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# NIGERIA FINANCIAL SYSTEM AND FINANCIAL INCLUSION

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**ABSTRACT:** *This study assesses the impact of Nigeria's Financial System on financial inclusion in the country. The ex-post facto research design was judged to be appropriate to use. This study utilizes time series data spanning from 2012 to 2023. Given the nature of the research and the suitability of the available data, secondary data sources were employed. The dependent variable of the study was financial inclusion proxied by number of mobile money transactions (MMT) while the independent variable was Nigeria's Financial System proxied by Interest rate (INT) and Inflation (INF). The data were obtained from the official databases of both national and international agencies, including the Central Bank of Nigeria (CBN), Nigeria Inter-Bank Settlement System (NIBSS), and the International Monetary Fund (IMF). Using the Autoregressive Distributed Lag (ARDL) methodology, this study estimates and interprets the parameters of each variable, providing insights to answer the research questions. The result indicates that inflation has a positive and significant effect on mobile money transactions in Nigeria while interest rates show no significant impact on mobile money usage. The study recommends that government and financial institutions should improve digital payment systems and enhance financial inclusion while leveraging mobile money transactional strengths during inflation.*

**KEYWORDS:** Financial Inclusion**,** Mobile Money, Inflation Rate, Interest Rate and Financial System.


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## INTRODUCTION

Financial inclusion has become a vital component of economic development globally. It involves ensuring that all individuals and businesses, particularly those historically underserved, have access to affordable and useful financial products and services, including payments, savings, credit, and insurance. The World Bank emphasizes that financial inclusion is crucial for reducing poverty and promoting shared prosperity. Over the past twenty years, the rapid growth of financial technology (FinTech) and digital payments has significantly increased access to financial services. Mobile money transactions have been particularly transformative, providing unbanked populations with secure and convenient ways to conduct financial transactions. Countries like China and India have successfully leveraged digital payment systems to enhance financial access, driving economic growth and reducing financial exclusion. Ajekwe (2020) states that financial inclusion refers to a world where everyone, wherever they live, has access and can use the financial products and services needed to capture opportunities and reduce vulnerability.

Africa has made significant strides in financial inclusion, primarily driven by the widespread adoption of mobile money services. Kenya's M-Pesa has served as a pioneering model for many other African countries seeking to extend financial services to rural and low-income communities. Financial inclusion promotes financial deepening through the mobilisation of savings which will be used to finance productive economic activities (Soyemi *et al.*, 2020). Mobile money platforms have successfully reduced cash transactions, increased savings, and facilitated easier access to credit. Nevertheless, despite these advancements, financial inclusion in many African countries remains hindered by high-interest rates, inflation, inadequate infrastructure, and regulatory obstacles.

As one of Africa's largest economies, Nigeria boasts a dynamic financial system comprising deposit money banks. microfinance institutions, FinTech companies, and mobile money operators. The financial system improves financial inclusion through a range of innovative initiatives, which encourage optimal consumption and saving choices and support the efficient use of cash by businesses and individuals (Oyadeyi, 2023). Despite this diversity, financial exclusion persists, with a substantial portion of the population remaining unbanked or underbanked. The advent of mobile money services, offered by both banks and telecommunications companies, has been instrumental in broadening financial inclusion, particularly in rural and semi-urban areas. However, macroeconomic factors, such as interest rates and inflation, continue to influence the efficacy and growth of mobile money transactions. Interest rates serve as a barometer for borrowing costs, while inflation rates reflect the purchasing power of consumers, both of which are critical in shaping the financial behavior of individuals and businesses. High inflation rates diminish consumers' purchasing power, while fluctuating interest rates impact financial service providers' willingness to offer credit via mobile platforms. High inflation can lead to increased costs and reduced consumer spending, negatively impacting financial performance (Adaramola & Dada, 2020).

This study seeks to assess the impact of inflation and interest rate on mobile money transactions in Nigeria, providing valuable insights into how macroeconomic stability can foster financial inclusion and drive economic growth.


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## Statement of the Problem

Despite ongoing efforts to broaden access to financial services, financial inclusion remains a pressing issue in Nigeria. Al-Smadi (2022) opines that Financial Inclusion aims to ensure access and use of financial services and products in the formal financial system by all segments of society, thus ensuring their participation in economic growth and taking advantage of development. Mobile money transactions have proven to be a vital catalyst for enhancing financial inclusion, particularly among marginalized populations lacking access to traditional banking services. Nevertheless, the development and efficacy of mobile money services are significantly shaped by macroeconomic factors, notably interest rates and inflation.

