

# The impact of Government Involvement on Financial Deepening in Nigeria

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**Abstract:** - This study investigates government involvement on financial deepening in Nigeria. Financial deepening involves the mobilization of idle funds or credit to the private sector which is expected to boost investment and the improve the economy. The study considered four different administration experienced by the forth republic in Nigeria from 1999-2017. They are namely; Chief Olusegun Obasanjo administration, Umaru Musa Yar'adua administration, Goodluck Ebele Jonathan administration and the Muhammadu Buhari admistartion. The statistical tool used in the study was the Kruskal Wallis test. The findings of the study revealed that the Muhammadu Buhari administration recorded the highest mean rank of 16.17 followed by Umaru Yaradua with mean rank of 14.17, Goodluck Ebele Jonathan with mean rank of 13.5 and Chief Olusegun Obasanjo administration with a mean rank of 5. The result obtained in table 3 found a Chi-square value of 13.94 and a p-value of 0.003 which falls on the rejection region of the hypothesis.

**Keywords:** Administration, Financial Deepening, Government, Investment

## I. INTRODUCTION

Financial deepening involves the supply of funds into the economy with the sole aim of growing more investments, motivate returns to financial recourses and increases productivity. The process of financial deepening can be referred to as a financial environment that is without repression. Financial deepening is achievable through the use of surplus funds (savings) to trusted investors who are willing to help grow the economy. Experiences on financial deepening across the world has shown that proper implementation of the process is efficient, free from repression and the feedback is usually a more improved financial sector with positive economic growth.

Many authors have identified the presence of repression in the Nigeria financial system. Ndekwe (1995) noted that the shallowness of the Nigeria financial system is attributed to the non-flexibility of interest rates, barriers on the growth of credit, credit rationing and compulsory credit allocations to preferred sectors of the economy through credit guidelines, and the control of the foreign exchange market by the Nigeria apex bank. This implies evidence that the Nigeria financial system is limited in its resource mobilization. The availability of finance and financial services contributes significantly to the productivity and growth in any economy (Ndebbio, 2004). According to Ndebbio (2004) the measure for financial deepening may comprise variables such as assets as broad

money, liabilities of non-bank financial intermediaries, treasury bills, value of shares in the stock market, and money market funds.

Economic growth has a positive relationship with the depth of supply of financial assets. What we mean is that when the supply of financial assets is low in an economy, then the financial system of that economy is expected to be shallow. On the other hand, a financial system is referred to be high in debt when the supply of assets is high in the economy. Karimo and Ogbonna (2017) suggests that policy efforts should be effected on removing obstacles that impact negatively on the growth of credit to the private sector and the need to restore investors' confidence in the stock market operations. This very important because it can be observed that government policy have significant impact on the state of the economy. This implies that a particular policy can boast/mare the confidence of investors in the economy. Hence, the present study seek to determine the impact of the various administration of the 4th republic on financial deepening in Nigeria. The study will examine the four different administration experienced by the forth republic in Nigeria, namely; Chief Olusegun Obasanjo administration, Umaru Musa Yar'adua administration, Goodluck Ebele Jonathan administration and the Muhammadu Buhari admistartion.

## II. LITERATURE REVIEW

Sindani (2013) investigated the impact of financial deepening on economic development in Kenya. The findings of the study observed that the Kenyan financial system was stable within the observed period since majority of the banking institutions adhere to the stringent regulations by the Central bank of Kenya and this played a role in reducing the percentage of commercial banks exposed to bankruptcy. It was found that financial deepening was high within the period because commercial banks were strived to leverage their operations by adoption of new technologies such as automated teller machines as against to providing services in their mortar braches.

Odhiambo (2009) opined that there has been attempts by most developing nations to attain financial flexibility by allowing the financial market to drive parameters such as interest rates, eliminate or reduce credit controls, allow free entry into the banking sector, give autonomy to commercial banks, allow

private ownership of banks and the free flow of international capital.

