**TREND ANALYSIS OF REMITTANCES, FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH IN NIGERIA**

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**ABSTRACT**

*This study analysed the trends of remittances, financial development and economic growth in Nigeria from 1979 to 2021. This was with a view to providing a clear understanding of the nature of the connection among the three variables as well as the policy direction to take with regards to remittances and financial development in order to enhance the growth process in Nigeria. Data on remittances and financial development were sourced from the 2022 World Development Indicators Database and Global Financial Development database, respectively. Data on real gross domestic product, as a measure of economic growth, were obtained from the 2022 World Economic Outlook (WEO) database. The trends analysis revealed that there was a partial co-movement between remittances and economic growth between 2005 and 2015, while the growth of the Nigerian economy was weakly related to the country’s financial development from 2016 to 2021. Findings also showed that the three variables exhibit the same pattern as the trends follow the same growth path especially between 2003 and 2021. These results reveal that complementing significant inflows of remittances with a well-developed financial sector will enhance the growth of the Nigerian economy. Based on these findings, the study concluded that the degree of connection or relationship among the variables is very strong. Therefore, the government needs to design effective policies that will boost the inflow of remittances and propel the development of the financial sector with a view to enhancing the growth of the Nigerian economy.*

**Keywords: Trend Analysis, Remittances, Financial Development, Economic Growth, Nigeria.**

**1.0 Introduction**

Every year on 16 June, the global community observes the International Day of Family Remittances (IDFR). This is for the purpose of raising awareness of the hard work and sacrifice of the millions of migrants who support their family members and communities of origin through the money they send back home (Abdillahi, 2021). Migrant workers make an invaluable contribution to the Sustainable Development Goals (SDGs) through remittances and investments. About 75 per cent of remittances are used to put food on the table and cover medical expenses, school fees or housing expenses. In times of crisis, migrant workers may send more money home to cover crop losses or family emergencies (World Remit, 2023). The remaining 25 per cent of remittances, representing over US$150 billion per year, can be either saved or invested in asset-building or activities that generate income and jobs.

In particular, they contribute to ending poverty (SDG 1) and hunger (SDG 2); promoting good health (SDG3), quality education (SDG 4), clean water and sanitation (SDG 6), decent work and economic growth (SDG 8); and reducing inequalities (SDG 10). Their contributions have also been recognised in Objective 20 of the Global Compact on Safe, Orderly and Regular Migration, adopted by the United Nations General Assembly in December 2018.According to Newland and Patrick (2004), remittances continue to matter more than ever, particularly in rural areas where they count the most and provide further opportunities towards rural transformation. A staggering one billion people worldwide – that’s about one in seven – are involved with remittances. Every year, 200 million migrant workers send money home, and 800 million people (in households of four, on average) benefit from these flows. Despite the COVID-19 crisis and political instability, the total amount of remittances flows has continued to grow (United Nations, 2021). According to the latest World Bank data, remittances to low- and middle-income countries reached US$605 billion in 2021. That’s a growth of more than 8 per cent compared to 2020 – and it is way beyond initial predictions. Migrant workers send on average US$200–US$300 home every one to two months. This represents only 15 per cent of what they earn (the rest stays in their host countries). But what they send can make up as much as 60 per cent of a household’s total income –representing a lifeline for millions of families.

Over the last 20 years, remittances flows have grown in value five-fold (McFarlane et al. 2022). These flows often play a counter-cyclical role: that is, they are maintained during adverse events in recipient countries. They can reach the last mile even during tough times. This is made possible by, among other factors, the adoption of digital technologies by migrant workers and their families. In particular, the amount of money sent via mobile transfer – i.e., a service that allows users to send and receive small sums via mobile phone without the use of a bank account – increased 65 per cent during 2020 to US$12.7 billion and grew again to US$16 billion in 2021. Rahman (2023) has argued that over 50 per cent of remittances are sent to households in rural areas, where 75 per cent of the world's poor and food-insecure live. Rural households rely on these flows for improving their livelihoods, increasing their resilience, and achieving their SDGs. Globally, the accumulated flows to rural areas is expected to reach US$3 trillion over the next five years.

