



IMPACT FINANCIAL DEVELOPMENT ON POVERTY IN NIGERIA: THE ARDL APPROACH

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Abstract

This study assessed the impact of financial development on poverty in Nigeria using time series data spanning from 1981 - 2025. The ex-post facto research design was adopted and the data used were sourced from the World Bank Development Indicator database. The data were analysed using Autoregressive Distributed Lag Model (ARDL) bounds co integration approach. The long-run result shows that financial development proxied by broad money supply contributes positively to poverty while financial sector development proxied by private sector credit had insignificant negative impact on poverty in Nigeria for the period under review. The estimated model passed all the diagnostic tests meaning that including structural stability. The study recommends proper monitoring of the financial system, ensure both financial and market stability to encourage investors.

Keywords: Financial Development; ARDL; Poverty; Nigeria

1. Introduction

Financial development through the financial intermediary channel serves as a formal medium through which funds are transferred from sender to receiver. It involves the rules, regulations, environment and institutions that enable easy access to credit for investment in the real sector. It aids economic growth by developing a sound financial system and allocating funds from savers to borrowers, creating jobs and alleviating poverty. The role of financial development has grown increasingly essential for economists and policymakers alike in recent decades, as it feeds development by mobilising funds and channeling them to appropriate investments. Financial development is defined as the process of improving the depth, access, efficiency and stability of a country's financial system. It entails the evolution of financial institutions, markets and instruments to better serve the economy by reducing costs related to information, contract enforcement and transactions (World Bank, 2013). Development finance aids private investment and stimulates growth, thereby affecting poverty in Africa

at large. A healthy economy is a bedrock for development, and the failure of industries has a compounding effect on the nation's capital as a whole, as seen in the global financial crisis of 2008 (Vacaflores, 2018).

This term is most frequently used by experts and professionals in economic development; to them, it refers to the growth of financial services available to all demographics and cultures. According to Bang et al. (2015), financial services have a significant impact on the broader economy, thereby reducing the risk and vulnerability of underprivileged people and groups and enhancing their access to essential services such as health care, education, and other programmes that alleviate poverty. It is the capacity of financial institutions to mobilise surplus revenue and direct it towards profitable economic investment objectives. Additionally, it involves actively participating in the financial market by providing up-to-date financial services and products. Additionally, it provides a platform for developing various financial claims.

The process of integrating individuals from all socioeconomic backgrounds into formal financial services through technology and law is known as financial development. According to Mbuto and Uba (2018), financial development is a strategy used to expand the number of people in a country or economy who have official bank accounts with banks and other financial institutions, thereby providing them with access to legitimate financial services.

Financial development serves as financial deepening by expanding the size of the monetary structure and increasing the diversification of businesses' and households' portfolios, thereby driving financial market development. Financial development has encouraged people to participate in the formal financial system by using phones and the internet without necessarily holding formal bank accounts, thereby advancing modes of payment, including checks, automated teller machines (ATMs), the internet, and mobile payments, among the general public (Ajefu & Ogebe, 2019). According to Shahbaz, Nasir, and Roubaud (2018), financial development entails enhancing the generation of information regarding potential investments and capital allocation, monitoring businesses and enforcing corporate governance, facilitating trade, managing risks, diversifying, mobilising and pooling savings, and simplifying the transfer of goods and services. These financial operations affect investment and saving choices as well as technical advances that boost the economy and reduce poverty. Today, poverty is widely recognised as a global phenomenon. It affects nearly four billion people worldwide (Kaphle, 2018). It is a significant issue that demands immediate attention and action across the globe. Poverty is a complex socio-economic issue that affects individuals in a variety of ways; it encompasses a lack of money, shelter, clothing and food. Poverty renders an individual unable to meet the fundamental demands of existence; when one is consumed by hunger and lacks access to education and health facilities, the individual is poor (Babalola & Mohd, 2022). To improve quality of life by establishing a favourable standard of living through efficient production and distribution of consumer products and

job opportunities, it is necessary to reduce poverty. In Nigeria, a nation likely home to more than 200 million people, poverty is pervasive. The country's low development statistics can be attributed to the plague's increasing tendency over the last few decades. Therefore, this paper aimed at assessing the impact of financial development on poverty in Nigeria

2. Literature Review

2.1 Conceptual Issues

Financial Development

This is seen as the growth in deposits and loans, as well as their accessibility. For instance, by supplying start-up financing for creative businesses, it helps mobilise savings and allocate funds to profitable endeavours. This, in turn, makes it easier to allocate resources more effectively, boosts total productivity, produces a range of goods and services, helps households and businesses deal with unfavourable circumstances, and guarantees steady investment and consumption.

