship exists between at least two variables, which is the reason for the adoption of this research design. 35 years were spent collecting the material (1986 to 2020).

3.2 Model Specification

The empirical study for this research was modified in accordance with the theory of liberalization and in response to the work of [38], whose study examined the relationship between Pakistan's financial liberalization index and economic development. While economic development was a proxy for RGDP, foreign ownership of shares and trade openness were proxies for liberalization. The functional model that underpins this research was described as follows:

$$RGDP_t = f(FOW_t, TOP_t) \quad (1)$$

However, inflation was used as a control variable for the model and thus presented below:

$$RGDP_t = f(FOW_t, TOP_t, INF_t) \quad (2)$$

Where:
RGDP refers to the economic growth indicators whereas FOW and TOP represent the liberalization indicators (Foreign ownership of shares and Trade openness). However, INF represents inflation

The empirical model is specified as follows:

$$RGDP_t = \alpha_0 + \alpha_1 FOW_t + \alpha_2 TOP_t + \alpha_3 INF_t + \varepsilon_t \quad (3)$$

In addition, to obtain error correction estimates related to the ARDL long-run equilibrium model, the study specifies the model as:

$$\Delta RGDP_t = \beta_0 + \sum_{i=0}^{P} \beta_{1i} \Delta RGDP_{t-i} + \sum_{i=0}^{q_1} \beta_{2i} \Delta FOW_{t-i} + \sum_{i=0}^{q_2} \beta_{3i} \Delta TOP_{t-i} + \sum_{i=0}^{q_3} \beta_{4i} \Delta INF_{t-i} + \varphi ECT_{t-i} + \varepsilon_t \quad (4)$$

Where:
The error correction model's greatest lag length for the RGDP and other explanatory variables is were, where t stands for the time period. The incorrect terms were FOW, TOP, and INF, which stand for percentage changes in foreign ownership of shares, trade openness, and inflation. RGDP stands for real gross domestic product. was the error correction term, and the indices, and were. Final prediction error (FPE), Akaike information criterion (AIC), and Hannan-Quinn information criterion (HQ) values were used to

find the ideal lag length. The study considers the multicollinearity test, unit root test, heteroskedasticity test, collinearity as well as normality in addition to the estimation methods used.

4 Results and Findings

The autoregressive distributed lag model on liberalization and economic growth in Nigeria is presented in Table 1.

H_{01}: Liberalization has no significant effect on economic growth in Nigeria.

Table 1. Autoregressive Distributed Lag Model on Liberalization and Economic growth in Nigeria

Variables	Coefficient	Stand. Error	T-Statistics	P–Value
Short-Run Coefficient and Error Correction Model				
D(LFOW)	-0.011204	0.046932	-0.238740	0.8133
D(TOP)	-0.485311	0.143413	-3.383999	0.0024
D(INF)	-0.003748	0.002014	-1.861247	0.0745
ECT (-1)	-0.337229	0.064964	-5.191037	0.0000
Long-Run Coefficient				
LFOW	0.302737	0.033201	9.118351	0.0000
TOP	-1.439112	0.269929	-5.331444	0.0000
INF	-0.003228	0.005866	-0.550323	0.5870
C	18.391264	1.000375	18.384361	0.0000
R-Squared	0.5524			
Adjusted R-Squared	0.4449			
F-Statistics	5.1417***(0.0014)			
Diagnostics Test				
Breusch-Godfrey Serial Correlation LM Test	3.3872 (0.0514)			
Heteroskedasticity Test: Breusch-Pagan-Godfrey	4.4113 (0.6212)			
Jargue-Bera Normality Test	1.3384 (0.5121)			
Cusum Test	Stabled			
Cusum Square Test	Stabled			

Source: Author's Computation (2022)

Short Run Effect

ECT (-1) [-0.3372 (P 0.0000)] The short-run model showed that the yearly rate of economic growth adjustment at a 5% level is roughly 33.72%. The ECT co-efficient had a negative value and a significant probability linked with it at a 5% inference, which was consistent with the Error Correction Model's theoretical exposition.

At the 5% level, foreign ownership of shares (FOW) had no statistically significant short-term impact on economic growth [= -0.0112; P - value = 0.8133]. According to the statistically insignificant influence, a 1% increase in FOW had a short-term negative

impact on the economic growth of approximately 0.0112 percent.

