

Effect Of Financial Liberalization On Economic Growth In Developing Countries: The Nigerian Experience

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Abstract :

Mckinnon-Shaw hypothesis asserts that financial liberalization is essential for economic growth. In view of this, the study critically investigates the effect of financial liberalization on the economic growth in developing nations with its assessment focusing on Nigeria. In an attempt to determine this effect, the study employs a model which proxy Gross Domestic Product as the dependent variable and the following macroeconomic variables; lending rate, exchange rate, inflation rate, financial deepening (M2/GDP) and degree of openness as its financial liberalization indices. Annual time series data on these variables were largely obtained from the Central Bank of Nigeria Statistical bulletin from 1987 to 2009. The empirical investigation is done using the Johansen Co-integration test and the Error Correction Mechanism (ECM). The results obtained from the Cointegration test reveals the existence of a long-run equilibrium relationship among the variables and cointegrating equations at 5% significance level. Also, the Error Correction Mechanism shows a very high coefficient of multiple determination (R^2) in both the Over-parameterized Model (95%) and the Parsimonious Model (91%). The study therefore concludes that financial liberalization has a growth-stimulating effect on Nigeria. It recommends that economic stability should either be maintained or pursued before implementing any form of financial liberalization measures and the regulatory and supervisory framework for the financial sector should be strengthened

Key Word :

Financial Liberalization, Economic Growth, Developing Countries, Augmented Dickey-Fuller (ADF) Unit Root Test, Co-integration test, Error Correction Mechanism (ECM).

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