A significant concern in Nigeria is the fluctuation of interest rates, which impacts the affordability of credit and savings. When interest rates are high, borrowing becomes costly, deterring individuals and businesses from accessing mobile-based credit services. This decrease in borrowing activity, in turn, reduces transaction volumes and compromises the overall efficiency of mobile money platforms. On the other hand, lower interest rates may stimulate borrowing but could also squeeze the profit margins of financial service providers, potentially hindering the growth and expansion of mobile money networks.

Inflation poses a significant threat to mobile money transactions, as sustained price increases erode individuals' purchasing power, resulting in decreased disposable income and reduced mobile money activity. During periods of high inflation, consumers typically allocate their limited resources towards essential expenses, deprioritizing financial transactions and hindering the adoption and expansion of mobile money services. Furthermore, inflation can create financial instability, deterring investments in digital financial infrastructure and undermining the long-term viability of mobile money platforms. A country’s monetary authority is better able to stabilise prices as more people have access to formal financial services (Adetunji & David-West, 2019).

Although mobile money services have gained significant traction in Nigeria, there is a notable knowledge gap regarding the impact of macroeconomic factors, particularly interest rates and inflation, on mobile money transactions. Investigating these relationships is crucial for informing policy decisions, strategic planning, and operational efficiency among policymakers, financial institutions, and mobile money operators. By examining the interplay between interest rates, inflation, and mobile money transactions in Nigeria, this study aims to provide actionable insights into how these macroeconomic factors influence financial inclusion, ultimately contributing to the development of evidence-based strategies that promote economic stability and expand financial access.

## Objective of the Study

The main objective of the study is to assess the impact of Nigeria’s Financial System on Financial Inclusion in Nigeria.

The specific objectives of the study are as follows:

a) To analyze the impact of interest rate changes on financial inclusion in Nigeria.

b) To evaluate the effect of inflation rate fluctuations on financial inclusion in Nigeria.


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### Research Questions

The following research questions will be answered during the research:

a) How do changes in interest rates affect the financial inclusion in Nigeria?

b) In what ways do fluctuations in the inflation rate affect the financial inclusion in Nigeria?

### Research Hypotheses

The following are the hypotheses of the study:

a) **(H0) 1:** Changes in interest rates do not have a significant impact on financial inclusion in Nigeria.

b) **(H0) 2:** Fluctuations in the inflation rate do not significantly influence the financial inclusion in Nigeria.

### Significance of the Study

The significance of this study can be viewed from the following perspectives:

**Significance to Agencies of Government and Policymakers:** This research aims to provide policymakers, including the Central Bank of Nigeria (CBN), agencies of government and financial regulatory bodies, with actionable insights to inform policies that foster financial inclusion through mobile money services. This study will enable policymakers to develop targeted strategies that stabilize the financial system, promote digital financial inclusion, and expand access to financial services for the unbanked and underbanked populations.

**Significance to Financial Institutions and Mobile Money Operators:** This study will provide valuable insights to money deposit banks, microfinance institutions, and mobile money service providers, enabling them to understand the interplay between macroeconomic factors and the adoption and usage of mobile money services. Armed with this knowledge, financial institutions can design targeted financial products, enhance service delivery, and develop effective risk management strategies to navigate economic uncertainties and minimize their impact on operations.

**Significance to Researchers and Academia:** This study aims to enrich the existing body of literature on financial inclusion and mobile money transactions in Nigeria, providing a foundational framework for future research endeavours in this domain. As a valuable resource, this study will serve as a reference point for academics, students, and researchers seeking to explore the complex relationships between macroeconomic factors and digital financial services, ultimately contributing to the advancement of knowledge in this field.

**Significance to Investors and FinTech Companies:** This study will provide investors and FinTech startups seeking to expand mobile financial services in Nigeria with critical insights into the economic factors influencing mobile money transactions. By understanding these dynamics, they will be empowered to make informed investment decisions, develop tailored strategies, and ensure the long-term sustainability of their mobile financial services in Nigeria's evolving economic landscape.