The short-term effect of trade openness (TOP) was also statistically significant at the 5% level [= -0.4853; P - value = 0.0024]. According to the statistically significant effect, a 1% increase in TOP had a negative short-term impact on the economy of about 0.4853 percent.

Short-term inflation rate (INF) effects were not statistically significant at the 5% level [= -0.0037; P-value = 0.0745]. It is clear why a 1% increase in INF resulted in a temporary decline in the economic growth of about 0.0037 percent because the statistically insignificant impact was negative.

At the 5% level, the constant coefficient was unfavorable and statistically significant [= 18.3912; P 0.0000]. This explains why, when all explanatory variables are kept constant, economic growth amounts to a positive value of 18.3912% percent.

Long Run Effect

Foreign Ownership of Shares (FOW) was statistically significant at the 5% level and positive, according to the results of the long-term impact [= 0.3027; P - value = 0.0000]. This suggests that during the studied years, an increase of 1% in foreign ownership of shares was correlated with an increase in economic development estimated at 0.3027 percent.

Additionally detrimental and significant at the 5% level, the long-term impacts of trade openness were [=-1.4391; P -value = 0.0000]. This demonstrates that, over the reported years, an increase of 1% in trade openness was correlated with an increase of approximately 1.439% in economic growth.

Additionally, the findings of the long-run effect showed that inflation was negative and statistically insignificant at the 5% level [= -0.0032; P-value = 0.5870]. This shows that during the years under observation, a 1% rise in inflation led to a 0.0032% decrease in economic growth.

Diagnostics Test

The serial correlation value of 3.3872 (0.0514) for the autocorrelation test suggests that there was no serial correlation in the model. The Breusch-Pagan-Godfrey heteroscedasticity test was also successful in satisfying the heteroscedasticity test. The outcome of 14.4113 (0.6212) showed that the model had no heteroscedasticity. However, the normality test result of 1.3384 showed that the remainder is normally distributed (0.5121). The model is preferable, according to this claim.

The cumulative sum (CUSUM) and cumulative sum of squares (CUSUM of SQUARE) were both used to calculate the model's stable form. The CUSUM and CUSUM SQUARE statistics are plotted against the critical limit of 5% significance. The stability forms show that the stability lines are contained within the critical limits at a 5% level of significance. This implies that the parameters of the error correction model are all stable. The stability test of cusum and cusum of square is presented in Figure 1.

Decision

The null hypotheses were refuted by the significant values of the computed F-statistics and R2 values [F - Stat. = 5.1417; P - value = 0.0014; R2 = 0.4449]. The null theories are disproved as a result. The study then concluded that liberalization had a major impact on Nigeria's economic growth.

Discussion of the Results

This research looked at the connection between the financial market in Nigeria, economic growth, and liberalization. The study's findings, which were corroborated by empirical research on liberalization and economic growth in Nigeria, indicated that trade openness had a temporary negative impact on economic growth there, but that this effect was not statistically significant when compared to foreign ownership of shares. However, the results of the long-term effects showed that foreign ownership of shares was both favorable and statistically significant to influence economic growth, trade openness was both unfavorable and statistically significant to influence economic growth, and inflation was both unfavorable and statistically insignificant to influencing economic growth in Nigeria.

The study was carried out in tandem with the empirical research of [34], which showed that financial deregulation and private investment have a significant positive effect on Nigeria's economic growth. [39], which found a long-term association between financial liberalization and economic growth, providing additional support for the empirical results of this research. Furthermore, a study by [40], supported the experiment's results. Finding, [40], revealed that there were short- and long-run co-integrations for each dataset. Furthermore, given that the study discovered a

transiently favorable relationship between the financial liberalization index and economic growth, [38], contest the results.

