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THE EFFECTS OF FINANCIAL LIBERALIZATION ON SAVINGS AND INVESTMENT IN NIGERIA

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Abstract

The Nigerian economy has been shifting toward greater financial deregulation, savings, and investment in recent years. The ramifications of these changes for Nigeria's economic growth are examined in this research. Using annual data from 1981 to 2023, a straightforward model is defined and evaluated that links economic output growth to investment, savings, and a number of control factors. The Two-Stage-Least Square (2SLS) instrumental variable technique was used to analyze the macro data from Nigeria. Key findings showed that rising interest rates have a detrimental impact on investment growth and that interest rates as a driver of savings are statistically significant. Second, investment adheres to the conventional accelerator hypothesis. Additionally, growth in the money supply is statistically significant and favorably correlated with investment. It's possible that market investments are more speculative in nature, pushing out real sector investments and slowing economic growth. According to the results finding, government action is required for the nation's economy to grow quickly and sustainably, particularly through measures like expanding access to financial services to mobilize funds and direct them toward investments. In order to accelerate economic

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growth, policies that allocate funding to profitable investment projects should also be put into place. It is highly recommended to the policy maker that Nigeria is credit-constrained nation rather than savings-constrained, since interest rates have little bearing on savings in Nigeria.

Keywords: Financial liberalization, Two Stage Least Square, savings, investment

1. Introduction

In Nigeria, financial liberalization has been a major policy undertaking with the goal of fostering economic development and progress (Adebiyi, 2005). The strategy entails loosening financial market regulations, enabling more flexibility in the distribution of credit and the movement of capital. The works of McKinnon and Shaw (1973), who contended that financial repression, which takes the form of interest rate ceilings, directed credit policies, and excessive regulation, distorts savings and investment decisions are impedes economic growth, provide the theoretical basis for financial liberalization. They contend that liberalized financial systems improve capital allocation, promote long-term investment, and encourage savings by allowing interest rates to reflect market realities. International organizations like the World Bank and the International Monetary Fund (IMF) rapidly embraced these concepts, making financial liberalization a key element of structural adjustment plans in many developing nations in the 1980s and 1990s.

Financial liberalization aims to boost investment and savings, which would eventually lead to economic expansion (Gibson and Tsakalotos, 1994). Since the 1980s, Nigeria has carried out a number of financial liberalization initiatives, such as lowering reserve requirements, eliminating interest rate regulations, and introducing new financial products. Nigeria's savings and investment rates are still low when compared to other emerging nations, even after financial liberalization regulations were put into place Ozekhome, 2020).

From 25% of GDP in 1970 to -6.4% in 2020 and 4.1%in 2024, the nation's gross savings rate has been falling over time (World Bank, 2024). In a similar vein, investment as a share of GDP has been low for the last ten years, averaging about 15% (NBS, 2024). This has prompted questions about how well Nigeria's financial liberalization policies encourage investment and savings. Inadequate access to credit, especially for small and medium-sized businesses (SMEs), high-interest rate spreads, and the nation's low degree of financial inclusion all exacerbate the issue.
Nigeria's economic development and growth are impacted by the low rates of investment and savings. The nation's economy has grown slowly over the last ten years, averaging about 2% annually (IMF, 2020). The nation's infrastructure deficit, especially in the transportation and power sectors, has also been exacerbated by low investment rates.

Regarding the macroeconomic effects of financial liberalization, openness, and financial development, there is now little to no theoretical agreement among development economists. It was first proposed by Goldsmith (1969), Mckinnon (1973), and Shaw (1973) that financial liberalization and the ensuing financial development and openness would stimulate economic growth by affecting the rate of capital growth and the efficiency of capital allocation. However, what is now known as the Mckinnon-Shaw model highlights the significant positive impact of financial liberalization on savings, investment, and consequently economic growth, whereas

Goldsmith concentrates on the connection between financial development and investment efficiency.

In order to find policy solutions that can support these factors and, eventually, economic growth, it is crucial to investigate how financial liberalization has affected savings and investment in Nigeria. We estimated the impact of financial liberalization on investment and savings in Nigeria using Two-Stage Least Squares (2SLS). The intricate relationship between financial liberalization, savings, and investment in Nigeria will be better understood thanks to this study.