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## LITERATURE REVIEW

### Conceptual Review

This review seeks to theoretically examine and conceptualize the interrelationships between inflation, interest rate fluctuations, and financial inclusion in Nigeria, providing a comprehensive framework for understanding the dynamics at play. The Nigerian financial system is a network of institutions, markets, and regulatory frameworks that facilitate financial transactions and promote economic growth. At the heart of this system is financial inclusion, a crucial objective that seeks to provide individuals and businesses with access to affordable and essential financial services. Ekong and Ekong (2022) state that financial inclusion has been globally accepted as a tool for sustainable development. Mobile money transactions have emerged as a vital driver of financial inclusion, leveraging digital technology to enable efficient payments, savings, and credit access, especially for the unbanked and underserved populations. However, the trajectory of mobile money transactions is significantly influenced by macroeconomic factors, with interest rates and inflation being key determinants of their effectiveness and growth.

Interest rates play a pivotal role in shaping the financial landscape, influencing the cost of borrowing and the return on savings, which in turn affects the propensity of individuals and businesses to engage in mobile money-related financial activities. Elevated interest rates deter borrowing, restricting access to mobile-based credit services, whereas lower rates may incentivize borrowing but potentially erode financial institutions' profit margins. If the interest rate on a loan is high, credit to the private sector will fall and the rate of financial development will subsequently be reduced, while a low interest rate on credit to private firms will stimulate and subsequently increase the rate of financial development (Anthony-Orji *et al.*, 2022). Furthermore, inflation exerts a profound impact on consumer behavior, diminishing purchasing power and leading to decreased mobile money usage and financial instability. As inflation rises, individuals tend to prioritize essential expenditures over financial transactions, potentially hindering the adoption and growth of mobile money services. Elucidating the complex relationships between interest rates, inflation, and mobile money transactions is essential for developing effective strategies to promote financial inclusion in Nigeria.

### Theoretical Review

This study is anchored on The Financial Intermediation Theory. The theory, as posited by Gurley and Shaw (1960), explains the pivotal role of financial institutions in bridging the gap between savers and borrowers, thereby facilitating efficient allocation of capital. In this context, mobile money services serve as digital financial intermediaries, providing platforms that enhance financial inclusion, particularly for the unbanked and underserved populations. However, interest rates significantly influence the efficacy of financial intermediation, as elevated rates can deter borrowing and restrict access to mobile money credit services, whereas lower rates may stimulate borrowing but diminish financial institutions' incentives to invest in mobile money infrastructure expansion. This theoretical framework underscores the importance of stable interest rates in promoting mobile money adoption and fostering financial inclusion.

This study which is also connected to the Monetary Theory, pioneered by Milton Friedman and other proponents of monetarism, elucidates the intricate relationships between money supply, inflation, and economic stability. According to this theoretical framework, an excessive money


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supply fuels inflation, eroding the purchasing power of individuals and exerting a deleterious impact on financial transactions, including mobile money usage. In the Nigerian context, persistent inflation precipitates a decline in consumers' disposable income, discouraging frequent mobile money transactions and hindering financial inclusion. Moreover, uncertainty surrounding inflation can deter investments in financial technology, thereby impeding the expansion of mobile money services. This theory underscores the imperative of maintaining price stability to foster sustainable financial inclusion through mobile money platforms.

**Empirical Review**

The empirical review of the Effect of Technology Adoption on Financial Inclusion: A Cross-country Panel Analysis Between China and Nigeria (Alabi *et al.*, 2022) was done. The study aimed at examining the effects of technology Aaoption on financial inclusion with focus on automated teller machines, internet usage and mobile cellular subscriptions as the major drivers in a cross-country analysis between China and Nigeria. The study employed Pooled OLS and Feasible Generalized Least Squares estimators for analysis. Financial inclusion was represented by the number of depositors with commercial banks per 1,000 adults' population. The results reveal that automated teller machines, internet usage and mobile cellular subscriptions exert insignificant positive effects on financial inclusion both in China and Nigeria. The technology variables however exerted a significant positive impact on financial inclusion, as represented by other dummy countries in the panel. The study also found that GDP growth rate has a significant negative relationship with financial inclusion in China and Nigeria as well as the rest of the world as represented.

