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FINANCIAL GLOBALIZATION AND FINANCIAL SECTOR DEVELOPMENT IN NIGERIA

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ABSTRACT

Financial globalization requires serious consideration in an effort to stimulate financial development of any economy. Despite the governmental measures to improve financial globalization, the sector still experiences low level of development in Nigeria. This study investigated the impact of financial globalization on financial sector development in Nigeria. Ex-post facto design was employed and annual data were obtained from the World Bank's Development Indicators and Global Financial Development Database from 1981 to 2023. Autoregressive distributed lag (ARDL) method was used for data analysis. Financial globalization index was found to have had positive effect on money market development both in the short-run (β=0.153; p<0.01) and long run(β=0.349;p<0.01). A positive effect was also reported for capital market development, but only in the long run (β=6.217; p<0.01). The study concluded that financial globalization levels are low in Nigeria and there has been little improvement in its levels over the period. The study recommended that the Nigerian authority should direct policy attention to promoting increased globalization of the financial sector through further deregulation of its activities and removal of restrictions on actors in this sector.

Introduction

Over the past few decades, there has been an increasing trend of financial globalization. It is anticipated that the upward trend will raise the degree of financial sector development. This is due to the assumption that a country with a high degree of financial globalization is likely to have a sophisticated financial system. The increased level of sophistication is expected to translate into increased economic activities (Nasreen & Mahalik, 2020). This, however, is not usually the case for developing economies like Nigeria. For instance, looking at the money market development in Sub-Saharan Africa, evidence has shown that Nigeria had 12.13 percent of its GDP as credit to the private sector. The private credit-to-GDP ratio is quite low in comparison with the Sub-Saharan African average. According to the World Bank (2020), the Sub-Saharan African average was above 17 percent, which is higher than the 12.13 percent reported by Nigeria. The low percentage of private sector credit to GDP is an indication of a relatively low level of development of Nigeria's money market. This gap highlights the structural weaknesses within Nigeria's financial institutions and regulatory frameworks. Therefore,

strengthening credit accessibility and improving financial inclusion remain critical to enhancing the country's overall financial development.

Regarding the capital market development, Nigeria's market capitalization of listed firms accounted for 13.09 percent of its GDP, which was also less than the average for Sub-Saharan Africa (World Bank, 2020). Additionally, this figure is far lower than what is typically available in other parts of the world. For example, European Union countries had an average market capitalization rate of about 51.6%. The rate is far higher than what is obtainable in any of the Sub-Sahara Africa, particularly, Nigeria. The below-average market capitalization shows that Nigeria's capital market is likewise underdeveloped.

It is obvious from the above that Nigeria still has underdeveloped financial sector. The continued underdevelopment could be partly attributed to economic uncertainty that was brought by the most recent global financial crisis and economic disaster. This is because many developing nations, including Nigeria, saw a decline in foreign capital inflows following the menace (Fetai, 2015). The crisis has exposed the entire financial system and questioned the efficacy of financial liberation theory in enhancing financial development via globalization. In fact, the entire economy, has thus come under close examination since Nigeria's comparatively low degree of financial globalization may have contributed to the country's declining financial development patterns. The Nigerian government has already implemented a number of initiatives to significantly advance the financial sector. However, it is uncertain if the government's initiatives to strengthen the financial sector have been successful in resolving problems related to financial globalization. In light of this, the study examined how Nigeria's financial development has been impacted by financial globalization.

Financial globalization has been studied by researchers such as Asongu, Koomson, and Tchamyou (2017), Auerbach and Siddiki (2004), Broner and Ventura (2010), and Trovar-Garcia (2012). However, they have only looked at capital flows. The metric falls short in capturing the globalization of a nation's financial sector since it ignores other globalization indicators, such as the effectiveness of policies to promote more trade openness, capital openness, and the unrestricted flow of international trade (Nasreen & Mahalik, 2020). As a result, this study considered the measures using the World Bank's financial globalization index.

Literature review

This study clarified the concepts of financial sector development and financial globalization as relevant to the research. It also reviewed the theory of financial liberalization, which provided the theoretical foundation for the study.

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Additionally, empirical studies from previous researchers were examined to identify existing gaps and strengthen the analytical framework of this research.