More than 70 countries rely on remittances for at least 4 per cent of their GDP (McFarlane et al., 2022). As these countries demonstrate, remittances are an engine of socio-economic growth and transformation – particularly for rural areas. This shows that the inflow of remittances is an important driver of the growth process in a developing economy. However, evidence from many growth studies shows that growth is a product of multiple factors, including labour force, physical capital, investment, foreign capital flows and human capital development. Undoubtedly, the recipient country's level of financial development is one proposed link between remittances and growth. This is because remittances inflows that are efficiently intermediated are expected to increase the funding of growth-enhancing initiatives by financially constrained entrepreneurs reduce liquidity constraints and boost access to credit for the migrants' relatives. Moreover, receiving money through formal channels not only makes funds available to banks but also stimulates financial development and makes funds available to the government through loan charges. This prompted the World Bank (2013) to emphasize the importance of establishing effective institutions capable of promoting financial development to boost economic growth.

According to Hamma (2016), financial development and remittances inflows influence economic growth by allowing funds to be made accessible to the economy's deficit side, which will have a multiplier effect on macroeconomic indicators. Also, well-developed financial institutions are critical in every economy because they mobilise surplus funds and channel them to the deficit side. Though several studies have attempted to examine the nexus among remittances, financial development and economic growth in Nigeria, their findings are mixed and contradictory. Also, studies focusing on the trend analysis of remittances, financial development and economic growth are limited. This study, therefore, distances itself from the existing studies by analysing the trends of remittances, financial development and economic growth in Nigeria from 1979 to 2021. This will enable the government and the financial institutions to have a clear understanding of the nature of the connection among the variables as well as the policy direction to take with regards to remittances and financial development in order to enhance the growth process in Nigeria.

**2.0 Methodology**

To analyse the trends of remittances, financial development and economic growth in Nigeria from 1979 to 2021, the study employed secondary data as well as a descriptive tool of analysis, i.e., graphs. The choice of this period was informed by the fact, according to World Bank (2021), it was during this period that Nigeria experienced a significant upsurge in the inflow of remittances which is capable of contributing significantly to the growth process. Data on remittances and financial development were sourced from the 2022 World Development Indicators Database and Global Financial Development database, respectively. Data on real gross domestic product, as a measure of economic growth, were obtained from the 2022 World Economic Outlook (WEO) database.

**3.0 Trend Analysis**

This study employed the trend analytical approach in order to achieve its objective. Specifically, the study analysed the trends of remittances, financial development and economic growth using graphical plots of the variables.

**3.1 Trends of Remittances and Economic Growth in Nigeria**

Figure 1shows that the inflow of remittances into Nigeria was stable between 1975 and 1992. This inflow got to its peak in 2005, with a percentage increase of 8.31%, but later declined by 5.46% during the period of global economic recession. Remittances also rose by 4.08% and 6.12% in 2013 and 2018, respectively. There was a partial co-movement between remittances and economic growth between 2005 and 2015. Prior to that, Nigeria’s economy grew in 1985 after declining from 1979 to 1984.However, the decline in economic in Nigeria became intense in 2015due to the fall in oil price which resulted in the reduction of government revenue. This led to currency crises which further encouraged the inflow of remittances into the country (Ozili, 2021). Also, more people became interested in seeking greener pastures abroad due to the recession in the country. Jobs were lost while redundancy was evidenced in the productive sectors and demands for goods and service became weak.

