Impact of financial deepening on domestic investment in Nigeria

Abstract

This study investigated the impact of financial deepening on domestic investment in Nigeria. The time scope of the study covered the period 2005-2022. The response variable was domestic investment (DI) while the treatment variables were financial deepening indicators (broad money supply, private sector credits, and stock market capitalization. For reliability and policy application, diagnostic test (unit root) was applied on the model series and they were found to be stationary but of mixed order 1(0) and 1(1). The cointegration test showed evidence of long-run relationship of the variables. The major findings of the study based on the long-run coefficients (of the autoregressive distributed lad – ARDL) estimation indicated that the treatment variables (broad money supply, private sector credit, and the stock market capitalization) were positive on the response variable (domestic investment) although the variables were not significant. However, the interest rate indicated to be negative, hence draws attention to theoretical postulation of a negative relationship between the rate of interest and investment. The policy implication of this findings impinges on government and authorities in the financial sector to develop a roadmap to further deepen the financial space to drive growth in domestic investment. Based on the findings therefore, this study recommended that the financial authorities should strategize to satisfy the demand for business investment funds by expanding the broad money supply and the private sector credits. Also, the monetary policy interest rate should be reviewed down in order to reverse its negative effect on investments.

Keywords: Financial deepening, domestic investment, autoregressive distributed lag.

1. *Introduction*

The achievement of macroeconomic goals drives government into strategic actions and mechanisms involving the adoption of financial intermediation tools. Hence, financial deepening policies are employed by government in the process of influencing economic performance including domestic investment. Factsin finance and economic literature holdthat financial intermediation strategies such asfinancial deepening operations by government through the monetary authorities is required to correct, guide and supplement the market forces in creating conducive economic environment for domestic investments to thrive (Sebastian &Kingsley, 2020). Hence, it is hard, if not impossible for any country to witness significant growth in its economy without domestic investments. This view is supported by Falade and Olagbaju (2021). In the literature of development by Olorunfemi (2019), he points out that domestic investment serves as the vehicle for the production of goods and services, the generation of employment and the enhancement of incomes.

Financial Deepening refers to an increase in the supply of financial assets in an economy. Sackey and Nkurumah(2020) described it as the process that marks improvement in quantity, quality, and efficiency of financial intermediary services. As stated byNdebbio (2021), economic growth and development of a country through the channel of domestic investment depends greatly on the level of financial deepening. According to Rahman and Mustafa (2015) financial deepening has been identified as one of those strategies whose implementation can quicken the pace, development and contributions of the financial market. Financial deepening is more concerned with the process of financial intermediation. For Nguena and Abimbola(2020), financial deepening is a multi-faceted process that involves the interaction of a number of markets (primary, secondary and retail), instruments (deposits, loans, and foreign exchange, bonds and debt securities) and stakeholders like banks, contractual savings institutions and companies. Hence, it can alsomean the process by which financial markets and institutions facilitate goods and services exchange (e.g., production, distribution, payment services), mobilize and pool savings for large number of investors, acquire and process information about the companies and the potential investment projects.Therefore, allocating private savings to the most productive uses boost domestic investments and reduce liquidity risk and accelerated aggregate economic performance of the country.

On the relationship between money supply (as a financial deepening indicator) and domestic investment performance, literature holds that an increase in the supply of money typically lowers interest rates, which in turn, generates more investment and puts more money in the hands of consumers, thereby stimulating spending. Businesses respond by ordering more raw materials and increasing production. The increased business activity raises the demand for labor.The opposite can occur if the money supply falls or when its growth rate declines. Banks lend less, businesses put off new projects, and consumer demand for home mortgages and car loans declines. Again, private sector credit is projected to trigger investment. Credit supply to the private sector helps to support investment and productive activities in the domestic economy (Colombo &Paccagnini, 2020), and it leads to an increase in economic output (Levine, 2005). In the same vein the performance of the stock market in terms of its capitalization hold a lot of implications for individual businesses. According to Catalano (2023) the stock market affects individual businesses in an economy in many different ways such as consumer spending and business operations. Typically, the stock market and economic performance are

aligned. Thus, when the stock market is performing well, it is usually a function of a growing economy. Hence, there is an inherent relationship between the financial deepening variables (money supply, private sector credit and stock market capitalization) and domestic investment