To put it briefly, the overall growth of the nation's financial industry is known as financial development, which is largely composed of financial institutions that are essential to the existence of any economy because of their role as financial intermediaries between surplus and deficit units. The four types of financial development include stock market development, financial size development, financial intermediary development, and financial efficiency development.

Poverty

Poverty, like an elephant, is easier to see and feel than to articulate and conceive, according to Vacaflares (2018). It is present in every civilisation and affects people in nearly every area of life, including the physical, moral, psychological, economic, and even social facets of human existence. Azam, Haseeb and Shamsudin (2016) described poverty as a multifaceted phenomenon caused by many factors, such as illiteracy, unemployment, lack of capital, high population growth, trade deficit and dependency burden. According to Onakoya, Johnson, and Ogundajo (2019), poverty is a

discernible lack of well-being that encompasses a variety of factors, such as low income and the inability to obtain necessities for dignified survival. According to Sen (1983) and Knecht (2012), it can also mean being excluded from a typical life in the community or having poor living conditions that affect health, well-being, and life expectancy.

The United Nations (2020) defined poverty as a state of deprivation characterised by low food intake, poor health, low educational attainment, lack of access to education, and poor housing conditions. Buheji, et al., (2020) asserted that poverty is a lack of the fundamental ability to engage successfully with others. It goes beyond being unable to provide food and clothing for a family; it also includes lack of access to a school or clinic, lack of property, the need to work for a living, and lack of help or credit. Communities and individual homes experience marginalisation, helplessness, and insecurity. Living in impoverished areas without access to sanitation and safe drinking water puts one at risk of violence.

According to the World Bank (2018), the most prevalent approach is to view poverty as absolute, meaning the inability to acquire and use certain bundles of commodities and services, such as food, shelter and clothing, which are regarded as basic necessities of life, or the inability to achieve a minimum standard of living. Short calorie intake, subpar housing, insufficient healthcare, subpar educational facilities, high rates of illiteracy, short lifespans, significant mortality rates for babies, low income, unemployment, and underemployment are all signs of absolute poverty.

2.2 Theoretical Framework

This study is based on the Supply- Leading Hypothesis by Hugh who first proposed this theory in 1966, arguing that growth is driven by financial development. A healthy financial market increases investment and savings while improving the efficiency of capital accumulation. According to Dermirguc-Kunt and Levine (2018), a well-functioning financial institution can increase overall financial productivity, generate and

increase liquidity, deploy savings, increase capital accumulation, transfer resources from non-growth sectors to modern growth-inducing sectors, lessen poverty, and encourage the response of skilled entrepreneurs in the modern economic sector. A strong financial sector facilitates the effective transfer of resources from surplus to deficit units, which promotes economic growth and the reduction of poverty; the "supply-leading hypothesis," which maintains that financial development and economic growth are positively correlated; and the intentional establishment of markets and institutions increases the accessibility of financial services, which encourages growth in the real sector of the economy. To put it another way, intentional market and financial institution development makes financial services more accessible, which encourages growth in the real sector.

The theory most applicable to Nigeria is the supply-leading theory, which emphasizes the need for the masses to have access to financial institutions, especially in rural areas where such institutions are lacking. This will help them access a range of financial services that will help the real sector grow. Expanding banking and capital markets will stimulate growth by giving the private sector greater access to credit.

2.3 Empirical Review

Yahaya (2026) investigated financial inclusion and poverty reduction in Nigeria for the period 1986 to 2025, controlling for economic growth, government revenue and expenditure, external debt stock and institutional factors. The results confirmed that financial inclusion and government expenditure reduce poverty, while the external debt stock increases poverty. Madu, Akpansung, and Zummo (2024) assessed the impact of financial development (broad money supply and credit to the private sector) on economic growth and poverty in Nigeria using the Autoregressive Distributed Lag Model and the bound test for cointegration. The results indicated that increases in the money supply increase poverty and reduce economic growth, while private-sector credit reduces poverty and increases economic growth in Nigeria over the period 1981 to

2021. Also, inflation and unemployment positively contributed to poverty and negatively to economic growth. Using banking channel, financial deepening, access to credit and poverty.

