IMPACT OF FINANCIAL DEEPENING ON THE OUTPUT OF THE MANUFACTURING SECTOR IN NIGERIA (1992-2024)

Nwadilibe Chioma Catherineg
Department of Economics and Development Studies
Faculty of Social Sciences
Federal University Otuoke, Bayelsa State
nwadilibechioma1@gmail.com

Victor E. Oriavwote
oriavwote40@gmail.com

Corresponding Author: baliyu@atbu.edu.ng
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Abstract
This study takes a closer look at how financial growth affects manufacturing in Nigeria. We're talking about a 32-year period, from 1992 to 2024. To understand this relationship, we used a model that considers several factors, including the amount of money circulating in the economy, interest rates, and the overall health of the financial system. Our analysis shows that there's a strong connection between financial growth and manufacturing output in the long run. Specifically, we found that when there's more money flowing through the economy, manufacturing tends to grow. Additionally, a stable financial system also contributes to manufacturing growth. On the other hand, high interest rates can actually hurt manufacturing. However, it's interesting to note that interest rates don't have a significant impact on manufacturing in the long run. In the short term, though, high interest rates can have a negative effect. Our research also suggests that about 16% of any imbalance in the economy is corrected each year. Overall, our findings highlight the importance of considering multiple aspects of finance, not just the amount of money available, when thinking about how to support manufacturing growth.

Keywords: ARDL bounds testing; credit to the private sector; financial deepening; manufacturing output; Nigeria; prime lending rate; stock market capitalization.

1.0 Introduction

Manufacturing plays a key role in boosting a country's economy. It helps change the way things are made and increases productivity. For Nigeria, manufacturing is especially important because it uses resources from farming, mining, and oil to make new products. This in turn, creates jobs, brings in money from other countries, reduces the need for imported goods and helps the country's industries grow. Let's look at how manufacturing contributes to the economy. We can measure this by seeing how much manufacturing adds to the country's total production, known as GDP. The National Bureau of Statistics (NBS) provides this information. When we use this measure, we call it ManGDP. It's not just about how well manufacturing is doing, but also how it compares to other parts of the economy. If other areas are growing faster, ManGDP might go down, even if manufacturing itself isn't doing badly. This number can give us an idea of how important manufacturing is to the overall economy. Over the years, manufacturing's role has changed. Back in 1992, it made up 17.7 percent of the economy. By 2010, this had dropped to 6.6 percent. Since then, it's gone up and down, ranging from 7.2 to 9.6 percent. In recent years, the government has made several changes to strengthen the financial system. These changes include merging banks, giving them more capital, developing the stock market, and making financial services more accessible to everyone. The goal is to make it easier for people and businesses to get the money and credit they need. One way to measure this is by looking at the "deepening ratio", which shows how much money and credit are available

in the economy compared to the size of the economy as a whole. This ratio has been growing over time, from 14.2% in 1992 to 19% in 2022, with a peak of 27.4% in2016. However, despite this growth, manufacturers are still facing challenges. They have to pay high interest rates to borrow money, and it's hard for them to get affordable credit. Most bank loans are also going to other sectors, not manufacturing. The research problem is therefore not whether the financial system has grown, but which dimensions of financial deepening (the volume of money and credit, the cost of borrowing or the development of the capital market) are associated with manufacturing outputand over what horizon.

Several previous studies have examined the relationship between financial deepening and manufacturing sector performance in Nigeria. However, most of these studies focused on only one aspect of financial deepening, such as bank lending and interest rate (Ogundele & Okeya, 2020), credit to the private sector (Uzoma et al., 2017), or stock market performance (Awe, 2022; Onyebuchi, 2022). In addition, many of these studies did not simultaneously examine the role of the prime lending rate alongside the financial deepening ratio, credit to the private sector, and stock market capitalization. Many of these studies also utilized outdated data and produced mixed and conflicting findings. There is therefore a need for a more comprehensive study that combines these financial deepening indicators and uses recent data up to 2024 to examine their collective impact on manufacturing sector output in Nigeria.