Concerns about domestic investment are hinged on the need to provide jobs and employment opportunities for the teeming labor force besides ensuring the availability of a wide variety of economic and consumer goods. This has led to expansions in policies that seek to drive up domestic investment. The government stimulates and helps domestic investment by providing growth and performance incentives for local manufacturers and other businesses classified as real sector activities. On one hand the domestic economic activities focus on efforts in the direction of investments (establishment of more firms, development of raw materials base, market expansions, as well as human resource development); in supporting the domestic investors, the government uses monetary policies couched as financial deepening indicators which are drivers of growth in domestic investment.

The Nigerian financial system has undergone a lot of changes within the last three decades starting from the 2000s when series of reforms (such as the 2004 banking sector recapitalization reforms) were introduced. Within that period, the economy was characterized by extensive regulation, poor credit programs, weak banking structure, lack of proper risk management systems, and lack of transparency in operations among other factors (Otieno, 2022). These reforms were primarily intended to open up the financial system and the general expectations were that there would be increase in savings and domestic investments in the country and thus boost the country's growth rate. According to Babatunde (2018), a developed financial system (deepened system) broadens access to funds. Conversely, in underdeveloped financial systems, access to funds is limited and people are constrained by the ability of their own funds and therefore resort to high-cost informal sources such as money lenders. Thus more emphasis directed at ensuring a deepened financial sector is necessary in order to support domestic investment and the real sector of the economy.

1.2 Statement of the problem

It is obvious that Nigeria and other developing countries, have presently been facing serious problems in generating sufficient volumes of domestic investments needed to support sustainable economic growth as many investors have had to move their investment activities to other

countries with better investment environment (Sebastian & Kingsley, 2019). The authors emphasized that despite various economic reforms undertaken by Nigeria in previous years, the country entered the year 2016 with a low GDP growth rate which was lower than the level it attained at the end of the 2015 due to harsh economic recession.

In Nigeria, low domestic credit to the private sector has remained a long standing issue. The ratio of domestic credit to the private sector to gross domestic product (GDP) in Nigeria was 12.1 percent in 2020, which is very low when compared to the 50 percent global benchmark (Ozili, Oladikpo&Iorhember, 2023). This is due to the high cost of doing business which translates to high market interest rate at 25 per cent in 2021 coupled with the unwillingness of formal lenders to lend to high-risk businesses and the central bank's on-lending to various sectors of the economy through financial institutions. Such on-lending crowds out private sector lending and further worsen the share of domestic credit to the private sector relative to GDP and down the channel domestic investment is negatively impacted.

Again, over the past few decades, financial deepening and domesticinvestment has attracted significant attention from finance and development experts and has been debated extensively (Echekwoba&Ubesie, 2018). Different views on the finance-investment nexus have been raised. This debate can be characterized into two main theoretical propositions: the supply-leading hypothesis (Neusser& Kugler, 1998) and demand- leading hypothesis (Patrick, 1966). Supply leading hypothesis suggest that financial deepening trigger investments. The hypothesis contends that the deepening of financial system can create and expand liquidity, mobilize savings and promote the growth of an economy by driving up investment. However, empirical evidence seems to be divergent on the impact of financial deepening on investment.

Methodologically, most of them employ single equation framework which is inadequate in analyzing the long-term inter-temporal relationship between financial deepening and domestic investment, thus making it difficult to capture the composite effect of financial intermediation on the economic units (investment sector). From the above problems and knowledge gap, this study wants examine the impact of financial deepening on the domestic investment in the Nigeria economy. The broad objective of this study is to empirically investigate the impact of financial deepening on domestic investment in Nigeria, specifically the study sought to:

1. To investigate the impact of private sector credits on domestic investment in Nigeria.
2. To determine the impact of broad money supply on domestic investment in Nigeria
3. To examine the impact of stock market capitalization on domestic investment in Nigeria
4. To ascertain the impact of monetary policy interest rate on domestic investment in Nigeria.