2.0 Review of Theoretical Literature

2.1.1 Neo-Classical Economic Doctrine of Liberalization

The neoclassical theory of laissez-faire, which supports the liberalization of the real and financial sectors, the privatization of state-owned businesses, and the use of market forces to distribute resources, is the theoretical basis for economic and financial liberalization. It highlights how important consumer sovereignty and Adam Smith's invisible hand are to attaining the best possible results in the financial sector. Reforms in both internal and external conditions, such as the stabilization of exchange rates for international competitiveness, are necessary for economic efficiency, especially in resource allocation. Macroeconomic stability, governance, and institutional quality all have an impact on financial development and are essential for both financial deepening and general economic expansion. Growth prospects are hampered because insufficient financial intermediation results from the typical constraints of financial markets in emerging nations, especially in Nigeria.

2.1.2 Theory of Financial Repression (FRT)

This idea, which was created by McKinnon (1973) and Shaw (1973), contends that low savings and investment are the result of financial repression, which is typified by interest rate caps, high reserve requirements, and directed lending. Financial liberalization influences the economy through two main channels: savings and allocative efficiency. Firstly, it enhances the volume of savings by responding to real interest rates, which encourages higher returns on savings instruments in a repressed financial environment, attracting savings from the informal to the formal sector. Secondly, financial institutions leverage these savings for productive investments, particularly in the private sector, which utilizes funds more efficiently than the public sector, thereby improving productive efficiency and fostering positive economic growth.

2.1.3 The theory of endogenous growth (Romer, 1986)

According to this idea, financial liberalization can boost investments in R&D and human capital, which in turn boosts economic growth. The endogenous growth model, which was created in the 1980s as an attempt to include the sources of technological advancement and, consequently, of sustained productivity growth within the general equilibrium framework of neoclassical growth theory, improved upon the shortcomings of the Harrod-Domar growth model and the neoclassical growth model (Ogujiuba and Adeniyi, 2005). It maintains that endogenous rather than exogenous forces are the main cause of economic growth. It maintains that investments in information, innovation, and human capital are important drivers of

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economic expansion. Romer (1986), who saw the classical and neoclassical theories as oversimplifying what is actually a complex process, is largely responsible for the endogenous growth model.

According to theoretical research, financial liberalization may boost investment and savings, which may boost economic growth. However, there is conflicting empirical data regarding how financial liberalization has affected investment and savings in Nigeria, underscoring the need for more study in this area.

2.2 Empirical Literature

The results of empirical research on how financial liberalization affects investment and savings have been conflicting. While some research (e.g., Bandiera et al., 2000; Akinlo and Egharevba, 2009) have indicated that financial liberalization has a favorable effect on investment and savings, others (e.g., Demetriades and Luintel, 1997; Arestis and Demetriades, 1997) have found no significant influence.

Remittances and economic growth in Nigeria are examined by Kudaisi, Ojeyinka, and Osinubi (2022), who find that the country's financial liberalization played a major role in this relationship between 1990 and 2018. They discover that both financial liberalization and remittances have a negative impact on economic growth using the generalized method of moments (GMM) to account for potential endogeneity. Nevertheless, the interaction between the two shows a positive, significant effect, indicating that they complement each other in fostering economic growth. According to the study's findings, Nigeria can attract growth-promoting remittances by strengthening its financial sector.

ThankGod and Abraham (2022) used data from the Central Bank of Nigeria to examine the connection between financial liberalization and economic growth in Nigeria between 1981 and 2021. To evaluate the data, they used the Auto-regressive Distributed Lag (ARDL) Model and unit root tests. The results showed that financial liberalization has both short-term and long-term effects on economic growth. In particular, the prime lending rate and financial deepening have a short-term negative impact on growth, but credit to the private sector has a favorable impact. In order to encourage savings and investment and ultimately boost economic growth, the report suggests that the Central Bank of Nigeria adjust the excessive lending rates.

Mansour and Hassan (2021) examined the impact of financial deregulation on economic growth in developing countries, with a particular focus on Egypt and Saudi Arabia. The following macroeconomic variables are used as financial liberalization indices in the study's model, which uses GDP growth as the dependent variable: broad money as a percentage of GDP, domestic bank credit to the private sector as a percentage of GDP, monetary sector credit to the private sector as a percentage of GDP, and net inflows of foreign direct investment as a percentage of GDP. The World Bank's open data website was used to gather yearly statistics for the Kingdom of Saudi Arabia and Egypt from 1970 to 2018. The empirical study uses the (ARDL) technique. The results show that after more than thirty years of implementation, the financial and external liberalization policies of both nations had no positive impact on the growth rates of their economies.