This study therefore seeks to fill this gap by examining the impact of financial deepening captured through the financial deepening ratio, PLR, private sector credit and SMC on the output of the manufacturing sector in Nigeria from 1992 to 2024.The specific objectives are to:

i. Examine the impact of financial deepening on the output of the manufacturing sector in Nigeria.
ii. Assess the impact of the PLR on the output of the manufacturing sector in Nigeria.
iii. Examine the impact of CPS on the output of the manufacturing sector in Nigeria.
iv. Assess the impact of SMC on the output of the manufacturing sector in Nigeria.

For each indicator, the null hypothesis is that it has no significant impact on manufacturing output.

2.0 Literature Review

The study draws on two complementary theories. The Solow–Swan growth model (Solow, 1956; Swan, 1956) explains output by capital accumulation, labour and technological progress, with diminishing returns to capital. For manufacturers, capital accumulation means investment in machinery, equipment, inputs and technology, which usually requires external finance. The model therefore identifies investment as the proximate driver of manufacturing output, but it does not say how that investment is financed.

Financial intermediation theory (Gurley & Shaw, 1955) supplies the financing mechanism. Banks and capital-market institutions pool savings and channel them to borrowers, lowering transaction and information costs and transforming short-term deposits into longer-term finance (Bencivenga, Smith & Starr, 1995). Combining the two theories gives three channels from financial deepening to manufacturing output, each operating through investment: a volume channel (the size of the financial system, FD and credit extended to the private sector, CPS), a price channel (the cost of borrowing, PLR) and a market channel (equity financing through the stock market, SMC). The theoretical expectation is that FD, CPS and SMC are positively related, and PLR negatively related, to manufacturing output.

These expectations hold only if the channels work as the theory assumes, and the manufacturing context gives reasons why they may not. First, credit can be misallocated if bank lending is concentrated in oil and gas, trade and consumer credit rather than manufacturing, growth in aggregate private-sector credit need not raise manufacturing investment (Eke et al., 2023). Second, borrowing costs can be prohibitive: when lending rates remain high despite financial reforms, firms cannot afford the credit that a deeper system

makes available (Dada, 2015; Okoye et al., 2015). In addition, banks funded by short-term deposits face a maturity mismatch when making long-term manufacturing loans and collateral requirements can exclude small manufacturers. Third, transmission channels compete: equity financing can substitute for expensive bank credit (Ikeobi, 2023) and changes in the monetary policy rate pass through to lending rates slowly and incompletely (Ajakaiye & Tella, 2016). The net effect of financial deepening on manufacturing output is therefore an empirical question that depends on the quantity, cost and allocation of finance and it may differ between the short run and the long run.

Uzoma et al. (2017) examined the effect of monetary policy on manufacturing sector output in Nigeria using quarterly time series data from 1981 to 2015. Employing the structural vector autoregressive framework, the study found that the lending interest rate accounted for the most significant variance in the manufacturing contribution to GDP, as evidenced in the forecast error variance decomposition. Egbulonu and Ukwuoma (2018) examined the impact of monetary policy on manufacturing sector growth in Nigeria from 1981 to 2016, using exchange rate, interest rate and manufacturing output as variables, and found no significant growth in the manufacturing sector attributable to monetary policy in that period.

Gideon et al. (2019) examined the interplay between market capitalization, bank lending and manufacturing output from 1986 to 2016 using cointegration and VECM. They identified a long-term equilibrium relationship among these variables. Notably, bank credit inversely affected manufacturing output, while market capitalization, real GDP and interest rates positively influenced it. This finding suggests that the manner in which credit reaches the manufacturing sector and the cost at which it does so, may be more important than the volume of credit alone.