2. Review of Related Literature

2.1.1 Review of Conceptual Literature

The figure below is the conceptual framework that will guide this study

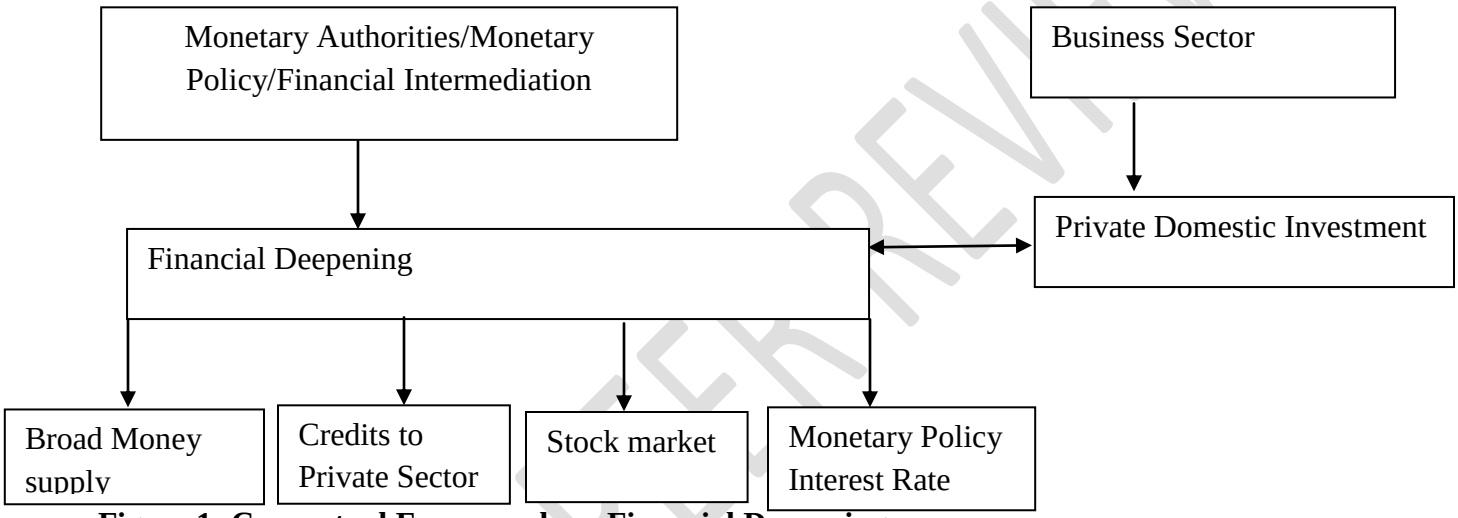

Figure 1: Conceptual Framework on Financial Deepening

The figure 1 above describes the relationship between the monetary authorities/financial institutions and the business sector. It further shows the channel through which financial deepening impacts domestic investment. The monetary authorities create policies (using money supply and the interest rate) that enable the financial institutions to create credits for business investments within the economy. The monetary policy also works to enhance the functioning and performance of the stock market to connect the savings sector with the investment sector. It is from this working relationship that financial deepening is derived.

Financial Deepening

The World Bank (2018) defines financial deepening as an increase in the stock of asset. Shaw (1973) also contributed that it is a process involving specialization in financial functions and institutions through which organized domestic institution and markets relate to foreign markets.

He stressed that an increase in the real size of the monetary system will generate opportunity for the profitable operation of other institutions as well via bill dealers to industrial banks and insurance companies. In the view of Nnanna and Dogo (1998), financial deepening often refers to a state of an atomized financial system, meaning a financial system that is largely free from financial repression. Hence, it can be stated that financial deepening is the depth to which financial sector has penetrated the economy such that it leads to increase in aggregate economic output of a country. The variables which explain financial deepening include broad money supply, credit to private sector, stock market development (in terms of size of capitalization) and monetary policy (through the interest rate).

Financial deepening can also be understood as a process by which the range of financial products and players widens, deadlines extend and services play a role in risk coverage and diversification for greater domestic investment performance. As argued by Otieno (2022), a developed financial system broadens access to funds, whereas in the financial system of developing economies like Nigeria, access to funds is limited and people (and their investment decisions) are constrained by the inadequacy of their own funds and have to resort to high-cost informal sources such as money lenders. These result to retardation in domestic investment and the overall aggregate economic performance. The components of financial deepening include the volume of broad money supply, the size of credits to the private sector, and the annual value of stock market capitalization. According to CBN (2022) the financial deepening indicators are the ratio of the money supply to the gross domestic product and the ratio of private sector credits to the gross domestic product. Hence, in determining the financial deepening statistics these ratios are computed using the broad money supply and the credit to private sector as critical deepening variables.