Bamidele et al. (2023) studied financial development and poverty reduction in Nigeria between 1981 and 2020. The results indicated that although financial deepening reduces poverty, its effect is modest, whereas market capitalisation has a strong effect on poverty, thereby reducing the poverty rate. The Nigerian capital market should create a platform for low- and middle-income earners to invest. This will foster financial inclusion, mobilise dormant savings, incorporate profitability, and utilise digital tools to reduce participation barriers and reduce poverty. Using the autoregressive distributed lag (ARDL) model, Dorathy (2023) examined the impact of financial development and financial inclusion on poverty in Nigeria between 1981 and 2020. The development of the banking sector and the stock market served as proxies for financial development. The findings demonstrated that while financial inclusion and the rise of the stock market have no appreciable impact on poverty in Nigeria, the expansion of the banking industry significantly lowers poverty. Furthermore, there is a unidirectional causal link between poverty and the expansion of the banking industry and financial inclusion, and the relationship between poverty and financial development depends on how financial progress is assessed. This is because financial development is not uniform; it can be measured by depth, access, stability, and efficiency.

Adeleke and Olamola (2022) conducted an empirical analysis using a variance decomposition model to examine financial inclusion, poverty, and inequality in Nigeria between 2004 and 2018. The study found that domestic lending to the private sector has a substantial long-term association with inequality, while institutional quality and inflation have little effect on reducing poverty in Nigeria. However, there is no significant relationship between financial inclusion metrics. The study's variables included the poverty rate, inflation, institutional quality, and domestic credit to the private sector. It also highlighted the importance of

ensuring that underprivileged people have access to financial institutions.

Similarly, Bolarinwa et al. (2021) examined the relationship between financial development and poverty reduction in Nigeria from 1996 to 2015. They found that while private sector credit reduces poverty, financial development and inclusion, stability, and efficiency do not. The variables employed were absolute poverty, relative poverty, financial development and inclusion, and private credit. Osuji (2020) examined the relationship between savings and financial development in Nigeria from 1981 to 2018, using secondary data from the Central Bank of Nigeria. Granger Causality tests and Ordinary Least Squares were used in the investigation. The results revealed a positive but negligible association between savings and the saving rate, but a unidirectional causal relationship between financial growth and savings in Nigeria. The mobilisation of domestic savings will be aided by the banking sector's greater financial depth, enabled by financial innovation.

Harley et al. (2019) examined the role of financial inclusion in reducing poverty in Nigeria between 2006 and 2015, using a log-linear model that accounted for the number of operational ATMs, bank branches, and government spending. The findings showed that an increase in the number of ATM cards boosts economic growth and lowers poverty; deposits at commercial banks are negatively associated with both economic growth and poverty, likely due to a lack of deposit technology; government spending boosts economic growth and lowers poverty; and positive inflation, possibly as a result of the log-linear model, increases economic growth and lowers poverty. The report recommended infrastructure investment, particularly in rural areas.

Olohunlana and Dauda (2019) examined how financial development affected poverty in Nigeria between 1996 and 2017 using four metrics. Bounds cointegration and the ARDL model were the methods employed. According to the study, there is a positive but negligible correlation between financial development, poverty,

and inequality over the short and long terms. Inflation and corruption also have a favourable impact on poverty and income disparity. More financial institutions should be established in Nigeria's rural communities, according to the report. Additionally, both local and foreign investment are aided by financial development.

Similarly, Fagbemi and Olufolahan (2019) examined capital inflows, financial development, and poverty reduction in Nigeria from 1980 to 2017 using ARDL bounds tests and Granger causality tests based on the Vector Error Correction Model (VECM). They categorised capital inflows as foreign direct investment, portfolio investment, and remittances. The results demonstrated unidirectional causal relationships between financial development and poverty, and between capital inflows and poverty, and that the interaction between financial development and capital inflows reduces the number of people living in poverty over the long and short terms. Again, Frances et al. (2016) utilised the Gregory-Hansen test to investigate the relationship between investment and financial deepening in Nigeria between 1970 and 2013. Granger tests, unit root tests, the supply-leading hypothesis, endogenous and structural break techniques, and cointegration were employed in the study. The findings showed that there is a unidirectional causal link between financial deepening and investment and that financial deepening has a positive impact on investment.