Onyebuchi (2022) analyzed the capital market's effect on manufacturing sector output in Nigeria from 1990 to 2021 using ARDL andECM. The results revealed a positive impact of market capitalization on manufacturing sector output. In a related study, Ikeobi (2022) investigated the role of the Nigerian capital market in financing industrial production between 2008 and 2020 using the Ordinary Least Squares (OLS) technique. The results indicated that market capitalization positively and significantly impacts industrial output.

Adedoyin and Zakaree (2020) observed short-term benefits of financial deepening on manufacturing growth but found no significant long-term impact, highlighting the possibility that the gains from financial sector reforms may be concentrated in the short run. A study by Oladipo and Alabi (2023) investigated the role of digital financial services in industrial growth in Sub-Saharan Africa and found that while traditional financial deepening mechanisms remain relevant, the integration of digital financial services significantly enhances credit accessibility and efficiency in manufacturing firms.

3.0 Methodology

The study uses annual secondary data to get a better understanding of the situation. It measured how much manufacturing contributes to the country's economy, which we called ManGDP. Study period is between 1992 to 2024, with a sample size of 32. It also checked the ratio of a type of money supply, called M2, to the country's total economic output or GDP. It got these numbers from the National Bureau of Statistics. The study also used data from the Central Bank of Nigeria and cross-checked it with the World Development Indicators, to make sure everything added up. Extracted data were analyzed using the Augmented Dickey-Fuller (ADF) test to check for unit roots in each variable. The ARDL bounds testing approach can accommodate a mix of I(0) and I(1) variables, which is why it is selected for this study.Additionally, it looked at the total value of shares traded on the stock market, which we called SMC and got that information from the Nigerian Stock Exchange Factbook.

The linear econometric model is expressed as:
$ManGDP = \beta_0 + \beta_1 FD + \beta_2 PLR + \beta_3 CPS + \beta_4 SMC + \mu$
Where:
Man GDP is Manufacturing GDP (dependent variable)
FD is Financial Deepening (M2/GDP ratio)
PLR is Prime Lending Rate
CPS is Credit to the Private Sector
SMC is Stock Market Capitalization
β_0 is Constant term (intercept)
$\beta_1 - \beta_4$ are Coefficients of the parameter estimates
μ is Error term

Table 1:

	Acronym			
Manufacturing sector output (dependent)	ManGDP	% contribution to GDP	No	—
Financial Deepening (M2/GDP ratio)	FD	Percentage (%)	No	Positive (+)
Prime Lending Rate	PLR	Percentage (%)	No	Negative (−)
Private Sector Credit	CPS	Billions of Naira	Yes (LCPS)	Positive (+)
Stock Market Capitalization	SMC	Billions of Naira	Yes (LSMC)	Positive (+)

Source: Author's Compilation,2026.

4.0 Presentation of Results and Discussions

Descriptive Statistics

This summary is presented and discussed as below:

Table 2:
Descriptive Statistics

Statistic	Manuf. GDP	Financial Deepening	Credit to Priv. Sector	Prime Lending Rate	Stock Mkt. Cap.
Mean	11.823	17.656	10.259	18.446	6144.383
Median	9.636	16.993	8.909	17.585	5231.900
Maximum	20.927	27.379	19.626	31.650	25543.073
Minimum	6.553	9.063	6.174	11.483	34.360
Std. Dev.	4.453	5.613	3.303	3.979	6808.772
Skewness	0.810	0.146	1.266	1.150	1.160
Kurtosis	2.139	1.668	4.152	5.391	3.815
Jarque–Bera	4.350	2.402	10.000	14.215	7.809
Probability	0.114	0.301	0.007	0.0008	0.020
Observations	31	31	31	31	31

Source: EViews Output, 2026.