The empirical review of the threshold effects in the relationship between interest rate and financial inclusion in Nigeria (Evans, 2017) was also done. The study used a non-linear threshold model to examine the impact of interest rates on financial inclusion in Nigeria for the period 1981 to 2014. Real GDP per capita was obtained from the World Development Indicators; total commercial banks' loans and advances, gross domestic product (GDP), credit to the private sector, money supply and lending interest rate were collected from the Central Bank of Nigeria. The study used only outstanding loans of commercial banks (as % of GDP) as a measure of financial inclusion. The study concluded that interest rate has a significant negative impact on financial inclusion once it crosses the threshold level, while below the threshold level it is expected to have an insignificant impact. In other words, the study reveals that interest rate hampers financial inclusion if it exceeds 16.9%. Below this threshold, however, the impact of interest rate remains insignificant.

Ene *et al.* (2019) examined the impact of electronic banking on financial inclusion in Nigeria. The study used the total number of automated teller machines and point-of-sale devices in Nigeria as proxies for electronic banking and the proportion of banked adult population to total bankable adult population in Nigeria as proxy for financial inclusion. The study adopted correlational and ex-post facto research designs with the aid of computer-based multiple regression analysis. The study was for a period of ten years (from 2008 to 2017) and used secondary data for analysis. It was observed that automated teller machines do not significantly impact financial inclusion while point-of-sale devices significantly impact financial inclusion in Nigeria.

Joseph *et al*. (2021) examined the extent to which monetary policy is effective in achieving financial inclusion in Nigeria and whether FinTech improves or impedes this relationship.


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Quarterly time series data spanning from 2009 to 2019 from the Central Bank of Nigeria were used for estimations. Johansen's cointegration test and fully modified OLS were used to carry out the analysis. The result shows that measures of monetary policy effectiveness, such as inflation rate and lending rate, all had a significant effect on financial inclusion in the country. It was also discovered that accounting for FinTech in the model improves the effectiveness of the monetary policy on financial inclusion in Nigeria, contrary to popular assertion that Fintech impedes monetary policy effectiveness.

### Gap in the Study

Although a substantial body of research has explored financial inclusion in Nigeria, a significant knowledge gap persists regarding the specific impact of macroeconomic variables, notably interest rates and inflation, on mobile money transactions. The majority of existing studies have focused on the role of mobile money in promoting financial inclusion, yet they overlook the critical issue of how fluctuations in these macroeconomic factors influence the adoption and utilization of mobile money services. This study seeks to address this omission by conducting a rigorous analysis of the direct relationships between interest rates, inflation, and mobile money transactions, thereby providing a more nuanced and comprehensive understanding of the macroeconomic constraints that affect financial inclusion in Nigeria.

## METHODOLOGY

### Data Source and Description

The research assessed the impact of Nigeria's financial system on financial inclusion in the country. The study analysed the impact of interest rate changes and inflation rate fluctuations on the number of mobile money transactions in Nigeria. The research was based on ex-post facto research design as the direct control of variables is not feasible. This study utilized time series data spanning from 2012 to 2023. Given the nature of the research and the suitability of the available data, secondary data sources were employed. These data were obtained from the official databases of both national and international agencies, including the Central Bank of Nigeria (CBN), Nigeria Inter-Bank Settlement System (NIBSS), and the International Monetary Fund (IMF).

Time series data were selected for this study due to their ability to capture trends and provide deeper insights into the variables of analysis over time. The sample size consists of 12 years, based on an annual time series dataset covering 2012 to 2023. The study period was chosen primarily due to the availability of data across all relevant variables. The data were modified to quarterly data for analysis. Descriptive and inferential statistics were used to analyze the data collected. Autoregressive Distributed Lag (ARDL) was employed to assess the impact of Nigeria's financial system on financial inclusion in Nigeria. Augmented Dickey Fuller Unit Root Test was conducted to test for stationarity of the variables. Analysis of the data collected was conducted with the help of E-views 13 statistical software.


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**Model Specification**

The model used for this research is represented as the dependent variable (financial inclusion) measured by mobile money transaction (MMT) and the independent variable (Nigeria Financial System) measured by interest rate (INT) and inflation (INF).

The economic model of the study is stated as:

MMT = f( INT, INF)

where:

MMT = Mobile Money transactions

INT - Interest Rate

INF = Inflation

Econometrically, we have:

$MMT = \beta_0 + \beta_1 INT + \beta_2 INF + \varepsilon$

where

β0 = Unknown constant to be estimated

β1, β2, = Unknown coefficient to be estimated

ε = Stochastic error.