Imoagwa and Ezeanyej (2019) used cointegration and the Toda-Yamamoto causality test to examine the link between financial development (private sector credit, broad money supply, and bank ratio), poverty, and economic growth in Nigeria between 1986 and 2017. The results showed that broad money supply promotes economic growth and poverty, while private sector credit reduces poverty in both the long and short run.

$$POV1 = f(FID1, FID2, INF, REM) \quad (1)$$

$$\Delta POV1_t = y_0 + y_1 FID1_t + y_2 FID2_t + y_3 INF_t + y_4 REM_t + \mu_{t15} \quad (2)$$

Iheanacho (2016) examined the impact of financial development (private sector credit) on poverty in Nigeria using the Autoregressive Distributed Lag Model (ARDL) from 1981 to 2011. The results showed that the association was adverse and significant in the short term but negligible in the long term. Osuji (2016) investigated the link between poverty, economic growth, and financial development in Nigeria from 1960 to 2015 using a dynamic series model and Granger causality. The findings showed that there is a two-way causal relationship between all the factors, and that financial growth, including broad money supply and credit availability, reduces poverty over time but not in the near term.

3. Methodology

3.1 Method of Data Analysis

Both descriptive and econometric data analysis techniques were applied in this investigation. While the latter used Pesaran, Smith, and Shin's (2001) autoregressive distributed lag (ARDL) and cointegration approaches to investigate the relationships among the variables of interest, the former presented basic statistics, tabulations, and graphical representations of the data. The study can ascertain the immediate and long-term impact of financial development on poverty using the ARDL approach. The ARDL methodology was particularly chosen for its acknowledged advantages over other techniques. It can capture variables integrated of order 0 and 1, estimate long-run relationships, and capture short-run dynamics.

3.2 Model Specification

The functional form of the study's empirical model was specified as follows: financial development is represented by the private sector credit-to-GDP ratio (FID2) and the broad money supply-to-GDP ratio (FID1).

$$\begin{aligned}\Delta POV1_t = & y_0 + \sum_{i=1}^a \eta_1 \Delta(POV1)_{t-1} + \sum_{i=0}^{a1} \eta_2 \Delta(FID1)_{t-1} + \sum_{i=0}^{a2} \eta_3 \Delta(FID2)_{t-1} + \sum_{i=0}^{a3} \eta_4 \Delta(INF)_{t-1} \\ & + \sum_{i=0}^{a4} \eta_5 \Delta(REM)_{t-1} + \lambda_1 (POV1)_{t-1} + \lambda_2 (FID1)_{t-1} + \lambda_3 (FID2)_{t-1} + \lambda_4 (INF)_{t-1} \\ & + \mu_{t18}\end{aligned}\quad (3)$$

$$\begin{aligned}\Delta POV1_t = & y_0 + \sum_{i=1}^a \eta_1 \Delta(POV1)_{t-1} + \sum_{i=0}^{a1} \eta_2 \Delta(FID1)_{t-1} + \sum_{i=0}^{a2} \eta_3 \Delta(FID2)_{t-1} + \sum_{i=0}^{a3} \eta_4 \Delta(INF)_{t-1} \\ & + \sum_{i=0}^{a4} \eta_5 \Delta(REM)_{t-1} + \delta ECM_{t-1} \\ & + \mu_{t24}\end{aligned}\quad (4)$$

4. Results and Discussions

4.1 Descriptive Statistics

Table 1: Descriptive Statistics {Observations = 44}

Variables	Mean	Std Dev.	Min	Max
FIDI	16.801	6.060	9.063	27.378
POV	55.496	17.739	9.834	81.535
INF	18.946	16.454	5.388	72.835
FID2	11.657	5.591	5.806	22.754
REM	2.562	2.549	0.004	8.333

Source: Author's Computation, 2026, using E-Views 10.