The Manufacturing GDP series has a mean of 11.82 with a maximum of 20.93 and a minimum of 6.55, indicating moderate variation in manufacturing performance across the study period. Financial Deepening averages 17.66, ranging from 9.06 to 27.38, while Credit to the Private Sector averages 10.26, with a wide spread between 6.17 and 19.63. The Prime Lending Rate shows a mean of 18.45, fluctuating between 11.48 and 31.65 reflecting Nigeria's historically high and volatile interest rate environment. Stock Market Capitalization exhibits the greatest dispersion by far, with a mean of 6,144.38 against a standard deviation of 6,808.77, and a range spanning from 34.36 to 25,543.07, consistent with the rapid growth and high volatility of the Nigerian equities market over the review period. All five series are positively skewed, with CPS, PLR and SMC showing the most pronounced asymmetry (skewness above 1.0). The Jarquenormality test indicates that MGDP and FD are normally distributed at conventional significance levels (probabilities of 0.114 and 0.301, both exceeding 0.05, so the null hypothesis of normality cannot be rejected). By contrast, CPS, PLR and SMC all reject normality (probabilities of 0.007, 0.0008 and 0.020 respectively, all below 0.05). This departure from normality in three of the five series is not unusual for macroeconomic time series and does not invalidate the ARDL approach, which is comparatively robust to non-normality relative to alternative cointegration techniques such as the Johansen procedure.

Unit Root Tests

Table 3:

Augmented Dickey-Fuller Unit Root Tests

Variable	Level: t-stat. (prob.)	First difference: t-stat. (prob.)	1% Critical Value	5% critical value	10% Critical Value	Order
ManGDP	−1.213 (0.656)	−4.657 (0.001)	-3.654	−2.960	2.617	I(1)
FD	−1.495 (0.522)	−4.794 (0.001)	-3.670	−2.968	-2.621	I(1)
CPS	−2.895 (0.058)	−4.695 (<0.01)	3.679	−2.976	-2.623	I(1)
SMC	0.222 (0.970)	−5.756 (<0.01)	3.654	−2.961	-3.617	I(1)
PLR	−4.665 (0.004)		4.309	−3.574	-3.227	I(0)

Source: EViews Output, 2026.

ManGDP, FD, CPS and SMC that are not stable on their own, but become stable after some adjustments. Specifically, they are considered I(1), which means they need to be adjusted once to become stable. CPS is a bit of a special case it’s almost stable, but not quite, so we'll treat it as I(1) for now. On the other hand, PLR is stable when we consider a linear trend, but not when we just look at the numbers on their own. This means PLR is considered trend-stationary or I(0). The good news is that all these non-stable series become stable after we adjust them, so we don't have to worry about them being too unstable. This mix of stable and unstable variables is just what we need for the ARDL bounds test.

ARDLbounds test

Table 4:

Bounds Test

Significance Level	I(0) Bound	I(1) Bound	F-statistic	Decision
10%	3.097	4.118	—	—
5%	3.715	4.878	—	—
1%	5.205	6.640	—	—

Significance Level	I(0) Bound	I(1) Bound	F-statistic	Decision
Computed statistic	—	—	6.0169	Cointegration confirmed

Source: EViews Output, 2026.

The F-statistic comes out to be 6.017, which is higher than the upper limits at both the 10% and 5% levels. The upper limits are 4.118 at 10% and 4.878 at 5%. However, at the 1% level, the result is not clear-cut, as it falls between the lower and upper bounds of 5.205 and 6.64. Compared to the asymptotic bounds, the F-statistic exceeds the upper bound at all three levels. We can reject the idea that there's no relationship between the variables at the 5% level, using the more conservative finite-sample bounds. This suggests that there is a long-term connection between the variables in question.

Presentation and Interpretation of Regression Results

Table 5:

Diagnostic Summary

Statistic	Value	Remark
R-squared	0.9883	98.8% of variation explained
Adjusted R-squared	0.9795	Robust after df adjustment
F-statistic	112.638	Overall model highly significant
Prob(F-statistic)	≈ 0.0000	Significant at 1% level
Durbin-Watson stat	2.4268	No strong first-order autocorrelation
S.E. of regression	0.6122	Low dispersion of residuals

Overall Model Diagnostic Summary.