## DATA ANALYSIS AND DISCUSSION OF FINDINGS

**Table 1: Descriptive Statistics of Variables**

| | INF | INT | MMT |
|---|---|---|---|
| Mean | 3.677708 | 2.047708 | 3.18E+08 |
| Median | 3.548555 | 2.495820 | 13507086 |
| Maximum | 8.042891 | 4.528047 | 3.97E+09 |
| Minimum | 1.843750 | -0.046719 | -803039.4 |
| Std. Dev. | 1.500068 | 1.256410 | 7.91E+08 |
| Skewness | 1.058416 | -0.285342 | 3.343832 |
| Kurtosis | 3.787419 | 2.024606 | 13.77806 |
| Jarque-Bera | 10.20202 | 2.554149 | 321.7827 |
| Probability | 0.006091 | 0.278852 | 0.000000 |
| Sum | 176.5300 | 98.29000 | 1.53E+10 |
| Sum Sq. Dev. | 105.7596 | 74.19255 | 2.94E+19 |
| **Observations** | **48** | **48** | **48** |

**Source:** *Author's Computation (2025), E-views 13*


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The results in Table 1 show the descriptive analysis of the variables used in the study (quarterly data). It reveals insights into the behavior of inflation (INF), interest rate (INT), and mobile money transactions (MMT) over 48 observations. The mean value of inflation is approximately 3.68%, indicating a moderate level of price increase over time. In comparison, the mean interest rate is 2.05%, suggesting a relatively low-interest environment during the study period. Notably, the mean mobile money transaction value is approximately 318 million units, reflecting the growing adoption of digital financial services. Inflation shows moderate volatility, while the interest rate exhibits slight but consistent fluctuations. In contrast, the mobile money transactions demonstrate extreme variability, reflecting large swings between periods. This high variability aligns with the skewness values, where both inflation (1.06) and mobile money transactions (3.34) are positively skewed, meaning there are a few extreme high values pulling the averages upward. Meanwhile, the interest rate (-0.29) is slightly negatively skewed, suggesting more frequent lower values.

**Unit Root Test**

**Table 2: Augmented Dicker Fuller Unit Root Test**

| Variables | Level | Prob. | First Level | Prob. | Stationarity |
|---|---|---|---|---|---|
| MMT | 14.21998 | 1.0000 | -5.278566 | 0.0006 | I(1) |
| INT | -1.683491 | 0.4321 | -4.298689 | 0.0016 | I(1) |
| INF | -0.139223 | 0.9387 | -2.931340 | 0.0495 | I(1) |

**Source:** *Author's Computation (2025), E-views 13*

Table 2 shows the results of all the specified variables unit root statistics and it reveals that all the variables were not stationary at level, but all were stationary at first difference as the obtained probability values are less than the 5% threshold adopted in this study.

**ARDL**

**Table 3: ARDL Result**

**Dependent Variable: MMT**

| Variable | Coefficient | Std. Error | t-Statistic | Prob.* |
|---|---|---|---|---|
| MMT(-1) | 1.566709 | 0.153838 | 10.18414 | 0.0000 |
| MMT(-2) | -0.476679 | 0.203911 | -2.337684 | 0.0252 |
| INF | 42701450 | 13918810 | 3.067895 | 0.0041 |
| INT | 35679924 | 21578995 | 1.653456 | 0.1072 |
| INT(-1) | -20869286 | 31377015 | -0.665114 | 0.5103 |
| INT(-2) | 3683671. | 31580802 | 0.116643 | 0.9078 |
| INT(-3) | -6414705. | 31349085 | -0.204622 | 0.8391 |
| INT(-4) | 42939124 | 23006948 | 1.866355 | 0.0704 |
| C | -2.32E+08 | 67359494 | -3.440105 | 0.0015 |
| R-squared | 0.992648 | Mean dependent var | | 3.47E+08 |