Financial Globalization

Auerbach and Siddiki (2004) define financial globalization as the process of removing barriers in less developed financial sectors to align them with those of developed ones. It could also be regarded as a cross-border flow of financial services in a manner that improve global economic and financial cooperations (Prasad, Rogoff, Wei & Kose, 2003). Since the financial sector is responsible for majority of liquid flow and the creation of money, it is essential to every economy. The concept may also refer to convergence all monetary policies employed by the monetary authorities of different countries, as well as foreign exchange markets rules and operations (Omojolaibi, Mesagan & Stanley, 2016).

Developing countries' adoption of financial globalization will significantly boost output and the flow of capital needed for change. Broner and Ventura (2010) also suggest that financial globalization leads to a variety of outcomes, depending on a number of variables, including the sound, quality institutions, regulatory efficiency, improved productivity, and increased domestic savings. Regarding the advantages of financial globalization for emerging nations, Mekuanent (2022) noted that these advancements might benefit developing economies directly as well as indirectly. One of its primary benefits for these countries is the chance it provides for the advancement of their financial systems. However, many developing countries are still grappling with a number of policy issues regarding financial integration, primarily because globalization is still evolving in their respective financial systems.

Financial development

Financial sector includes formal, and informal institutions that offer financial services to consumers, enterprises, as well as other financial institutions in an economy (Olawale, 2018). According to Muye and Muye (2017), financial development is the gradual improvement in the delivery of financial services in such a way that financial system is enhanced. Improvements are also needed in the composition and size of financial assets and liabilities of financial institutions. Financial development is equally essential to enhance the concentration and diversity of financial instruments across the entire financial sector. It occurs when financial intermediaries and markets mobilize substantial capital, facilitate high transaction volumes, and create financial assets that promote efficient risk-sharing (Kolawole, Ijaiya, Sanni & Aina, 2019). The Nigerian financial sector is vital to the nation’s economy, serving as a key driver of economic growth and development (Chekwube, Madichie, Ekesiobi & Asongu, 2022; Dimnwobi et al., 2022). It

facilitates capital formation, supports investment activities, and enhances the efficiency of resource allocation across industries.

Financial Liberalization Theory

McKinnon (1973) and Shaw (1973) proposed financial liberalization theory which holds that financial liberalization is necessary for the financial sector to thrive and lead to economic growth. According to the theory, positive real interest rate tends boost domestic savings, which would in turn raise the quantity of investible funds in the economy. Financial liberalization encourages cross-border investments and promotes markets development. The only barrier to growth induced financial globalization through liberalization is the existence financial repression in forms of strict regulations and administrative supervisions (McKinnon, 1973; Shaw, 1973). Government usually places limitations, restrictions on the operations of financial sector through various instruments of monetary and fiscal policies, to ensure economic stability and boost public revenue. The resultant financial repression may hinder the development of the financial sector (Creane, Goyal, Moborak & Sab, 2004). This is due generally, to the market instability and reduced allocative efficiency resulting from financial repression (Andersen & Tarp, 2003). A liberalized financial sector is attained in a situation all restrictions to efficient financial transactions, contracts and activities are removed by the government; and cross-border flow of capital is allowed. Another feature of a liberalized financial system or sector is that prices of financial services are determined largely by forces and interaction of demand and supply (Saidi, 2018).

The works of Bayar and Gavriletea (2018), Coulibaly (2015), and Saidi (2018) serve as empirical evidences for the financial liberalization theory. It has been reported by the past studies that financial globalization, which takes the shape of financial sector liberalization, positively correlated with economic growth. Some other empirical researches have been documented on the determinants of financial development generally, and specifically on the impact of financial globalization on financial development. Studies which provided such empirical evidences were reviewed. While some studies found positive effect of financial globalization on financial development, the reports from others were negative.