Broad Money Supply

Money Supply is defined as the depth of the financial market relative to the overall economy. Increases in this ratio indicate further expansion in the financial sector relative to the rest of the economy (Onwumere & Oge 2012). Money supply is often viewed from two perspectives: narrow and broad money. Narrow money (M1) includes currency in circulation in addition to current account deposits with commercial banks. Broad money (M2) measures the total volume of money supply in the economy and is made up of M1 and savings and time deposits with banks

including foreign denominated deposits. Once the amount of money in circulation is higher than the level of total output of the economy, it is seen as excess money supply which can lead to inflation or higher prices of goods. When CBN changes the level of money supply, it does so through the control of the base money made up of currency and coins outside the banking system and deposits of banks with the CBN. In essence, the Bank regulates money supply based on the knowledge that there is a stable relationship between the quantity of money supply and economic activity.

Private Sector Credits and Stock Market Capitalization

Private sector credit is defined as the extent to which financial services are provided to the private sector. It is a measure of financial development. It is credit issued by financial institutions to the non-financial private sector as a share of GDP (Rahman & Mustafa 2015). Stock market capitalization refers tothe value of listed shares divided by GDP. The assumption behind this measure is that overall market size is positively correlated with the ability to mobilize capital and diversify risk on an economy-wide basis.It can also be indicated as the total worth of securities of quoted companies in the Nigerian capital market. Yasmin and Yusuf (2009) in their own contribution defined market capitalization as "A measurement of corporate size". It can also be referred to as the value of a company, reflecting the number of outstanding stocks multiplied by the number of current stock price. The number of outstanding stocks in the other hand can as well be described as the stocks currently held by investors including restricted ones which are owned by the companies sponsors/subscribers to the memorandum. More so, it is the total amount of funds used in financing a firm's balance sheet and it is calculated in value of units of shares which is one of the financial development indicators. The Nigerian economy has on-going growth of development vis-a-vis the Nigerian Stock Market, which came to its peak at the period of recapitalization of the banking industry in 2004 (Soludo's Central Bank of Nigerian (CBN) led administration). The recapitalization reform floated the stock market with billions of banking stocks, and the market for the first time heats its peak with over thirteen trillion naira (₦13.09) as stock market capitalization.

2.2 Theoretical Framework

In this study, the theoretical framework is anchored on the Feedback Theory propagated by Schumpeter in 1912.

The Feedback Theory

The feedback theory was developed by Schumpeter in 1912. The theory suggests a two-way causal relationship between financial development and economic performance. It is asserted in this theory that that a country with a well-developed financial system could promote high economic expansion through investments, technological changes, product and services innovation (Schumpeter, 1912). This in turn, will create high demand on the financial arrangements (financial credits) and services which are channeled towards the investment sector for additional value creation in products and services (Levine, 1997). The basic assumptions are that:

1. The banking institutions effectively respond to demands by providing necessary financial services and products which stimulate growth in demand
2. The financial intermediation (through credit creation) is channeled towards the productive sectors of the economic (Business investments)
3. The presence of a functioning capital market
4. The growth in demandwill stimulate a higher economic performance.

Therefore, both financial development and domestic investments are positively interdependent and their relationship could lead to feedback causality. This view is supported strongly by the work of Luintel and Khan (1999), among others.

This theory is relevant to the present study as its application will aid the empirical evidence of the relationship between financial system development (financial deepening) and domestic investment. The theory will particularly provide a guide to the model for determining the impact of financial deepening on domestic investment and help in testing the hypothesis. With this theory also, the researcher will be able to determine the magnitude and sign direction of the impact of the model variables.