Financial development (FID1) has a mean of 16.8%, a minimum of 9.06% recorded in 1996, and a maximum of 27.7% recorded in 2016. The standard deviation is 6.060%, indicating that the values are moderately clustered around the mean. GDP per capita has a mean of 0.39, with minimum and maximum values recorded in 1981 and 2002, respectively, of -15.7% and 12.3%; the standard deviation is 5.174%, indicating that the observations are dispersed from the mean. Poverty (POV) has a mean of 55.5%, with minimum and maximum values of 9.8% and 81.5%, recorded in 1981 and 2016, respectively. The standard deviation of 17.739 indicates that the variable was highly volatile. Inflation (INF) has a mean of 18.9%, with a minimum of 5.39% in 2007 and a maximum of 72.8% in 1995. The standard deviation of 16.5 indicates high variability

of the variable. Financial development (FID2) has a mean of 11.7%, with a minimum of 5.8% in 1995 and a maximum of 22.8% in 2009. The standard deviation is 5.591, indicating clustering around the mean. Remittances (REM) have mean, maximum and minimum values of 2.56%, 8.3% and 2009%, respectively. The standard deviation is 2.549, indicating that the observations are not tightly clustered around the mean.

4.2 Stationarity Tests

Tables 2 present the results of the Augmented Dickey-Fuller (ADF) stationarity tests, respectively. To verify that the non-stationary time-series data were stationary at level $I(0)$ and at first difference $I(1)$, but not at second difference $I(2)$, these tests were carried out.

Table 2: Augmented Dickey Fuller Test

Variables	ADF	Crit. Values (5%)	P.Values	Stationarity Level	Remark.
POV	-7.816089	-3.526609	0.0000	I(1)	Stationary
REM	-6.476905	-3.523623	0.0000	I(1)	Stationary
FD1	-9.153563	-3.523623	0.0000	I(1)	Stationary
FD2	-3.583427	-3.523623	0.0438	I(0)	Stationary
INF	-3.844173	-3.523623	0.0240	I(0)	Stationary

Source: Author's Computation, 2026, using E-Views 10.

The Augmented Dickey-Fuller (ADF) test results showed that poverty, remittances and financial development (FD1) were stationary at first difference (I(1)), while financial development 2 (FD2) and inflation rate (INF) were stationary at level (I(0)).

4.3 Optimal Lag Length Selection

Because the Akaike information criterion had the lowest value among the criteria, it was used to determine the lag length. Based on the results in Table 3, ARDL(1, 2, 2, 3, 2) was the chosen model, with a maximum lag of 1.

Table 3: Optimal Lag Length Selection Result

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-576.7957	NA	6239111	29.83568	30.04895	29.91220
1	-483.6860	157.5703*	192.105.1*	26.34287*	27.62253*	26.80200*
2	-459.0192	35.41899	208804.1	26.35996	28.70601	27.20170

Source: Author's Computation, 2026, using E-views 10.

* displays the lag order selected by the criterion; LR: sequential modified LR test statistic (each test at the 5% level); Final prediction error is referred to as FPE. The Hannan-Quinn information criterion is known as HQ, while the Schwarz information criterion is known as SC.

4.4 Bounds Cointegration Test

At the 10% and 5% levels of significance, the normalised equations computed Fisherian statistic, as shown in Table 4 is 3.70. This exceeds the critical

values at both the lower and upper bounds. There is a long-term relationship between the variables in the model, as evidenced by the robust rejection of the null hypothesis of no long-term association.

Table 4: Bound Test

Test Statistics	Value	Significance	Lower bound I(0)	Upper bound I(1)
F-Statistics	3.701298	10%	2.08	3.00
K	4	5%	2.39	3.38
		2.5%	2.7	3.73
		1%	3.06	4.15

Source: Author's Computation, 2026, using E-Views 10.

This suggests that there were equilibrium conditions that held poverty, remittances, per capita income growth, openness, the inflation rate, and primary school

enrolment together over time. This allowed the long- and short-run coefficients of the best ARDL model to be estimated.