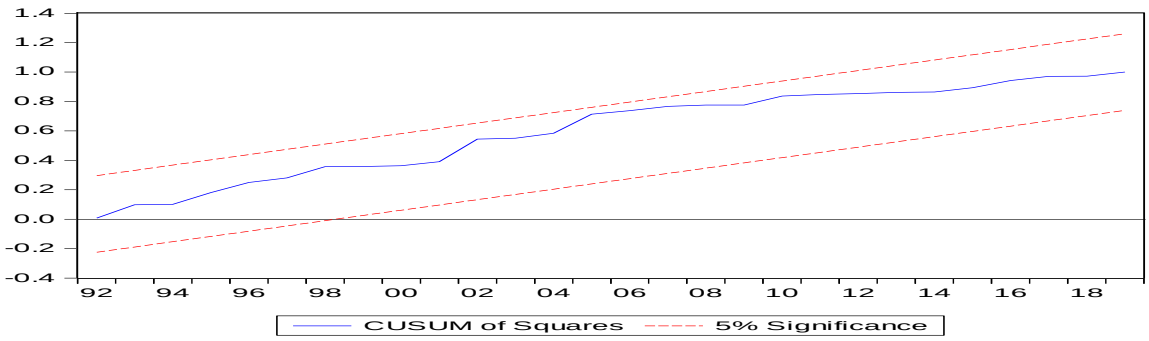

Fig. 1: The Stability Test of Cusum and Cusum of Square

5 Conclusion and Recommendation

Financial liberalization is the process of opening up the economy to outside investment in the financial sector. Liberalization makes it possible for buyers and sellers of securities to transact on a global scale without depending on physical boundaries, which integrates the national economy with the world economy. Nations will greatly benefit from liberalization. In addition to other benefits, allowing foreigners to own shares reduces the cost of equity capital by increasing the volume of shares traded and lowering equity capital costs. The result suggests that liberalization tends to have a positive impact on economic growth when foreign ownership of shares is used as a proxy for liberalization while having a negative impact when trade openness is used as a proxy. This impact is positive when foreign ownership of shares is used as a proxy for liberalization while having a negative impact when trade openness is used as a proxy.

The study's results and conclusion suggest that to benefit from financial deregulation and the financial market's advantages, a favorable macroeconomic environment is necessary. According to studies, financial liberalization needs a positive macroeconomic environment. Information asymmetry is exacerbated by macroeconomic instability, which also increases the finance sector's vulnerability. Foreign investors will be more willing to invest in Nigeria if the macroeconomic indicators are stable.

References:

[1] Gbadamosi, B. (2017). Economic growth and capital market development in Nigeria. *Journal of Management Development, 1*(1), 67-78.

[2] Anyanwu, J. C. (2015). Stock market development and economic growth in Nigeria. *The Journal of Business Perspective, 2*(1), 33-38.

[3] Aregbeshola, A. (2016). International trade, foreign direct investment and economic growth. *Journal of Economics and Behavioural studies, 8*(6), 127-145.

[4] Ogbebor, P.I. &Okolie, O. (2018). Macroeconomic indicators and stock market performance. *Nigeria Journal of Business and Management Sciences*, 2, 67-89.

[5] Ogbebor, P.I. &Siyanbola, T. (2018). Financial development and economic nexus in Nigeria: The role of the stock market. *International Journal of Research and Methodology in Social Science, 4*(3), 29-36.

[6] Ogbebor,P.I., Oguntodun, A. &Olayinka, M. (2017). Financial liberalization and stock market development: Evidence from emerging equity market of Nigeria. *Journal of Association Professional Bankers in Education, 1*(1), *19-25.*

[7] Ogbebor, P.I., Ajibade, A. &Awonuga, A. (2020). Financial deepening and income of selected deposit money banks listed in Nigeria. *International Journal of Management Sciences and Business Research, 9*(3), 51-63.

[8] Banam, K.(2016).Impact of financial liberalization on economic growth in Iran. *Journal of Finance and Economics, 6*(3),13-32.

[9] Wachtel, P. (2011). Inflation, financial development and growth. *Journal of economic theory, dynamics and market*, 309-324.

[10] Adebiyi, M.(2005). Capital market performance and the Nigerian economic growth. *Journal of Business, Humanities and Technology, 3*(1), *85-95.*

[11] Aiguh, L. A. (2013). The impact of capital market on the economic growth of Nigeria. *International Journal of Economics and Finance,1*(2), 97-115.

[12] Kaminsky, G. &Schmukler, S. (2014). Short run pain, long run gain: The effect of financial liberalization. *Journal of Finance, 6*(5), 11-32.

[13] Johnston, R.& Sundararajan, V. (2015). Sequencing financial sector reforms. International *Journal of Economic Development Research and Investment, 6*(1), 141-173

[14] Chandrasekhar, C. (2014). Finance and the real economy. *Journal of Finance, 49*(2), 420-436.