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| | | | |
|---|---|---|---|
| Adjusted R-squared | 0.990968 | S.D. dependent var | 8.20E+08 |
| S.E. of regression | 77969807 | Akaike info criterion | 39.36179 |
| Sum squared resid | 2.13E+17 | Schwarz criterion | 39.72674 |
| Log likelihood | -856.9594 | Hannan-Quinn criter. | 39.49713 |
| F-statistic | 590.7198 | Durbin-Watson stat | 2.258154 |
| Prob(F-statistic) | 0.000000 | | |

***Note:** p-values and any subsequent tests do not account for model selection.

Table 3 indicates that the past values of mobile money transactions (MMT) significantly influence current transactions. Specifically, MMT from the previous period has a strong and positive effect, as shown by the coefficient of 1.5667, which is statistically significant at p = 0.0000. This suggests that mobile money transactions tend to increase over time due to their sustained usage. Inflation (INF) has a strong positive effect on mobile money transactions, with a coefficient of 42701450 and a p-value of 0.0041. This suggests that higher inflation drives people toward mobile money usage, possibly as a response to rising prices and the need for more efficient financial transactions. In contrast, interest rate (INT) does not show an immediate significant effect on mobile money transactions, as its p-value is 0.1072, which is above the conventional 5% threshold.

The constant term (C = -2.32E+08, p = 0.0015) is significantly negative, suggesting that, in the absence of inflation and interest rate effects, other factors may be at play in determining mobile money transactions. Despite this, the model demonstrates a strong goodness of fit, as seen in the R-squared value of 0.9926, meaning that 99.26% of the variations in MMT are explained by the independent variables. Additionally, the F-statistic (590.72, p = 0.0000) confirms that the model is statistically significant overall. Furthermore, the Durbin-Watson statistic of 2.258 suggests that there is minimal autocorrelation in the residuals, reinforcing the model's reliability.

## FINDINGS

The findings from the analysis reveal important insights into the relationship between mobile money transactions (MMT) in financial inclusion and inflation (INF) together with interest rates (INT) in Nigeria's financial system. The regression results show that inflation has a positive and statistically significant impact on mobile money transactions, with a coefficient of 42701450 and a p-value of 0.0041. This suggests that as inflation rises, there is a corresponding increase in the volume of mobile money transactions. This relationship may reflect consumers' increasing reliance on digital payment systems to manage financial transactions in response to the erosion of purchasing power caused by rising prices.

In contrast, interest rates exhibit no statistically significant effect on mobile money transactions, as indicated by the p-value of 0.1072. The weak influence of interest rates on mobile money transactions could stem from the informal nature of many financial activities in Nigeria, where digital financial services operate independently of traditional credit markets.


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The positive relationship between inflation and mobile money transactions is consistent with findings by Evans (2020), who argues that rising inflation pushes consumers toward digital financial platforms to facilitate more efficient and cost-effective transactions. Similarly, Aker and Wilson (2013) highlight that during periods of economic uncertainty, consumers in developing economies tend to increase their use of mobile money services as a safeguard against the devaluation of cash.

However, the insignificance of interest rates in influencing mobile money transactions contradicts the findings of Beck et al. (2018), who emphasize that interest rate fluctuations typically impact financial decisions, including savings and borrowing behaviors. This discrepancy may reflect structural barriers within Nigeria's financial ecosystem, where access to credit is limited, and mobile money adoption is more transaction-focused rather than being influenced by monetary policy changes.

## CONCLUSION AND RECOMMENDATIONS

The study concludes that inflation has a positive and significant effect on mobile money transactions in Nigeria, meaning that as prices rise, people increasingly rely on digital financial services for transactions. In contrast, interest rates show no significant impact on mobile money usage, suggesting that changes in borrowing costs do not directly influence the adoption of mobile money platforms. Overall, the study emphasizes that mobile money is a key driver of financial inclusion in Nigeria, and policymakers should focus on managing inflation while fostering the growth of digital financial services to improve access to financial systems

Based on the findings, this study recommends that the government and financial institutions should invest in expanding mobile money platforms and improving digital payment systems to enhance financial inclusion, especially in rural areas while leveraging mobile money transactional strengths during inflation. To combat the erosive effects of inflation and promote sustained financial inclusion, the study recommends that banks and other financial institutions should develop and integrate inflation-indexed savings and investment products within mobile money platforms, empowering users to safeguard their financial assets and achieve long-term financial stability. Also, financial regulators should design policies that encourage borrowing and investment in digital financial services, ensuring that mobile money is integrated into credit and savings schemes.


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