4.5 Diagnostic Tests

To ensure the estimated model is effective and reliable, several diagnostic tests were carried out. Table 5 summarises the test results. The Breusch-Godfrey serial correlation test yields a probability value of 0.7885 and an F-statistic of 0.2401, indicating no serial correlation in the model. The Breusch-Pagan-Godfrey test, which yields an F-statistic of 0.985088 and a probability value

of 0.4957, indicates that the model is not heteroskedastic. The Ramsey RESET test yields an F-statistic of 0.4384 with a probability value of 0.5144, and the Normality test yields an F-statistic of 0.1916 with a probability value of 0.9086, indicating that the model is suitably specified. Across all tests, the computed probability values were generally higher than the significance level of 0.05.

Table 5: Diagnostics Test Results

Test	F-statistic	Degree of Freedom	Prob.
Serial Correlation (Breusch-Godfrey LM Test)	0.2401	F(2,22)	0.7885
Heteroskedasticity (Breusch-Pagan Godfrey)	0.9850	F(14,24)	0.4957
Model Specification (Ramsey RESET Test)	0.4384	F(1, 23)	0.5144
Normality Test (Jarque-Bera Statistics)	0.1916	Na	0.9086

Source: Author's Compilation, 2026, using EViews 10.

Table .6: Long -run Result

Variable	Coefficient	St. Error	t-Statistics	Prob.
FID1	5.1380	2.4194	2.1236	0.0442
FID2	-3.2934	2.6591	-1.2385	0.2275
INF	-0.0844	0.2041	-0.4135	0.6829
REM	-0.2552	2.5082	-0.1017	0.9198
C	14.1159	14.4115	0.9794	0.0003

EC = HHCE – (5.1380*FID1- 3.2935*FID2-0.0844*INF -0.2552 *REM +14.1160

Source: Author's Computation, 2026, using E-views 10.

Table 7: Short-run Result

Variable	Coefficient	St. Error	t-Statistics	Prob.
D(FID1)	0.4756	0.5591	0.8506	0.4034
D(FID1(-1))	-2.0331	0.6346	-3.2034	0.0038
D(FID2)	-0.1492	0.6087	-0.2452	0.8084
D(FID2(-1))	2.0758	0.5239	1.1374	0.0006
D(INF)	-0.0053	0.0664	-0.0823	0.9350
D(INF(-))	-0.1134	0.0615	-1.8446	0.0775
D(REM)	0.8304	0.7301	-0.1017	0.2666
D(REM(-1))	-0.7821	0.7530	-1.0386	0.3093
D(REM(-2))	2.3147	0.8102	2.8568	0.0087
ECT(-1)	-0.4463	0.0861	-5.1801	0.0000

R-Squared = 0.6462 Adjusted R-Squared = 0.5364 DW= 2.09

Source: Author's Computation, 2026, using E-views 10.

4.6 Stability Test Result

The study also employed the cumulative sum of squared residuals (CUSUM) and cumulative sum of squared recursive residuals (CUSUMSQ) tests to confirm the

model's structural stability. The blue lines in the CUSUM and CUSUMSQ plots lay within the critical bounds at the 5% level of significance (see Figures 1 and 2).