Cooray (2011) investigated the impact of two dimensions of the government (size and quality) on two dimensions of the financial sector (size and efficiency) in a cross section of 71 economies. The findings of the study revealed that an increase on the quality of government as measured by governance and legal origin positively affect both financial sector size and efficiency. The study considered government expenditure and the government ownership of banks as proxy to size and it was found that size has a negative effect on financial system efficiency.

Karimo and Ogbonna (2017) considered the causality between financial deepening and economic growth in Nigeria for a period of 43 years. The statistical tool employed in the study was the Toda–Yamamoto augmented Granger causality test. The findings of the study revealed that the financial deepening in Nigeria attributes to economic growth.

### III. METHODS AND MATERIAL

#### 3.1 Method of Data collection

Secondary source of data collection was adopted for this study with data obtained from Central Bank of Nigeria Statistical Bulletin for several years. The data comprises of the ratio of money supply and Gross Domestic Product (GDP) from 1999-2017.

#### 3.2 kruskal-Wallis H Test

##### The Kruskal – Wallis Analysis Test

The Kruskal-Wallis test is a nonparametric counterpart of the one way analysis of variance test. What this means is that this

approach does not assume that the data obey the parametric assumptions required for the analysis of variance test (Ijeoma and Aronu, 2013). The assumptions not assumed in this test are the normality test, test of constant variance and test of independence.

The Kruskal-Wallis test is also an extension of the Wilcoxon test for location with two independent samples from continuous populations. The null hypothesis is that the k populations are the same, but the hypothesis can be written in terms of the respective location parameters when the location model is assumed (Ijeoma and Aronu, 2013).

$H_0$  : The treatment effects are the same

$H_1$  : At least one differs

The test statistic for H is given as;

$$H = \frac{12}{N(N+1)} \sum_{i=1}^k \frac{R_i^2}{n_i} - 3(N+1) \quad (1)$$

Where  $R_i$  being the sum of the ranks from the  $i^{th}$  sample; the appropriate rejection is the large value of H.

Decision Rule: The decision rule is to reject the null hypothesis when the P-value is less or equal to the  $\alpha=0.05$ , otherwise, accept the null hypothesis.

#### 3.3 Data Presentation

Table 1: Summary of Financial Deepening Parameters and the Various Administration of the 4th Republic in Nigeria

Year	Money Supply <sup>2</sup> M2 (₦ Billion)	GDP (₦ Billion)	Financial Deepening M2/GDP	Administration
1999	628.95	5,307.36	11.9	<b>CHIEF OLUSEGUN OBASANJO</b>
2000	878.46	6,897.48	12.7	
2001	1,269.32	8,134.14	15.6	
2002	1,505.96	11,332.25	13.3	
2003	1,952.92	13,301.56	14.7	
2004	2,131.82	17,321.30	12.3	
2005	2,637.91	22,269.98	11.8	
2006	3,797.91	28,662.47	13.3	<b>UMARU YAR'ADUA</b>
2007	5,127.40	32,995.38	15.5	
2008	8,008.20	39,157.88	20.5	
2009	10,780.63	44,285.56	24.3	
2010	11,525.53	54,612.26	21.1	
2011	13,303.49	62,980.40	21.1	
2012	15,483.85	71,713.94	21.6	
2013	15,688.96	80,092.56	19.6	
2014	18,913.03	89,043.62	21.2	
2015	20,029.83	94,144.96	21.3	
2016	23,591.73	101,489.49	23.2	<b>MUHAMMADU BUHARI</b>
2017	24,140.63	113,711.63	21.2	

Source: Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics for various years

IV. DATA ANALYSIS AND RESULTS

Table 2: Rank Analysis of the Financial Deepening of the various Administration

	Administrations	N	Mean Rank
M2/GDP	CHIEF OLUSEGUN OBASANJO	9	5.00
	UMARU YAR'ADUA	3	14.17
	GOODLUCK EBELE JONATHAN	4	13.50
	MUHAMMADU BUHARI	3	16.17
	Total	19	