Time series data from 1970 to 2016 were used by Yakubu et al. (2020). The authors choose to use quantile regression to evaluate models with quadratic and interaction variables. To

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investigate the stationarity issue, the unit root test was created. Political stability had an impact on Kenya's actual economic growth, which was further limited by the nation's lack of financial development and open capital accounts. Financial development and actual economic growth have a nonlinear U-shaped relationship, with the former acting as a drag and the latter as a long-term growth engine. To promote economic growth, the government should continue to liberalize the capital account. To lessen the detrimental effects of financial repression and preserve a stable political environment, the domestic financial market should also be liberalized.

Based on the McKinnon and Shaw hypothesis, Ilugbusi et al. (2020) examined how financial liberalization affected Nigeria's economic growth between 1986 and 2018. Using data from the CBN Statistical Bulletin, the study examined a number of financial indicators, including prime lending rates and private sector credit, and used GDP as a gauge of economic growth. The results showed both short-term and long-term correlations between financial liberalization and economic growth, emphasizing that while prime lending rates have no effect on GDP, credit to the private sector does. Exchange rates and savings deposit interest rates also have some detrimental effects. According to the study's findings, financial deregulation greatly boosts economic expansion, especially when it comes to loans from the private sector.

Syed and Shahid (2019) use panel data from 58 countries (1973–2012) and the Fully Modified Ordinary Least Square (FMOLS) method to examine the effects of banking sector reforms. According to their findings, Least Developed Countries (LDCs) benefit more from financial liberalization (FL) than Developed Countries (DCs) since DCs have more market-based financial systems. Additionally, results indicate that while LDCs can still profit from additional FL by supporting the creation of financial intermediaries and economic expansion, DCs suffer negative consequences from excessive FL, such as currency overvaluation and financial crises.

Obamuyi (2019) investigated the relationship between Nigeria's economic expansion and interest rate liberalization. He demonstrated that real lending rates have a major impact on economic growth and that there is a long-term association between economic growth and interest rate liberalization using annual data from 1970 to 2006 and a co-integration and error correction model. Additionally, he verified a favorable correlation between investment and economic growth as well as between interest rates and investment.

Asamoah (2018) evaluated the effects of financial liberalization on savings, investment, and GDP growth in Ghana. Monthly savings and interest rates were included in the data, along with yearly and seasonal dummy variables in place of post- and pre-liberalization. Ordinary Least Square (OLS) regression analysis was used to evaluate the empirical estimation of 42 observations from January 2000 to June 2003. The results demonstrate that the rise in interest rates over the years following financial sector liberalization has resulted in corresponding savings, which has a positive impact on GDP growth. The results demonstrated that financial deregulation has accelerated capital accumulation and enhanced capital utilization efficiency, both of which are critical for economic expansion.

Fowowe (2018) carried out an empirical assessment of the effects of financial liberalization on Nigeria's economic growth and discovered that liberalization has significantly improved growth over the long term. This supports the idea that, despite the possibility of short-term financial fragility, financial liberalization actually promotes growth over the long term.

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Foluso et al. (2017) examined the impact of financial liberalization on economic development using data from thirty countries in sub-Saharan Africa (SSA). This study examines how financial liberalization and banking crises impact GDP growth in SSA using dynamic panel estimation. The linear generalized method of moments is estimated using the Arellano and Bover methodology. According to the findings, the variable that represents financial liberalization has a positive and statistically significant coefficient for SSA. The dummy sign for financial liberalization turned negative for low-income countries, albeit being statistically insignificant. The data also show an inverse relationship between a financial crisis and economic growth, suggesting that the duration of a banking crisis may have a significant impact on economic growth across sub-Saharan Africa. Given the significant role that the majority of financial intermediaries play in developing nations, these findings have ramifications for several African countries, particularly those whose economies are currently undergoing financial reforms.