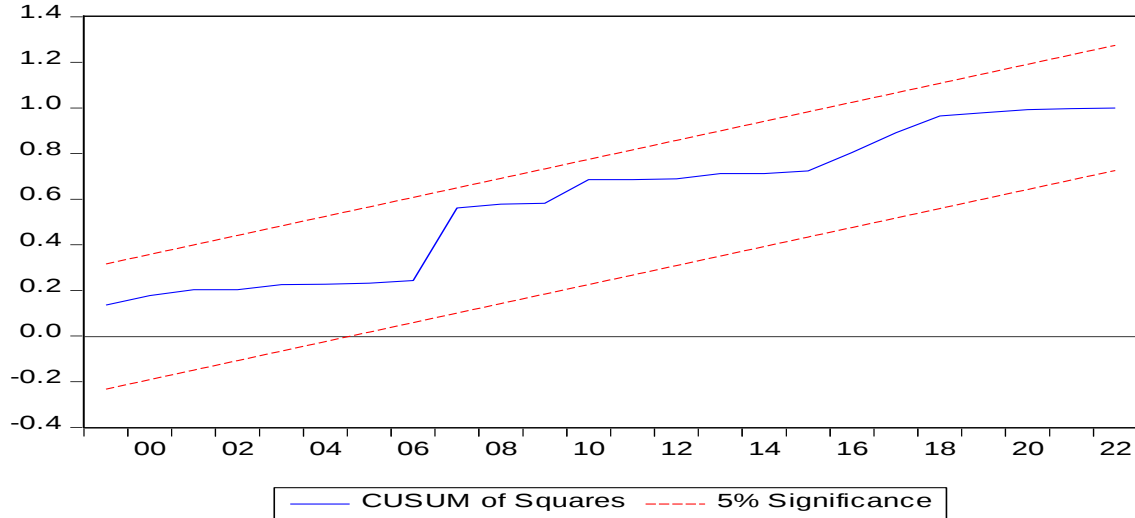


Figure 1: Cumulative Sum of Squares (CUSUM)
Source: Author's Compilation, 2024, using E-Views 10.

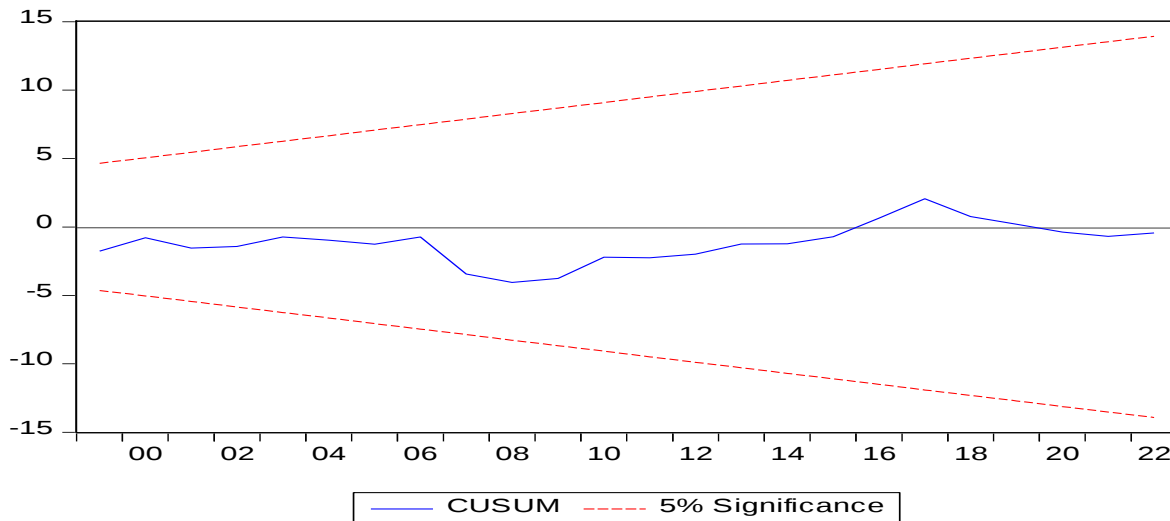


Figure 2 Cumulative Sum of Squares Recursive Residuals (CUSUMSQ)
Source: Author's Compilation, 2026, using E-Views 10.

4.7 Discussion of Results

Financial development (FID1) has a positive effect on poverty, with a coefficient of 5.1380 and a probability value of 0.0442 at the 5% level, according to the long-run outcome (Table 4.12). This does not meet

theoretical expectations. This is because excessive expansion of the economy's money supply causes inflation and lowers people's purchasing power. Poverty will rise by 5.13% for every 1% progress in financial development (FID1). It also gauges the depth of the financial industry. This implies that a marginal

increase in the availability of pro-poor financial services and saving opportunities would lead to a rise of about 5.13 per cent in the poverty level.

The financial deepening, measured by M2 as a percentage of GDP, indicates that the transaction services and saving opportunities—the McKinnon conduit effect—aspect of financial sector development has not benefited the poor in Nigeria. Additionally, financial development (FID2), with a coefficient of -3.2934 and a p-value of 0.2275, is consistent with theory but is statistically insignificant. This suggests that, although not statistically significant, a 1% increase in private sector lending will result in a 3.29% decrease in poverty. The explanations for this result are not far-fetched. In Nigeria, deposit money banks have a penchant for short-term lending.