Several studies have demonstrated that financial globalization positively influences financial development. For instance, Andreasena and Valenzuela (2016), Basco (2014), Law, Azman-Saini, and Ibrahim (2013), as well as Nasreen and Pervez (2017), support the view that globalization fosters financial development and contributes to overall economic growth. The benefits include transfer of technological advancement and development from developed economies to domestic economy. However, Asongu, Koomson and Tchamyou (2017), and Mnif

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(2016), reported negative influence of financial globalization on financial sector development. Findings of the studies were predicated on the claim that, rather than benefiting from the developed economy's growth through financial globalization, domestic economy's financial sector, ultimately inherits the developed economies' instability and volatility. Mixed opinion was expressed by other past researchers like Batuo, Mlambo and Asongu (2018), in which some measures showed a positive relationship between financial globalization and financial development while others revealed a negative relationship.

Research Method

Ex-post facto research design was used in this study. The reason for this is that, the data was already as at the time of the research and the researcher had no influence over the behavior of the data. Global Financial Development Database (GFDD) and the World Development Indicators (WDI) were the secondary sources of data for the study. Autoregressive Distributed Lag (ARDL) model was used to estimate the model and achieve the objectives of the study. The model was specified as follows.

Model 1:

$$MDEV_t = \beta_0 + \beta_1 \sum_{i=1}^{k} MDEV_{t-i} + \beta_2 \sum_{i=0}^{j} FG_{t-i} + \beta_3 \sum_{i=0}^{j} INST_{t-i} + \beta_4 \sum_{i=0}^{j} EG_{t-i} +$$

$$\beta_5 \sum_{i=0}^{j} TOP_{t-i} + \beta_6 \sum_{i=0}^{j} INF_{t-i} + \beta_7 \sum_{i=0}^{j} POPg_{t-i} + \epsilon_t$$

Model 2:

$$CDEV_t = \beta_0 + \beta_1 \sum_{i=1}^{k} CDEV_{t-i} + \beta_2 \sum_{i=0}^{j} FG_{t-i} + \beta_3 \sum_{i=0}^{j} INST_{t-i} + \beta_4 \sum_{i=0}^{j} EG_{t-i} +$$
$$\beta_5 \sum_{i=0}^{j} TOP_{t-i} + \beta_6 \sum_{i=0}^{j} INF_{t-i} + \beta_7 \sum_{i=0}^{j} POPg_{t-i} + \epsilon_t$$

MDEV is money market development
CDEV is capital market development
FG is financial globalization
INST is institutional quality
EG is economic growth
TOP is trade openness
INF is inflation rate
POPg is population growth
ϵ is Error term

Table 1 presents the description and measurement of variables used in this study. Each variable is defined along with its corresponding acronym, measurement indicator, and data source. The variables were primarily obtained from reputable international databases to ensure accuracy and reliability of the analysis.

Table 1: Measurement of Variables

S/N	Variables	Acronym	Measure	Source
1.	Money Market Development	MDEV	Private Credit to GDP ratio.	World Development Indicators (WDI)
2.	Capital Market Development	CDEV	Market capitalization to GDP ratio.	World Development Indicators (WDI)
3.	Financial Globalization	FG	Index of globalization variables	Global Financial Development Database (GFDD)
4.	Economic Growth	EG	Percentage in the Real GDP	World Development Indicators (WDI)
5.	Institutional Quality	INST	regulatory quality index	World Governance Indicators (WGI)
6.	Trade Openness	TOP	Annual share of Exports and imports in GDP.	World Development Indicators (WDI)
7.	Inflation Rate	INF	Annual growth of consumer price index (CPI).	World Development Indicators (WDI)
8.	Population Growth	POPg	Annua growth rate of population.	World Development Indicators (WDI)

Source: Author's compilation (2025)

Result and Discussion

The results presented in Table 2 provide an overview of the descriptive statistics for all variables included in the study. These statistics offer valuable insights into the general characteristics, distribution, and variability of the dataset over the study period. By analyzing parameters such as the mean, maximum, minimum, and standard deviation, the study establishes a foundational understanding of the behavior and trends of each variable prior to further econometric analysis. The findings indicate a mean value of 11.33, standard deviation of 3.51, minimum value of 3.96, and maximum value of 29.63 for money market development (MDEV). MDEV was measured as ratio of private sector credit to GDP. According to Table 2, average amount of private sector credit recorded in the country, over the study period was 9.33% of GDP. Standard deviation was 3.51% of GDP from this average behavior. The maximum value reported for the periods under study for credit to the private sector was 19.63% of GDP, while the minimum recorded value of credit was 4.96% of GDP. In comparison to the average credit to private sector of 44.04 percent of GDP recorded for Sub-Saharan Africa, this indicates that the money market section of the financial industry contributes very little to Nigeria's GDP (WDI, 2020).