2.3 Empirical Review

Ezeoha, Ogamba and Onyiuke (2022) examined the nature of the relationship existing between stock market development and the level of investment flows in a country with a high degree of macroeconomic instability; and whether the stock market plays a uniform role in attracting both domestic and foreign investments in such economic situation. Extrapolated macroeconomic

quarterly data (over a period from 1980 to 2021) were used in the analysis. The Johansen Cointegration model was adopted to examine the long-run trends in the variables. While controlling for other variables, a vector error correction model (VERCM) was used in estimating the relationship between investment growth, on one hand, and stock market development on the other. The study found that development in the Nigerian stock market over the years was able to spur growth in domestic private investment flows, but unable to do so in the case of foreign private investment. The study also found that development in the country's banking system rather had some destabilizing effect on the flow of private investments. The researchers attributed this to persistent cases of distress and failure in the banking system.

Akpan (2022) examined the extent of relationship between stock market capitalization and performance on the Nigerian economy. Problems identified include the difficulty experienced in raising needed capital to finance key sectors of the Nigerian economy; the stock market is shallow in addition to low activities etc. The objectives included primarily to determine the extent of relationship between stock market capitalization and performance on the Nigerian economy, to access the effect of stock market capitalization and make policy recommendations. Data was collected from secondary sources and was analyzed using multiple regression statistics. From the findings, results showed that there is a strong relationship between stock market capitalization and performance on the Nigerian economy with 91 percent (91%) degree of relationship. The study concluded that trading in the stock market by private sector with protected legal frameworks expands the economy for high growth. It was recommended among others, that the Federal Government of Nigeria should set up a stimulus account to boost the stock market and to enforce Degree No. 45 of 1999 for the establishment of the Commodity Exchange Market

Madubuike, Metu and Kalu (2021) examined the impact of private sector credit on domestic investment in Nigeria from the period of 1985 to 2020, using both the Ordinary Least Square, the Granger causality test and the vector error correction model approaches on the variables of credit to the private sector, domestic investment, aggregate saving, exchange rate and inflation as both explanatory and control variables to this study. The results show among others that exchange rate, inflation and foreign direct investment had a negative relationship with domestic investment, while domestic credit, GDP growth rate, broad money supply, aggregate saving and

total government revenue had a positive relationship with domestic investment. The policy implications of these results were extensively discussed in line with the objectives of this study. From the empirical findings, the study therefore recommended inter-alia the urgency of the government to improve on the structural reforms and in particular the banking sector reforms as well as to improve on the stability of the macroeconomic variables for sustainable domestic investment.

Sani (2021) examined the impact of the financial deepening on the investment growth of Nigeria. The study adopted *ex post facto*research design and employed the ordinary least squares (OLS) to analyze the time series data on money supply, private sector credits and interest rate. It was found from the review that money supply and credit to private sector were not significant determinants of investment growth. The study also found that interest rate was positive on investment. This result may be assessed to differ from theoretical expectation of inverse relationship between interest rate and investment. The findings may have emerged due to the analytical method applied (OLS), to enhance the reliability of findings it is imperative to apply advanced econometric methods such as the vector error correction to studies with macroeconomic outlook such as financial deepening and investment.

The justification for this study is based on the gaps identified in the various literatures reviewed. The gaps are grouped as follows. The various literature reviewed suggest that studies on the subject of financial deepening and domestic investment is relatively scanty. Most studies on this subject focused on the relationship between money supply and economic growth, but this study is rather interested in the relationship and effect of financial deepening measures (private sector credits, stock market capitalization, money supply, interest rate) and domestic investment.In Nigeria and to the knowledge of the researcher, prior studies conceptualizing financial deepening and its relationship with domestic investment is evidently scanty. Studying financial deepening for Nigeria is imperative owing to the growing demand for business investment funds. Hence this study focuses on investigating whether financial deepening indicators (credits to private sector, volume of money supply, stock market capitalization and the monetary policy interest rate) could impact significantly explain the performance of domestic investment.

In all of the empirical studies reviewed, none of the studies included comprehensively modeled financial deepening variables with domestic investment (the models were rather selective, modeling the variables separately in separate studies), hence it cannot yet be satisfactorily proved whether financial deepening influence domestic investments with the determinant variables in isolation of each other or in joint interaction. This is one of the justifications for this study. Again, the financial intermediation follows the prevalent monetary policy rate; hence any study on financial deepening must necessarily include the monetary policy interest rate as an explanatory variable. However, none of the empirical models as reviewed included the monetary policy interest rate as either key or control variables in joint interaction model. This study closes this gap by incorporating stock market capitalization, monetary policy interest rate, money supply and credits to private sector as regressors.

