Financial Deepening and Manufacturing Sector Performance in Nigeria: Evidence from Bank, Non-bank and External Financing Sources

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ABOUT

Abstract

The paper investigated the effect of financing deepening on the performance of the manufacturing sector, using a time series data from 1981 to 2019. The study employed the bounds testing co-integration approach and confirmed the existence of long-run convergence relationship between manufacturing value added and the regressors. The result of the empirical investigation confirms the finance-growth hypothesis. The bank financial deepening significantly influences the manufacturing sector performance. However, the non-bank financial deepening and external financing do not significantly influence the manufacturing sector performance in Nigeria. This evidence can be linked to the fragmentation of the shareholding structure of few leading firms and considerable number of firms operating in the market space but not listed on the stock exchange market. Also, the highly skewed FDI Inflows towards the extractive industries leave less financing options for the manufacturing sector. It is necessary to note that the manufacturing sector performance does not respond significantly to the lending interest rate – a situation not unconnected to the high cost of capital in the economy. Finally, the paper recommended the need for deliberate policies that aim to deepen the financial sector via intermittent intervention by the monetary authority and mandating compulsory financing of the

real sector by the retail commercial banks to the tune of certain proportion of their total loan creation.