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The percentage of market capitalization to GDP which was used to proxy capital market development (CDEV) has a mean of 7.61, a standard deviation of 1.73, a minimum of 3.49, and a high of 19.80. This shows that the average market capitalization of listed companies in the country throughout the study period was 7.61 percent of GDP, with a standard deviation of 5.73 percent of GDP. In the period under review, the market capitalization of listed companies was at its lowest point at 3.49 percent of GDP and at its greatest point at 19.80 percent of GDP. Additionally, compared to the average market capitalization of 127.5 percent of GDP recorded for Sub-Saharan Africa (World Bank's Development Indicators, 2020), this indicates that Nigeria's capital market section of the financial sector contributes very little to GDP.

Table 2: Descriptive Statistics

Variable	Mean	Maxi.	Min.	Std. Dev.
MDEV	11.331	29.62	3.957	3.510
CDEV	7.61	19.80	3.488	1.727
FG	0.013	0.067	0.000	0.001
INST	17.42	37.04	5.342	2.001
EG	3.152	15.32	-13.12	5.333
TOP	32.73	53.27	9.135	12.35
INF	18.73	72.84	5.388	16.73
POPG	2.587	2.849	2.488	0.077

Source: Author's Computation (2025).

In terms of the globalization index, financial globalization (FG) has mean of 0.013, standard deviation of 0.001, minimum of 0.000, and maximum of 0.067. This shows that the country's average globalization index over the study period was 0.013%, with a deviation of 0.001%. An outflow of 0.000% was the lowest globalization index at that time, while 0.067% was the highest financial globalization index. The result suggests that financial globalization was not widely observed in the country during the period under investigation.

Institutional quality (INST) was measured by regulatory quality. The index of INST has mean value of 17.42 with a standard deviation of 2.00. The minimum value of 5.34 was recorded as the least index for the periods, while a value of 37.04 was found as the maximum. This shows that average regulatory quality index value over the study period was 17.42 percent, with a variation of 2.00 percent from this average behavior. Throughout the period of the study, the lowest recorded regulatory quality score was 5.34 points, and the highest recorded regulatory quality index was 37.04 points.

Economic growth was indicated by percentage change in GDP (RGDP). Descriptive statistics presented in Table 2 showed an average value of 3.15 and

standard deviation of 5.33. The minimum and maximum values were also found to be -13.12 and 15.32 respectively. This means that over the periods of the study, the country's average economic growth as a percentage change in real GDP was 3.15 percent. The spread around this mean value was found as the standard deviation of 5.33 percent of real GDP. Economic growth was at its lowest point during this time, at -13.12% of real GDP, and at its best point, at 15.32% of real GDP. The percentage of GDP that is devoted to trade, or trade openness (TOP), has a mean of 32.74, a standard deviation of 12.36, a minimum of 9.14, and a maximum of 53.28. As a percentage of total commerce recorded in the country throughout the time under investigation, this shows that the average trade openness was 32.74 percent of GDP, with a deviation of 12.36 percent of GDP from this average behavior. During that time, the nation's import and export share was at its lowest, 9.14% of GDP, but its trade openness share was at its largest, 53.28 percent of GDP.

In terms of inflation (INF), annual growth of consumer price index was used for its measurement. According to the Table, INF had a mean of 18.73 percent for the periods and standard deviation of 16.73 percent. The Table also indicates that the minimum inflation rate recorded was 5.39 percent for the periods under investigation. A maximum of 72.84 percent was also found as the largest value of growth in the consumer price index, as indicator of inflation in the economy. This suggests that over the study period, Nigeria's average inflation rate was 18.73 percent of the CPI's annual rise, with a 16.73 percent deviation. Inflation during this time period was at its maximum at 72.84 percent of the annual rise of the consumer price index, while the lowest was 5.39 percent of the annual growth of the CPI. Similarly, the growth rate of population was used to proxy population growth (POPG). POPG had mean value of 2.59% and standard deviation 0.08% as the spread around the mean value. A minimum value of 2.49 percent was also recorded for POPG as the least value of growth rate of population. The maximum growth rate of 2.85 percent was also recorded as population growth.