3. Data, Model and Analytical Technique

The data used in the analysis were sourced from the CBN statistical bulletin (2022), the NBS, Federal Inland Revenue Service (FIRS) annual reports for various years, Nigeria Extractive Industry Transparency Initiative (NEITI) annual reports. The unit measurements of the variables are as follows:

Table 1: Unit measurement of model variables

Variable	**Unitof Measurement**	**Sources of Data**
Domestic Investment (DInv)	Annual value of private sector investment spending, measured in naira (₦)	CBN Statistical Bulletin National Bureau of Statistics (NBS), NGX.
Credits to Private Sector (CPS)	Total annual value of credits and advances to the private sector; measured in (₦)	CBN Statistical bulletin and annual reports for various years,
Broad Money Supply (BMS)	Total annual value of money circulating within the economy; measured in (₦)	CBN Statistical bulletin and annual reports for various years, .
Stock Market Capitalization (SMC)	Total monetary value of annual capitalization of the stock market measured in naira (₦)	CBN Statistical Bulletin National Bureau of Statistics (NBS), Stock Exchange Group

Source: Researchers' Compilation 2023

Model Specification

The empirical model for this study specified domestic investment as a function of financial deepening(using the variables broad money supply, credit advances to private sector, stock market capitalization, and monetary policy interest rate).

Functionally, the model is specified below:

DInv = (CPS, BMS, SMC, INTR) … Eq. 1

Where:DInv = domestic investment; CPS = credits to the private sector; BMS = volume of money supply in the economy; SMC = stock market capitalization; and INTR = interest rate

The linearized (econometric) model is specified thus

$DInv_t = \beta 0 + \beta 1 CPS_t + \beta 2 BMS_t + \beta 3 SMC_t + \beta 3 INTR_t + Ut$ … Eq. 2

The analytical method adopted for this study is the vector error correction model (VECM). Hence, the error correction differenced equation transformation of the model is:

$$\mathbf{\Delta DInv_t = \alpha_0 + \alpha CPSt_{-1} + \alpha_2 BMSt_{-1} + \alpha_3 SMCt_{-1} + \alpha_3 INTRt_{-1} \sum \alpha \Delta y_t + \mu_1 + e_t} \ \ldots \text{Eq 3}$$

Where **Y** is a time series, **t** is a linear trend, **Δ** is the first difference operator, α_0 is a constant, **n** is the optimum number of lags in the dependent variable and **e** is the random error term. The apriori expectations of the model based on the feedback theory is that $\beta 1 - \beta 3 > 0$, while $\beta 4 < 0$.

4.0 Results

4.1 Unit Root Diagnostic Test

Stability of model series is imperative for reliable application to forecasting, decision making and policy. The study performed the unit root diagnostic test to check for stationarity and stability of the model variables. This was done using the Augmented Dickey Fuller approach to unit root. The test was applied on the series at levels under deterministic and trend specification. The table 1 below is a summary of the series tests.

Table 2: Summary result of unit root test

ADF Test @ level				ADF Test @ 1st difference		
Series	ADF-statistic	p-value	order	ADF-statistic	p-value	order
BMS	4.711228	0.0012	1(0)	-	-	-
PSC	6.00095	0.0000	1(0)	-	-	-
SM	-0.967804	0.9220	-	-3.994049	0.0052	1(1)
INTR	-2.264861	0.3819	-	-4.348973	0.0174	1(1)
DI	-0.685755	0.9572	-	-4.295125	0.0191	1(1)

Source: Authors' computation 2023 (Using E-views)

As indicated, the results show that the broad money supply 9BMS) and the private sector credit (PSC) variables were stationary at level, hence, the order of integration was 1(0) and differencing was not applied. However, the stock market capitalization (SMC), interest rate (INTR) and the domestic investment (DI) variables were not stationary at level. Differencing was applied at first order and the series became stationary 1(1) order of integration. The stationarity was concluded using the p-value of the ADF test statistics. Summarily, there model varaiables showed mixed integration of order 1(0) and 1(1).