They also avoid financing long-term projects in the real sectors due to the perceived risks associated with such lending. Hence, while the operations of firms in the manufacturing and agro-allied sectors are paralysed by a lack of needed long-term funds, the majority of active but economically poor individuals operating in the informal sector had to borrow from unregistered money lenders, albeit at exorbitant interest rates, as a survival strategy. With a probability value of 0.6829 and a coefficient of -0.0844, inflation is statistically negligible and incorrectly signed. Poverty will decrease by 8% if inflation rises by 1%. With a coefficient of -0.2552 and a probability value of 0.9198, remittances (REM) hurt poverty but are not statistically significant at the 5% level.

Financial development (FID1) had a positive impact on poverty in the short run, as indicated by a coefficient of 0.4756. However, this effect was not statistically significant at the 5% level, with a p-value of 0.4034. Although negligible, it deviates from theoretical predictions, which state that a 1% increase in financial development will raise poverty by 0.47% by causing inflation and lowering household purchasing power. Because households might not use the money they save for profitable endeavours, it is negligible.

The first lagged value of financial development (FID1) has a negative effect on poverty, with a coefficient of -2.0331 and a probability value of 0.0038. This is consistent with a priori expectations and implies that poverty will be reduced by 20.3% for every 1% increase in financial development. Financial development (FID2) also has a negative effect on poverty and aligns with theoretical underpinning, with a coefficient of -0.1492, implying that a 1% increase will reduce poverty by 14%. However, it is not statistically significant at the 5% level, with a probability value of 0.8084, probably because only a few individuals are granted credit by financial or money market institutions. By contrast, the first lagged value of financial development (FID2) impacts positively on poverty, with a value of 2.0758, which is against the theoretical underpinning. It indicates that a 1% increase in financial development will increase poverty by 20.7% and is significant at the 5% level of significance, which may be because only a few individuals borrow because of the high cost of borrowing.

Inflation (INF) and its lagged value have a negative impact on poverty, with coefficient values of -0.0053 and -0.1134, respectively, and probability values of 0.9350 and 0.0775, respectively. If inflation increases by 1%, it will reduce poverty by 0.5% and 11%, respectively, which is not in line with theoretical expectations. Remittances (REM) and the second lagged value spur poverty because they have positive values of 0.8304 and 2.3147, respectively, which is against theoretical expectations, and they are statistically insignificant and significant, respectively, at the 5% level, with probability values of 0.2666 and 0.0087, respectively. A 1% increase in remittances will increase poverty by 83% and 23.1%, respectively, and this may happen if remittances don't follow the proper channel when remitted or are consumed without investment by households.

The first lagged value of remittances has a negative effect on poverty, with a coefficient of -0.7821, which aligns with a priori expectations, though it is not significant at the 5% level, probably because remittances are skewed, with rich households receiving

them rather than poor households. Despite not being statistically significant, a 1% increase in remittances will reduce poverty by 78% in the short run.

The investigation also demonstrated that the error-correction term (ECT) coefficient had the anticipated negative sign and was statistically significant. With the current year resolving roughly 44% of the disequilibrium from the prior year, the coefficient indicated convergence to equilibrium. A coefficient of determination of 64% is good. This indicates that, while other variables not included in the model and represented by the stochastic variable (error term) accounted for 36% of the variation in Nigeria's poverty rate, the explanatory variables in the study's model explained roughly 64% of the variation.

5.0 Conclusion and Recommendations

This study empirically examined the impact of financial development on poverty in Nigeria for a period spanning from 1981-2025. Financial development was

measured using private sector credit (FID2) and broad money supply (FID1), inflation rate and remittances were included in the model to make it robust. The ARDL model was used for the analysis of the variables based on the Stationarity test results. The empirical evidence led to the conclusion that financial development proxied by broad money supply can increase poverty rate in Nigeria in the long run while financial development proxied by private sector credit had insignificant negative impact on poverty in Nigeria. The policy implication of this is that Nigerian government needs to channel her resources towards the improvement of the financial sector, ensure proper regulation and supervision. On the basis of the findings, this study recommended that; (i) Proper monitoring of the financial system (ii) Ensure both financial and market stability to encourage investors (iii) Government should diversify the economy so that they can have multiple sources of revenue through improving the real.

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