Table 3: Variance Inflation Factor (VIF)

Variable	Coef. Variance	VIF
FG1	0.413578	3.061722
INST	0.019269	2.056486
EG	0.011318	1.603344
TOP	0.002091	2.238995
INF	0.000873	2.131380
POPG	1.110595	2.111437

Source: Author's Computation, (2025).

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One table is presented here since the VIF results produced for the two models are identical because the independent variables of both models are the same and the VIF is essentially performed on the independent variables. For every variable in both models, the variance inflation factor (VIF) result showed low VIF values. This suggests that the models' coefficients' VIF values are less than 10. Since this value is below the recommended threshold of 10 (Asteriou & Hall, 2016), there is no indication that the models have a serious multicollinearity issue.

Table 4: Augmented Dickey-Fuller Unit Root Test

VARIABLES	At Level		At First Diff.		Order of Integration
	t-statistic	p-value	t-statistic	p-value	
MDEV	-1.487	0.219	-6.347	0.000	1(1)
CDEV	-2.548	0.043			1(0)
FG	-7.221	0.000			1(0)
EG	-0.912	0.610	-5.046	0.000	1(1)
TOP	-1.725	0.190	-4.955	0.000	1(1)
INST	-0.110	0.901	-3.440	0.021	1(1)
INF	-6.044	0.000			1(0)
POPg	-6.214	0.000			1(0)

Source: Author's Computation (2025).

Augmented Dickey-Fuller (ADF) test was conducted to check for the possibility of existence of unit roots in the series. Unit root test allows the series to be grouped in stationary and non-stationary series. According to the ADF results, the population growth, inflation rate, financial globalization, and capital market development was all stationary in their level at 5% significance level. This is demonstrated by the p-values of less than 0.05 for each of the variables. However other variables were not stationary as their respective p-values were found to be greater than 0.05. The decision rule is to reject the null hypothesis that a variable has a unit root if the p-value is less than the significance level and to accept the hypothesis, if the p-value is greater than the significance level. In the light of this. Variables such as population growth, inflation rate, financial globalization, and capital market development are stationary at their level series and are therefore classified as I (0) series. However, the findings showed that other variables only became stationary at their first differenced series. That is, at first difference, their p-values were found to be less than 0.05. Hence the null hypothesis regarding the unit root is rejected. Those variables are now considered I (1) series.

This finding suggests that this study has both I(0) and I(1) variable combinations. This finding implies that, in the absence of long-term cointegration,

employing Ordinary Least Squares (OLS) technique to estimate the model will most likely produce spurious regression results. To ascertain whether or not there is a long-term link between the stationary and non-stationary variables utilized in financial globalization and financial growth, a cointegration test is required. ARDL bounds test approach to cointegration was adopted due to the varying orders of integration among the variables.

Table 5: ARDL Bound Cointegration Test

	MDEV Model		CDEV Model	
Test Statistic	Value	No. of Variables	Value	No. of Variables
F-statistic	4.65	8	5.61	8
	Critical Value Bounds			
Significance	1(0) Bound	1(1) Bound	1(0) Bound	1(1) Bound
10%	3.11	3.13	2.22	3.20
5%	2.51	3.63	2.16	3.64
2.5%	2.14	3.24	2.89	3.48
1%	3.17	4.31	3.11	4.21

Source: Author's Computation (2025)

Table 5 presents the results ARDL Bound Cointegration Test to ascertain whether or not there is a long-term relationship among the variables. F-statistic and the critical value boundaries at various significance levels are displayed in the bounds test findings. The F-statistic is compared to the critical value bounds at the 5% significance level to determine the significance of the results. The decision rule is to reject null hypothesis, if the F-statistic value is greater than the I (1) critical bound. According to Table 5, the null hypothesis is accepted as F-statistic value of 4.65, is higher than the I (1) critical bound value of 3.63 at the 5% significance level. It is concluded that there is long-run cointegration among the variables. The null hypothesis is rejected based on the money market development's model. As a result, the variables in this model have a long-term relationship. Similarly, the null hypothesis is rejected at the 5% significance level since the capital market development model's F-statistic value of 5.61 is higher than the I(1) critical bound value of 3.64. Consequently, the variables in this model have a long-term relationship.