Orji et al. (2015) used the McKinnon-Shaw framework to create a financial liberalization index for Nigeria between 1981 and 2012 in order to examine how financial deregulation affected the nation's GDP growth. The study employs the ordinary least squares approach and cointegration analysis. It has been demonstrated that private investment and financial liberalization—abbreviated FINDEX and PINV, respectively—have a significant influence on Nigeria's GDP growth. Real lending rates (LDR) and GDP growth in Nigeria were found to be negatively correlated over the course of the study.

2.3 The conceptual framework

The McKinnon-Shaw Hypothesis (1973) and the Financial Repression Theory (FRT) serve as the foundation for this study's conceptual framework. According to the framework, financial deregulation increases investment and savings, which boosts economic growth. The approach also acknowledges that the links between financial liberalization, savings, and investment may be impacted by inflation and the growth of the financial sector.

3.0 Methodology

In order to explain the connection between savings and some financial liberalization indicators, this section offers a few models based on the research of De Melo and Tybout (1986). However, because this study takes into account the function of interest rate liberalization (IRL) in the liberalization processes, the specification here is slightly different from their own work.

This study looks at how financial liberalization has affected investment and savings in Nigeria using a quantitative research methodology. Time series data from 1981 to 2024 are used in the study. The model employs lagged IRL, GDP, and inflation as instruments and specifies interest rate liberalization (IRL) as a stand-in for financial liberalization. A reliable assessment of the causal impact of financial emancipation on savings and investment in Nigeria is provided by Two-Stage Least Squares (2SLS), which also helps address endogeneity. This model looks at the impact of financial liberalization on GDS (savings) and GFCF (investment) in Nigeria using IRL as a stand-in.

3.1 Model Specification:

The study specifies the following models:

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First Stage:

$IRL_t = \alpha_0 + \alpha_1 IRL_{t-1} + \alpha_2 GDP_{t-1} + \alpha_3 INF_{t-1} + \varepsilon_t$ (1)

$\bar{I}RL = \alpha_0 + \alpha_1 IRL_{t-1} + \alpha_2 GDP_{t-1} + \alpha_3 INF_{t-1} + \varepsilon_t$ (2)

This predicted value $\bar{I}RL_t$ is then used as an instrument for IRL_t in the second-stage equations.

IRL_t is Interest Rate Liberalization (proxy for financial liberalization)

IRL_{t-1} is lagged IRL

GDP_{t-1} is lagged Gross Domestic Product

INF_{t-1} is lagged Inflation

ε_t is the error term

Second Stage:

$GDS_t = \beta_0 + \beta_1 \bar{I}RL_t + \beta_2 GDP_t + \beta_3 INF_t + \beta_4 FD_t + \mu_t$ (3)

$GFCF_t = \gamma_0 + \gamma_1 \bar{I}RL_t + \gamma_2 GDP_t + \gamma_3 INF_t + \gamma_4 FD_t + \nu_t$ (4)

where:

GDS_t is Gross Domestic Savings

$GFCF_t$ is Gross Fixed Capital Formation

$\bar{I}RL_t$ is the predicted value of IRL from the first stage

GDP_t is Gross Domestic Product

INF_t is Inflation

FD_t is Financial Deepening (M2/GDP)

μ_t and ν_t are error terms

3.2 Description of Variables

Data on GDP at current market pricing. This is the GDP at current factor cost plus indirect taxes after subsidies are subtracted. It is the GDP valued at the market rates that consumers pay for the products and services they purchase or utilize.

Aggregate savings (S)

The portion of the national income that would not be spent on consumer items is known as aggregate savings (S). Savings are "abstinence from consumption, an exchange of present income against an equal amount of income in the future or against the security accompanying a store of wealth," according to Klein (2005). Since savings in this case entails the productive use of money not spent on current consumption, it is not the same as hoarding.

Gross Capital Formation (GCF), or gross capital formation This is also referred to as Gross Domestic Investment, and it refers to the entire change in the value of both stocks and fixed assets.

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A significant imbalance in international payments and a slowdown in economic growth are characteristics of inflation (INF).

Financial deepening (FD): Cash, deposits, and other liquid assets are included in M2/GDP (Broad Money). A ratio that illustrates the size of the financial sector in relation to the economy is obtained by dividing it by GDP.

Interest Rate Liberalization (IRL): The elimination of governmental interest rate regulations, a stand-in for financial liberalization.