The overall ARDL model fits the data extremely well, with an R-squared of 0.9883 and an adjusted R-squared of 0.9795, indicating that the explanatory variables jointly account for about 98% of the variation in manufacturing GDP. The F-statistic of 112.638 ($p \approx 0.0000$) confirms that the model is jointly and highly statistically significant. The Durbin–Watson statistic of 2.4268 is close to 2, suggesting the residuals do not exhibit strong first-order serial correlation, lending credibility to the reported standard errors and significance tests.

Table 6:

Long-run Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Financial Deepening	1.8387	0.9202	1.9981	0.0572
Prime Lending Rate	0.2497	0.6200	0.4028	0.6907
Credit to Private Sector	-1.7424	0.7187	-2.4244	0.0232
Stock Market Capitalization	0.001811	0.000816	2.2186	0.0362
@TREND	-1.8204	0.6504	-2.7987	0.0100

Source: EViews Output, 2026.

Financial deepening has a positive long-run coefficient (1.839) that is significant at the 10 per cent level (p = 0.057): a one-percentage-point rise in M2/GDP is associated with a 1.8-percentage-point higher manufacturing share of GDP, in line with the expected sign. Stock market capitalization has a small positive coefficient (0.0018, p = 0.036), significant at 5 per cent; since SMC is measured in billions of naira, a ₦1 trillion rise is associated with a manufacturing share about 1.8 percentage points higher. Credit to the private sector has a negative and significant coefficient (−1.742, p = 0.023), contrary to the expected sign. One interpretation is credit misallocation, with private-sector credit flowing to trade, oil and gas, real estate and consumption rather than manufacturing.

The prime lending rate has a positive but statistically insignificant long-run coefficient (0.250, p = 0.691). This means the long-run effect cannot be distinguished from zero in this sample. It does not show that borrowing costs have no economically meaningful long-run effect: the standard error (0.620) is large relative to the coefficient, PLR is strongly correlated with SMC (−0.70), and the short-run estimate in Section 4.5 is negative and significant. The trend term is negative and significant (−1.820, p = 0.010), indicating a decline in manufacturing's share that is not explained by the financial variables in the model. Because the long-run coefficients are the lag coefficients scaled by the small adjustment coefficient, their magnitudes are large and imprecisely estimated.

Table 7:
Error-Correction Model, Short-Run Coefficients (Dependent Variable: Δmangdp)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CointEq(-1) [Speed of Adjustment]	-0.1580	0.02296	-6.8835	0.0000
D(Manufacturing GDP(-1))	-0.4668	0.1550	-3.0122	0.0066
D(Financial Deepening)	0.1309	0.0568	2.3062	0.0314
D(Prime Lending Rate)	-0.1713	0.0450	-3.8052	0.0010
D(Prime Lending Rate(-1))	-0.0980	0.0491	-1.9976	0.0589
D(Credit to Private Sector)	-0.0843	0.0706	-1.1944	0.2456
D(Stock Market Capitalization)	0.000150	3.64E-05	4.1329	0.0005
Constant (C)	1.0550	0.2383	4.4267	0.0002

Source: EViews Output, 2026.

The error-correction coefficient is -0.158, which is a pretty strong sign that this is moving towards a balance. To put it simply, about 15.8% of the difference between where we are now and where we should be in the long run gets closed every year. This is a good thing, as it means we're getting closer to where we want to be. The fact that the number is negative and significant tells us that this movement is real and not just a coincidence. So, in short, we're on the right track and making progress towards our long-term goal. When companies have better access to financial resources, they tend to do better in the short term. For example, when there's more money flowing through the stock market, it can have a big impact in fact, our research shows that it can have a significant effect. On the other hand, when interest rates are high, it can be tough for companies to borrow money and that can hurt their growth. We saw this in our study, where higher interest rates had a negative effect on companies. It's like when you're trying to start a business and you need a loan if the interest rate is too high, it can be hard to make ends meet. Additionally, our research found that companies tend to adjust their plans from year to year based on how well they did the previous year. This can create a bit of a rollercoaster effect, where companies are constantly trying to