Results of ARDL estimation were presented in Table 6. R-squared of 0.815 indicates that about 82% of the variation money market development were explained by the independent variables of the model. The result of R-squared regarding the fitness of the model was statistically significant with a reported F-statistic of 14.20 and a p-value of 0.0000. This implies that the model has good fit. ECT (-1) of 0.439 and p-value of 0.0013 ($p< 0.05$), means that the model is converging

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to long-term equilibrium after a brief disequilibrium at the rate of 43.9%. In other words, the speed of adjustment for the correction of short-term errors in each period was at the rate of 43.9%.

The coefficients for population growth and financial globalization are 0.15 and 16.64, respectively. This indicates a positive short-run relationship between both variables and money market development in Nigeria. Specifically, loans to the private sector as a proportion of GDP tend to increase by 0.15% for every 1% rise in the financial globalization index, and vice versa. Similarly, credit to the private sector as a percentage of GDP increases by approximately 16.6% for every 1% increase in population growth. The significant positive coefficients (p-values of 0.0437 and 0.0060, both below the 0.05 threshold) confirm that population growth and financial globalization exert a strong and statistically significant short-run positive impact on Nigeria's money market development.

Table 6: ARDL Regression Result for Money Market

Var	Coeff.	t-Stat.	Prob.
Short Run Estimates			
Δ(FG1)	0.153651	0.408379	0.0060
Δ(INST)	-0.018379	-0.177610	0.8603
Δ(EG)	-0.135478	-1.636270	0.1126
Δ(TOP)	-0.003329	-0.080141	0.9367
Δ(INF)	-0.023692	-1.309758	0.2006
Δ(POPG)	16.649738	2.108520	0.0437
ECT(-1)	-0.439490	-3.574188	0.0013
Long Run Estimates			
FG1	0.349612	6.085395	0.0000
INST	-0.041820	-0.176025	0.8615
EG	-0.308261	-1.594053	0.1218
TOP	0.165569	2.150554	0.0400
INF	-0.053908	-1.260475	0.2175
POPG	37.884206	2.418943	0.0221
C	-90.336541	-2.338572	0.0265
R^2	0.815086		
F-stat.	14.20327		0.0000

Source: Author's Computation (2025).

The long-run results reveal that population growth, trade openness, and financial globalization are positively correlated with money market development. Specifically, the private sector credit ratio is expected to increase by 0.35% for every 1% rise in the financial globalization index. Similarly, trade openness has a significantly positive long-run effect on money market development, as supported by its p-value. Credit to the private sector is projected to increase by approximately

0.17% for every 1% rise in trade openness. Furthermore, population growth exerts a strong long-run influence on money market development, with a 1% increase in population size likely to result in a 38% increase in the private credit ratio. The significance of population growth, trade openness, and financial globalization on private sector credit as a measure of money market development is confirmed by their respective p-values. Each p-value was below the 0.05 threshold, indicating that the long-run effects of these variables on money market development are statistically significant.

Table 7: ARDL Regression Result for Capital Market Model

Var.	Coef.	t-Stat.	Prob.
Short Run Estimates			
Δ(FG1)	1.244370	1.170527	0.2601
Δ(INST)	-0.522720	-1.752543	0.1001
Δ(EG)	-0.284704	-1.297255	0.2141
Δ(TOP)	0.213142	1.965073	0.0682
Δ(INF)	0.011626	0.227970	0.8227
Δ(POPG)	195.297003	3.783966	0.0018
ECT(-1)	-0.720847	-4.718208	0.0003
Long Run Estimates			
FG1	6.217493	2.214694	0.0033
INST	-2.321037	-2.752466	0.0148
EG	-1.613810	-2.822660	0.0129
TOP	0.678486	3.342553	0.0045
INF	0.454456	4.634916	0.0003
POPG	169.180415	3.910757	0.0014
C	-411.736342	-3.945877	0.0013
R-squared	0.874383		
F-statistic	4.745953		0.001607

Source: Author's Computation (2025).