4.0 Results and Discussion of Findings

4.1. Descriptive Statistics

The descriptive statistics of the data on the variables utilized in the analysis are shown in Table 1. 16.22 percent is the average degree of financial deepening. The highest and lowest figures are 9.06 percent and 27.38 percent, respectively. Nigeria appears to have a relatively low level of financial development and, consequently, private credit intermediation. Financial liberalization has a mean of 17.0, a maximum of 31.0, and a low of 8.9. The average GDP is #39902.54 billion, investment is #8743.094, GDS is 41.08%, and the inflation rate is 19.07%. Macroeconomic instability is demonstrated by the inflation rate's high standard deviation number. Over time, inflation has consistently been both high and erratic.

Table1: Descriptive Statistics

	CAP #Billion	GDP #Billion	GDS #Billion	INF	INTR	FD
Mean	8743.094	39902.54	41.08647	19.07948	17.24726	16.22253
Maximum	15789.67	77936.1	88.39	72.8355	31.65	27.37879
Minimum	5668.87	16211.49	13.08	5.388008	8.916667	9.063329
Std. Dev.	1992.304	21651.62	18.77858	16.28122	4.785759	5.421875
Skewness	1.097245	0.485004	0.651574	1.867414	0.396544	0.599018
Kurtosis	5.028415	1.591566	2.896361	5.47297	3.635158	1.947657
Jarque-Bera	6.00004	5.239911	3.061846	5.94894	1.849745	4.555699
Probability	0.060335	0.072806	0.216336	0.062706	0.396582	0.102504

Source: Authors' computation, 2026

4.2. Unit Root Test for Stationary

Regression analysis variables are tested for stationarity using the unit root test. The stationarity of time series utilized in regression depends on the inability of non-stationary time series to be applied to a long time period that is not the present. The outcomes are displayed in tiers, and

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the Using the Augmented Dickey-Fuller (ADF) and Phillip Perron test, Table 2 shows the first difference. From the root of the unit test results, it was not possible to reject the null hypothesis that there was no unit root for the time series variables at the 5% significance threshold, suggesting that the variables are not stationary at certain levels. According to Box and Jenkins (1994), non-stationary time series variables can be made stationary by differentiating them. The variables underwent the first-differencing mechanism, and following the first differences, they became stationary and INF was stationary at level. As a result, the variables are difference-stationary, reaching stationary following the first difference, and at level are integrated into order one and level i.e., I (1) and 1(0).

Table 3: Unit Root Stationary Test

Variable	Augmented Dickey Fuller (ADF)			Philip Perron (PP)		
	Level	**1st diff**	**remarks**	**Level**	**1st diff**	**remarks**
CAP	-2.0274	-5.3174	1(1)	-2.3337	-5.9770	1(1)
GDP	-0.9249	-4.1020	1(1)	-0.358	-3.9873	1(1)
GDS	-2.0489	-8.1906	1(1)	-1.9844	-8.1906	1(1)
INF	-3.5209	-7.2037	1(0)	-3.3866	-9.561	1(0)
INTR	-2.3649	-6.0281	1(1)	-2.4209	-6.0350	1(1)
FD	-1.5997	-5.1126	1(1)	-1.4594	-5.6184	1(1)

Source: Authors' computation, 2026

Test for Co-integration

The Johansen Cointegration test method was used for the analysis, and the result is presented in

Table 3.

Table 3: Johansen Multivariate Cointegration Tests Results.

Trace Statistic			Eigenvalue test			
Null hypothesis	**Test Statisics**	**Critical Value**	**Null hypothesis**	**Test Statisics**	**Critical Value**	**Hypothesised No of CE(s)**
r = 0*	174.4687	95.75366	r = 0*	74.2293	40.07757	None**
r ≤ 1 *	100.2394	69.81889	r ≤ 1 *	38.03498	33.87687	At most 1**
r ≤ 2 *	62.20445	47.85613	r ≤ 2 *	30.12287	27.58434	At most 2**
r ≤ 3 *	32.08158	29.79707	r ≤ 3 *	20.52377	21.13162	At most 3**
r ≤ 4 *	11.5578	15.49471	r ≤ 4 *	10.36657	14.2646	At most 4
r ≤ 5 *	1.191233	3.841465	r ≤ 5 *	1.191233	3.841465	At most 5

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Source: Authors' computation, 2026 Max-eigenvalue and trace statistics test indicates 3 cointegrating eqn(s) at the 0.05 level (**) denotes rejection of the hypothesis at a 5% significance level.