catch up. Interestingly, we didn't find a significant link between credit and company performance in the short term, but that doesn't mean it's not important it's just that other factors like interest rates and stock market performance seem to have a bigger impact. The differenced model can explain about 80% of the changes in GDP. On the other hand, the levels ARDL model has a very high R^2 value of 0.988, which is 0.98 when adjusted. However, just because the R^2 is high, it doesn't necessarily mean the model is good, especially when dealing with data that has a trend and includes past values of the variable being studied.

5.0 Conclusions and Recommendations

Thestudy examined the impact of financial deepening on the output of the manufacturing sector in Nigeria over the period 1992 to 2024, using the ARDL bounds-testing approach to cointegration. The bounds test looks at the connection between manufacturing's share of the economy and four key financial indicators. What it finds is that these indicators don't all behave the same way. Two of them, financial deepening and stock market capitalization, are closely tied to manufacturing output in both the short and long term. This makes sense, given what we know from economic theory a stronger financial system supports the investments that manufacturing relies on. The prime lending rate, on the other hand, has an impact in the short term when it's high, manufacturing's share of the economy takes a hit. But over the long term, it doesn't seem to matter as much. The fourth indicator, private credit by banks, is not associated with higher manufacturing output and in fact, its long-term effect is actually negative. When manufacturers borrow money, it mainly affects their short-term finances, like working capital. This is shown by the significant short-run effect and insignificant long-run coefficient of the Prime Lending Rate (PLR). Based on the findings of the study,the following policy recommendations are made:

i. To help manufacturers, we need to make short-term financing more affordable. Research shows that the Primary Lending Rate (PLR) has a big impact in the short term it can reduce costs by as much as 0.171, which is statistically significant ($p = 0.001$). However, this effect doesn't last long. So, the Central Bank of Nigeria (CBN) should focus on providing special help for manufacturers who need working capital or short-term loans. This could include offering cheaper loans or refinancing options, especially for small and medium-sized businesses. Instead of just lowering lending rates, the CBN should try to find other ways to support these businesses in the long run.
ii. To boost the economy, it's crucial to make the capital market a go-to source for industrial finance. Research shows that the Securities and Exchange Commission (SEC) and the Nigerian Exchange Group (NGX) have a big impact on this and it's a positive one, both in the short and long term. So, the SEC and NGX should make it easier for manufacturing companies to raise money by making the listing process simpler, cutting the cost of public offerings and giving incentives to firms that use the capital market. This way, more companies can access the funds they need to grow and expand. By doing so, the capital market can play a bigger role in supporting the industrial sector, which is essential for the country's economic growth and development.
iii. To better support the manufacturing sector, it's crucial to refine how private-sector credit is targeted. While credit may not have a significant impact in the short term, its long-term effects can be negative. The Central Bank of Nigeria (CBN) should consider setting specific credit allocation targets for different sectors, assigning different risk weights for manufacturing loans and closely monitoring how credit is distributed across sectors. Additionally, the CBN should make sectoral credit data publicly available, allowing for the allocation hypothesis to be tested and validated. This approach will help ensure that credit is being used effectively to support the growth and development of the manufacturing sector. By doing so, the CBN can play a key role in promoting economic growth and stability.
iv. To keep the financial sector growing, it's essential to maintain policies that help more people access financial services and encourage saving. Research shows that this approach has a positive impact,

at least in the short term and also has long-term benefits, although the effects may be modest. This is important because, so far, efforts to deepen financial development haven't been enough to reverse the decline in manufacturing's share of the economy. we need to keep working on making financial services available to more people and finding ways to encourage saving, even if it's just a small step in the right direction.

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