[15] Ogbebor, P.I. (2017). The relationship between financial market liberalization, stock market performance and economic growth. *UNILAG Journal of Business*,4, 189-204.

[16] McKinnon, R. I. (1973). Money and Capital in Economic Development. *International Journal., 29(4)*, 649-651.

[17] Koo, J. &Maeng, K. (2016). Foreign ownership and economic growth in China. *Journal of Applied Economic, 57*(25), 2092-2500

[18] Wajahat, A &Azrai, P. (2015). The impact of trade openness on economic growth in Pakistan. *Journal of Global Business and Management Research,7*(2), 21-45.

[19] Kim, D. (2011). Trade Growth and Income. *The Journal of International Trade & Economic Development, 20*(5), 677–709.

[20] Musila, J. F. F &Yiheyis, Z. (2015). The impact of trade openness on growth: The case of Kenya. *Journal of Policy Modelling, 37*(2), 342–354

[21] Georgios, G. (2016), Determinants of global spill over from US monetary policy. *Africa Journal of Cogent Economics and Finance, 14*(1), 23-45.

[22] Karadam, O. &Ocal, N. (2014). Financial intermediary and Growth. *Journal of Finance, 2*(1), 76-90.

[23] Brueckner, M. & Lederman, D. (2015). Trade openness and economic growth in Sub-Saharan Afica. *Journal of Finance, 4*(3), 89-104.

[24] Bonga-Bonga, L. (2019). Fiscal policy, monetary policy and external balances: cross-country evidence from African's three largest economies. *The Journal of International Trade & Economic Development, 28*(2), 123-136

[25] Chang, C-C. & Mendy, M. (2012). Economic growth and openness in Africa: What is the empirical relationship? *Applied Economics letters, 19*, 1903–1907

[26] Chakraverty, R. &Signh, S. (2014). Capital account liberalization, free long term capital flows, financial crises and economic development. *Eastern Economic Journal, 29*(2), 191-210.

[27] Shaw, E.S. (1973). Financial deepening in economic development. New Year : Oxford University Press

[28] Mandel, M. (2009). The evolution of banks and financial intermediation. *Journal of Applied Economic, 7*(2), 87-105.

[29] Ang, J. (2018). Financial Liberalization, Financial Sector Development and Growth: Evidence from Malaysia'. *Journal of Development Economics,, 84*, 215-233.

[30] Ogbebor, P.I., Okolie, O. &Siyanbola, T. (2020). Market opening and economic growth in Nigeria. *Journal of Economics and International Finance, 12*(1), 20-28.

[31] Stiglitz, E. (2003) Finance and growth in developing economies. *Asian Journal of Empirical Research*. 15, 132-141.

[32] Boot, A. (2014). Financial development, financial liberalization and social capital. *Journal of Applied Economics, 50*(11), 1268-1288

[33] Hellmann, N (2014), Financial liberalization and economic growth. *Journal of International Business Research, 7*(3), 121-135.

[34] Orji, A., Ogbuagbor, N. &Onyinye, O. (2015). Financial liberalization and output growth in Nigeria. *International Journal of Economics and Financial Issues, 5*(1), 297-311.

[35] Bashar, O. & Khan, H. (2014). Liberalization and growth in Bangladesh. *Journal of Asian Economics and Financial Review, 3*(2), 27-38.

[36] Ozturk, I. (2013). Financial development and economic growth in Turkey. *International Journal of Economics, Commerce and Management*, *54*(5), 17-22

[37] Asamoah, A. (2014). Interest rate liberalization in Ghana. *Journal of African Business Research*, *17*(3), 377-396

[38] Hye, M. &Wizarat, S. (2013). Impact of financial liberalization on economic growth in Pakistan. *Asian Economics and Financial Review*, *4*(3), 56-78.

[39] Owusu, E. &Odhiambo, N. (2014). Financial liberalization and Economic Growth in Ghana, *Applied Economics Letter*,*2*(1), 229–234.

[40] Harjum, M., Imam, G.&Erman, D. (2018). Bond market development, economic growth and FDI. *Journal of Accounting and Finance*, *7*(5), 56-98.

Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

The authors equally contributed in the present research, at all stages from the formulation of the problem to the final findings and solution.

Sources of Funding for Research Presented in a Scientific Article or Scientific Article Itself

No funding was received for conducting this study.

Conflict of Interest

The authors have no conflict of interest to declare.