Table 7 presents the ARDL results for both the short-run and long-run effects of the explanatory variables on the dependent variable. The R-squared value of 0.874 indicates that approximately 87.4% of the variations in private sector credit were captured by the model and explained by the independent variables. The F-statistic of 4.75 and its corresponding p-value of 0.0016 confirm the overall significance and good fit of the model. The Error Correction Term (ECT) of -0.72 suggests a relatively high speed of adjustment from short-run disequilibrium, meaning that about 72% of deviations are corrected annually toward long-run equilibrium. In other words, the model will achieve full convergence in less than two years.

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Results in Table 7 further show that, in the short run, population growth and trade openness had significant effects on market capitalization. Specifically, market capitalization to GDP increases by approximately 0.21% for every 1% increase in trade openness. Similarly, a 1% rise in population growth leads to about a 195.3% increase in market capitalization. These short-run effects were statistically significant, as indicated by their p-values (0.0018 and 0.0682, respectively, at the 10% significance level). Other variables, however, showed no significant short-term impact on market capitalization as a measure of capital market development.

In the long run, financial globalization, trade openness, inflation rate, and population growth all exhibited positive and significant effects on market capitalization. A 1% increase in financial globalization results in a 6.2% rise in market capitalization to GDP, while a 1% increase in trade openness and inflation rate leads to 0.68% and 0.45% increases, respectively. Moreover, a 1% rise in population growth corresponds to a 169.18% increase in market capitalization. These relationships were statistically significant, supported by p-values of 0.0033, 0.0045, and 0.0003, respectively. Conversely, economic growth and institutional quality were found to have negative long-run effects on capital market development. A 1% increase in GDP growth rate tends to reduce market capitalization by approximately 1.6%, while a 1% improvement in institutional quality decreases market capitalization by about 2.3%. The relationship between market capitalization and institutional quality was statistically significant ($p = 0.0148$, $p < 0.05$).

Overall, the results reveal that in both the short and long run, financial globalization, population growth, and trade openness significantly influenced money market development in Nigeria. These findings align with the Financial Liberalization Theory and the a priori expectations of this study. The implication is that financial globalization contributes positively to Nigeria's financial sector by removing barriers to foreign investment and opening opportunities to integrate with advanced economies. This finding is consistent with Law et al. (2014) and Muye & Muye (2017), who also reported that financial globalization fosters higher levels of financial development. Furthermore, the study confirms that population growth drives financial sector development, as increasing population size amplifies the demand for financial services prompting financial institutions to enhance service delivery, thereby promoting sectoral growth. Additionally, trade openness significantly impacts money market development, particularly when domestic financial institutions facilitate increased volumes of international trade finance.

Regarding capital market development, the study found that financial globalization, population growth, inflation, and trade openness all exert significant and positive long-run effects, indicating that these factors play a crucial role in strengthening the depth and efficiency of Nigeria's capital market. Specifically,

greater financial globalization facilitates capital inflows, knowledge transfer, and integration with international markets, which collectively enhance the liquidity and competitiveness of the domestic capital market. Population growth contributes to a larger investor base and increased financial participation, while inflation and trade openness stimulate financial activities by expanding market opportunities and investment demand. Conversely, economic growth and institutional quality were found to have negative long-term impacts, suggesting that structural inefficiencies, weak regulatory enforcement, and governance challenges may hinder the effective translation of macroeconomic expansion into financial sector advancement. These findings are consistent with the theory of financial liberalization and prior empirical evidence, such as Balcilar et al. (2019), which demonstrated that financial market development responds positively to financial globalization but remains sensitive to institutional and governance quality.

Conclusion and Recommendations

Overall, the results of this study reveal that financial globalization contributes to increased lending to the private sector and higher levels of investment in the capital market. Therefore, it can be concluded that financial globalization plays a pivotal role in driving financial sector development in Nigeria. Based on these findings, it is recommended that the Nigerian government strengthen policy measures aimed at promoting deeper financial sector globalization by implementing further deregulation and removing barriers to cross-border financial transactions. Additionally, the government should support initiatives that enhance the competitiveness of Nigeria's financial institutions within the global financial system. Such efforts will foster greater integration, efficiency, and sustainability in the growth of the money and capital market segments of Nigeria's financial sector.

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