Since the hypothesis of no cointegrating vector (r=0) is to be rejected, the table's results demonstrate that there are at least three significant (plausible) cointegrating vectors among the variables using the λ-max and trace test statistics. It appears that there are three cointegrating relations or vectors (represented by r). Thus, it is established that financial liberalization has a long-term equilibrium effect on investment and savings in Nigeria.

Table 4: Dependent Variable: GFCF

Method: Two Stage Least Squares

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
CAP(-1)	0.700834	0.061835	11.33386	0
GDP	0.226409	0.067236	3.367392	0.0019
INF	0.04045	0.036706	1.101999	0.278
ĪRL	-0.21931	0.093145	-2.35452	0.0243
FD	0.14684	0.106927	2.123557	0.0415
R-squared	0.71778			
R^{-2}squared	0.677463			
F-statistic	17.71294			
Prob(F-statistic)	0			

The findings are really good: 68% of the investment in Nigeria for the period of study could be explained by five explanatory variables. The hypothesis of a log linear relationship between the six variables cannot be rejected at the one percent level because the F-value is very significant. Every coefficient has the anticipated signs. The inflation coefficient, however, is not significant.. The lagged gross fixed capital formation is highly significant, as predicted, indicating that previous investment in Nigeria is a reliable indicator of current investment. Future investment is therefore driven by ongoing infrastructure projects (roads, energy, etc.). This outcome is similar to the findings of De Melo and Tybout's (1986) investigation. In a similar vein, Eberly, Rebelo, and Vincent (2012) found that lagged investment outperforms Tobin's Q as a predictor of investment.

A 1% rise in GDP is linked to a 0.2264% increase in Gross Fixed Capital Formation (GFCF), according to the positive correlation of 0.2264, indicating that investment in Nigeria is driven by economic growth. The coefficient indicates that GDP has a moderate effect on GFCF, leaving potential for measures to increase investment even more. Infrastructure investment, a component of GFCF, has been connected to economic growth in Nigeria, underscoring the significance of capital formation (Infrastructure, Human Capital Development and Economic Growth in Nigeria).

Gross Fixed Capital Formation (GFCF) and Financial Development (FD) in Nigeria are positively correlated, suggesting that investment in the nation rises in tandem with FD. This implies that better financial products and services are stimulating capital formation and investment. This result confirms the findings of Ewetan, Ike, and Urhie (2015), who used autoregressive distributed lag models to discover that financial development significantly and favorably affects domestic savings and investment in Nigeria. Encouraging Capital Formation, Businesses are investing in new initiatives as a result of easier access to credit and financial services.

In Nigeria, interest rate liberalization (IRL) and gross fixed capital formation (GFCF) have a statistically significant link with a negative coefficient of -0.219313. It means that interest rates, a crucial factor in the liberalization process, have no bearing on investment. It has a detrimental effect on investment where it seems to be large, as in Table 4. This means that a decrease in investment may follow an increase in interest rates. It demonstrates how sensitive businesses are to rising capital costs. This runs counter to both the Modigliani and Miller (1958) notion that the cost of capital is insignificant in a perfectly competitive market and the financial liberalization hypothesis.

In Nigeria, the relationship between Gross Fixed Capital Formation (GFCF) and Inflation (INF) is positive at 0.04045, although it is not statistically significant. This implies that investment choices in fixed assets, such as machinery or infrastructure, are not much impacted by inflation. According to research by Ismail, Musa, and Magaji (2025), depending on inflation levels and economic circumstances, inflation has different effects on growth in Nigeria.

Table 5: Dependent Variable: GDS

Method: Two Stage Least Squares

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
GDS(-1)	0.652927	0.164055	3.979937	0.0003
GDP	0.04722	0.02277	2.073762	0.041
INF	0.02051	0.058312	0.351725	0.7272
IRL	0.18613	0.075661	2.460051	0.0188
FD	-0.37498	0.173219	-2.16477	0.0375
C	3.220495	2.165678	1.487061	0.1462
R-squared	0.854157			
R^{-2}squared	0.82842			
F-statistic	9.214238			
Prob(F-statistic)	0.000005			

Consider table 5, which is even better than the table 4. With four variables employed the equation is able to explain about 83 percent of the country Gross Domestic savings during the period of study. The F-value is highly significant all the coefficients have the expected signs. As expected, lagged savings is highly significant. In Nigeria, previous savings have a major

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impact on current investment (GFCF), as evidenced by the positive and highly significant Gross Domestic Savings (GDS) lag. This implies that current capital production is influenced by savings from earlier times. According to study by Abu (2010), savings have a favorable effect on investment and economic growth.