Figure 1: Remittances and Economic Growth in Nigeria

**3.2 Trends of Financial Development and Economic Growth in Nigeria**

Figure 1 depicts the trends of financial development and economic growth in Nigeria from 1979 to 2021. The figure shows that financial development in 1979 was 15.76%, while the economy grew at the rate of 6.67% from the previous year. In 1979, Nigeria changed her political structure from military ruling system to a democratically elected government. This ushered in series of government policies that encouraged the growth of the country. By 1980, financial development rose from 15.79% to 19.06, while the economy declined by 4.20% within the same period. The decline in the economy continued till 1983 during which it recorded its lowest point in 1981.

The decline in economic growth can be attributed to the fall in government revenue and excessive budget deficit anchored on fiscal irresponsibility (Anachedo et al., 2023). This weak performance in economic growth and increasing rate of corruption were the main reasons why the then military setup hijacked the government and returned the country to military rule in 1984. However, there was a change in government policy in 1986 with an introduction of the Structural Adjustment Program (SAP). This spurred the economy as it grew by 0.06% from 1985 to 1986, while financial development declined from 8.68% to 8.64% during the same period.

Moreover, there was a spark in 1990, when the economy grew at the rate of 11.77% while financial development in Nigeria stood at 7.68%. Afterwards, there was decline in economic growth from 1991 to 1995, while financial development declined from 8.56% to 6.34% in 1995. This was a period of political turmoil that led to the shutdown of economic activities. According to Oke (2022), the country became a pariah nation during this period such that foreign investors were not interested in coming to the country while oil revenue plunged to its lowest ebb.

Figure 2: Economic Growth and Financial Development in Nigeria

Calmness was restored into the country’s political atmosphere with the coming onboard of a democratically elected government in 1999. The economy became more opened and reforms were carried out to restructure government’s participation in the economy. With these, the economy grew at the rates of 5.01% and 15.32% in 2000 and 2002, respectively. Financial development also rose from 10.52% in 2000 to 11.61% in 2001, while it decreased in 2002. It rose sharply from 9.39% in 2006 to 21.31% in 2009, while economic growth was stable during the period. The occurrence of recession in 2009 resulted in the shrinking of the country’s financial sector from 21.31% in 2009 to 17.80% in 2010. The country’s economy experienced a decline from 5.30% in 2011 to 2.65% in 2015, while financial development was stable.

From 2016 to 2021, the growth of the economy did not exceed 4%, while the development of the financial sector rose by 5.43% in 2016. This reveals the fact that the growth of the Nigerian economy is weakly related to the country’s financial development and that the growth of the economy does not really commove with financial development. This is an evidence of weak trickle-down effect as well as isolated economic growth.

**3.3 Trends of Remittances, Financial Development and Economic Growth in Nigeria**

Figure 3 presents the graphical plots of the three variables in Nigeria for the period understudy together. It can be observed from the figure that the average inflow of remittances and financial development for the country over the study period were 2.49% and 12.39%, respective. Over the same period, the economy grew at an average rate of 3.154%. The figure also shows that from 2005 to 2015, the three variables were of the same pattern and they followed the same growth path. This implies that the degree of connection or interrelationship of economic factors was stronger compared to the period after. Hence, the rate of the growth of the economy reinforces the inflows of remittances as well as the rate of financial development in the economy.

Figure 3: Economic Growth, Remittances and Financial Development in Nigeria

**4.0 Conclusion**

The study analysed the trends of remittances, financial development and economic growth in Nigeria from 1979 to 2021. The trends analysis revealed that there was a partial co-movement between remittances and economic growth between 2005 and 2015, while the growth of the Nigerian economy was weakly related to the country’s financial development from 2016 to 2021. Findings also showed that the three variables exhibit the same pattern as the trends follow the same growth path especially between 2003 and 2021. These results reveal that complementing significant inflows of remittances with a well-developed financial sector will enhance the growth of the Nigerian economy. Based on these findings, the study concluded that the degree of connection or relationship among the variables is very strong. Therefore, the government needs to design effective policies that will boost the inflow of remittances and propel the development of the financial sector with a view to enhancing the growth of the Nigerian economy.

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