4.2 Test of Long-run Relationship

Long-run relationship bears significant implications for economy-wide macroeconomic indicators such as the financial deepening variables. The policy application of macroeconomic indicators arelongterm and forward looking, hence it is required that modeling for macroeconomic outlook must envisage long-run effects of treatment series and the response series. The study performed the cointegartion test of long-run relationship using the bounds approach. This approach was consequent upon the mixed integration of the series at order 1(0) and 1(1). Table 3 below is the cointegration test result.

Table 3: Bounds test of longrun relationship

ARDL Bounds Test
Date: 12/17/23 Time: 10:48
Sample: 2006 2022
Included observations: 17
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K

F-statistic	4.514353	4

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: Authors' computation (Using E-views)

If the computed F-statistic falls below the lower bound we would conclude that the variables are I(0), so no cointegration is possible, by definition. If the F-statistic exceeds the upper bound, we conclude that we have cointegration. Finally, if the F-statistic falls between the bounds, the test is inconclusive. The F-statistic value 4.514353 is evidently greater than the I(1) (1) critical value bound. This therefore indicates that we should reject the t-Bounds test null hypothesis, and conclude the presence of long-run cointegrating relationship.

4.3 ARDL Long-run Coefficient

This study investigated the effect of financial deepening on domestic investment in Nigeria. The study extracted the estimated coefficients of the series using the long run estimates of the autoregressive distributed lag regression technique. Table 4 below is the ARDL long-run coefficients of the model variables.

Table 4: ARDL long-run coefficients

R-squared	0.945391
Adjusted R-squared	0.920569
F-statistic	38.08634
Prob(F-statistic)	0.000001

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BMS	4064643.132154	32150648.121273	0.126425	0.9017
PSC	5917345.061092	42306645.290022	-0.139868	0.8913
SMC	1655.210325	6656.814351	0.248649	0.8082
INTR	5836856.114867	39430161.093726	0.148030	0.8850

Source: Authors' computation (using E-views)

The autoregressive distributed lag result showed the adjusted coefficient of determination (R^2) of 0.920569, an indication that over 92% of variations in the domestic investment is explainable by variations in the financial deepening indicators (broad money supply, private sector credit, stock market capitalization and the interest rate). The f-stat value [38.08634, p-value 0.0000]. Further indicate that the overall regression is statistically significant, and the joint influence of the treatment variables (BMS, SMC, PSC, and INTR) on the response variable (domestic investment).

4.4 Summary of Findings, Conclusion and Recommendation

The focus of this study was on the impact of financial deepening on domestic investment in Nigeria. The time scope of the study covered the period 2005-2022. The significance of the study rested on the need to generate expanded modeling and domestic empirical evidence on the working relationship between financial deepening indicators (broad money supply, private sector credit, stock market capitalization, and the prevailing monetary policy interest rate) and the performance of the domestic investment. For reliability and policy application, diagnostic test (unit root) was applied on the model series and they were found to be stationary but of mixed order 1(0) and 1(1). The cointegration test showed evidence of long-run relationship of the variables. The major findings of the study based on the long-run coefficients (of the autoregressive distributed lad – ARDL) estimation indicated that the treatment variables (broad money supply, private sector credit, and the stock market capitalization) were positive on the response variable (domestic investment) although the variables were not significant. However, the interest rate indicated to be negative, hence draws attention to theoretical postulation of a negative relationship between the rate of interest and investment. The empirical evidence on the positive impact of broad money supply, private sector credit and stock market capitalization on domestic investment concurs with Ezeoha, Ogamba and Onyiuke (2022); Akpan (2022) and Madubuike, Metu and Kalu (2021). However, while these studies showed significant coefficient of the treatment variables, the present study has shown that the financial deepening indicators have had no significant impact on domestic investment, a consequent confirmation that policy

actions on deepening the financial sector has yet to produce the desired effect to spur rapid growth in domestic investment. The policy implication of this findings impinges on government and authorities in the financial sector to develop a roadmap to further deepen the financial space to drive growth in domestic investment. Based on the findings therefore, this study recommended that the financial authorities should strategize to satisfy the demand for business investment funds by expanding the broad money supply and the private sector credits. Also, the monetary policy interest rate should be reviewed down in order to reverse its negative effect on investments.

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