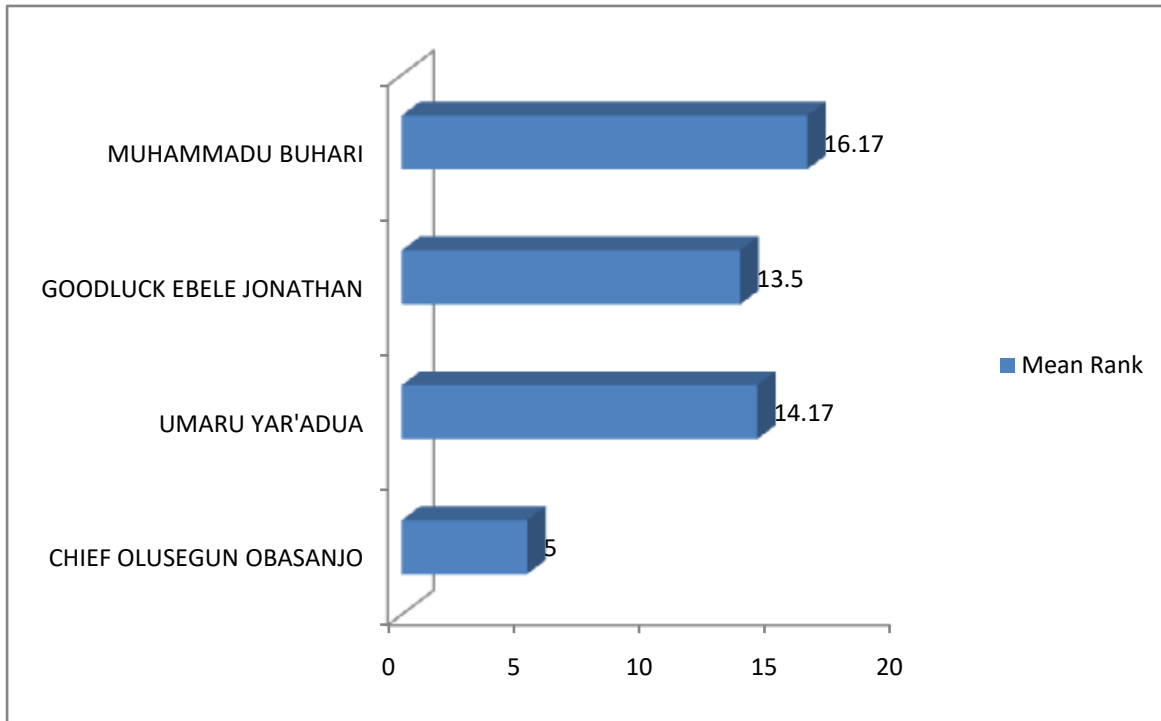


Figure 1: Bar Chart showing the mean rank of the Financial Deepening of the various Administration

The result obtained in table 2 and figure 1 showed that the Muhammadu Buhari administration recorded the highest mean rank of 16.17 followed by Umaru Yaradua with mean rank of 14.17, Goodluck Ebele Jonathan with mean rank of 13.5 and Chief Olusegun Obasanjo administration with a mean rank of 5. This result implies that Muhammadu Buhari administration recorded the highest percentage of financial deepening while the Chief Olusegun Obasanjo administration recorded the least deepening.

Table 3: Kruskal Wallis Test Statistic of Financial Deepening of the various Administration

	M2/GDP
Chi-Square	13.937
df	3
Asymp. Sig.	.003
a. Kruskal Wallis Test	
b. Grouping Variable: Administrations	

The result obtained in table 3 found a Chi-square value of 13.94 and a p-value of 0.003 which falls on the rejection region of the hypothesis. This result implies that the financial deepening in the various administration were not the same.

V. CONCLUSION

This study investigates government involvement on financial deepening in Nigeria. Financial deepening involves the mobilization of idle funds or credit to the private sector which is expected to boost investment and the improve the economy. The findings of the study revealed that the Muhammadu Buhari administration recorded the highest percentage of financial deepening while the Chief Olusegun Obasanjo administration recorded the least deepening. Also, it was found that the financial deepening in the various administration were not the same. From the findings of this study we recommend that government should be mindful of its policy because of the proven effect on volatility of the financial system of any economy. We recommend that the

need for more friendly and open financial system which can be driven by the principle of demand and supply rather than government control which will always scare investors from participating in the market.

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