In Nigeria, GDP and Gross Domestic Savings (GDS) have a statistically significant relationship with a positive coefficient of 0.04723. This indicates that economic expansion promotes savings because a 1% increase in GDP is linked to a 0.04723% increase in GDS. Abu (2010) discovered that savings in emerging nations, such as Nigeria, are positively impacted by GDP development.

Nigeria's Gross Domestic Savings (GDS) and Inflation (INF) have a positive coefficient of 0.02051, however the relationship is not statistically significant. This implies that savings decisions are not significantly impacted by inflation. However, depending on the state of the economy, some research indicates that inflation has varying effects on savings (Ewetan, Ike & Urhie, 2015). The weak relationship may indicate that savings are more influenced by other variables than inflation, such as income, interest rates, or economic stability.

In Nigeria, interest rate liberalization (IRL) and gross domestic savings (GDS) have a statistically significant relationship with a positive coefficient of 0.18613. This implies that savings tend to increase along with interest rates, indicating that higher interest rates are motivating people to save more. Research backs up this conclusion, showing that higher interest rates might draw deposits. In Nigeria, for example, 19 banks offer an interest rate on savings of 8.18%, in accordance with the Central Bank of Nigeria's monetary policy adjustment CBN 2024.

In Nigeria, Financial Deepening and Gross Domestic Savings (GDS) have a statistically significant relationship with a positive coefficient of 0.37498. This indicates that saves tend to expand when FD rises, indicating that savings mobilization is being supported by broader money supply growth. Research backs up this conclusion. According to Veriv Africa's 2025, a rise in the money supply may result in larger savings, maybe due to financial deepening and economic growth.

5.0 Conclusion and Policy Recommendation

This analysis uses data from Nigeria from 1981 to 2023 to empirically assess the question of whether financial liberalization on savings and investment is a significant driver in economic growth. There are several ways that financial market reforms impact resource allocation, according to earlier studies on financial liberalization in developing nations. First, an increase in interest rates could result in a rise in savings. Second, easing financial restrictions could result in more investment. This study examined the empirical relevance of these two effects to the Nigerian economy; the main conclusions are shown below.

Gross domestic savings was employed in table (5), and the results demonstrate that financial liberalization boosts savings growth in Nigeria. The models incorporated certain important variables that were presumed to impact savings based on the literature. Nearly every determinant is consistent with the anticipated signals and statistically significant.

According to the second estimate, Nigerian savings are not much influenced by the crucial factor of interest rates. When it comes to the investment model, the results indicate that accelerator theory plays a major role in understanding the investment behavior of the Nigerian economy throughout the sample period, even though financial depth is assessed by broad money supply (m2). According to the conventional accelerator theory, investment is based on expectations.

The result is that expectations, rather than savings limitations, are more important in explaining investment behavior in Nigeria throughout the study period. Furthermore, the downward structural shift indicated that there is no hard proof of increased investment in the Nigerian economy as a result of the financial liberalization legislation. Interest rates, which are crucial to the reform process, looked to be negative and considerable in certain instances. This was also the case with measurements of the overall performance of the money supply and money growth.
Regarding the investment model, the outcome demonstrates that accelerator theory has a major influence on the explanation of the Nigerian economy's investment behavior during the course of the sample period. According to the conventional accelerator theory, investment is based on expectations.

The results of this study demonstrate that Nigeria is credit-constrained rather than savings-constrained. Since interest rates have little bearing on savings in Nigeria, a small increase in interest rates may also result in a large drop in domestic investment. Therefore, the analysis suggests that measures that support the country's interest rate liberalization are very important. Reducing macroeconomic uncertainty and addressing other macroeconomic problems that hinder the distribution of credit to profitable projects, such as income and consumption policies and interest legislation, are crucial. And increase access to financial services to mobilize savings and channel them into investment, also implement policies that allocate funds to viable investment projects, accelerating economic growth.

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