FINANCIAL INCLUSION AND FINANCIAL STABILITY IN NIGERIA: A NEW EMPIRICAL EVIDENCE

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ABSTRACT

The study estimated the impact of financial inclusion on financial stability of Nigeria over the period of 1982-2019. Adopting the Classical Regression Model, the findings reveal that financial inclusion impacts positively on financial stability. Deposits of rural branches of commercial banks reflected a positive relationship with financial stability, while investment also had a significant positive relationship with financial stability. The study recommended that policies should be directed towards creating more investment opportunities and inclusive financial system to improve the current level of financial inclusion, so as to achieve better financial stability in Nigeria.

Keywords: financial inclusion; financial stability; investment, deposits

JEL Classification: G21; G28; O16

1. INTRODUCTION

The fundamental argument that supports the link among financial inclusion, financial development, stability and economic growth is that a well-developed financial system performs several critical functions to enhance the efficiency of intermediation by reducing information, transaction, and monitoring costs. A well-developed financial system enhances investment, financial development and stability by identifying and funding good business opportunities, mobilizes savings, enables trading, hedges and diversifies risks, and facilitates the exchange of goods and services. These functions result in a more efficient allocation of resources, rapid accumulation of physical and human capital, and faster technological progress, which in turn results in financial development, stability and economic growth. Thus, there is an extensive literature on the link between financial development and economic growth. Well-functioning financial systems serve a vital purpose by offering savings, payment, credit, and risk management services to individuals and firms. The proportion of individuals and firms that use or have access to financial services can be referred to as the financially included (IMF Global Financial Development Report, 2014).

Considerable evidences abound that indicate that the poor benefit enormously from access to basic financial services such as payments, savings, and insurance services. However, while financial inclusion has important benefits, boosting financial inclusion is not trivial. If care is not taken, efforts to promote financial inclusion can lead to defaults and other negative effects. Griffith-Jones and Karwowski (2013) demonstrate that fast credit growth could exacerbate vulnerabilities and enhance the risk of financial crises. More recently, the global financial crisis of 2008-2009 has heightened public awareness on the need for supervision and regulations of individual banks.

A number of adults in developing countries, for example Nigeria, lack access to formal financial services. Although, there are many things that are required to reduce the number across the nation, the principle of financial inclusion has assumed greater level of importance in recent times due to its perceived importance as a driver of financial stability and development, and economic growth. Giving access to the hundreds of millions of men and women (all over the nation) who are presently excluded from financial services would provide the possibilities for the creation of a large depository of savings, investible funds, investment and therefore national wealth generation.

Financial exclusion has manifested prominently in Nigeria with the bulk of the money in the economy staying outside the banking system. The issue of financial exclusion has therefore been a major economic challenge on both the economic growth and the financial system development