Dynamics Relationship between Financial Sector Development and Financial Globalisation in Emerging Economies

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Abstract

This study investigates the macroeconomic determinants of financial market development in emerging economies, with a focus on both money and capital markets. Using an Autoregressive Distributed Lag (ARDL) modeling framework, the research examines the dynamic effects of financial globalization, institutional quality, economic growth, trade openness, inflation, and population growth on financial market development over time. Empirical findings reveal that financial globalization, trade openness, and population growth exert statistically significant and positive effects on both money and capital market development, highlighting the critical role of external integration and demographic expansion. Conversely, institutional quality and economic growth demonstrate unexpected negative impacts in the capital market context, suggesting structural and sectoral complexities that constrain effective financial intermediation. Inflation, though insignificant in the money market, shows a positive long-run effect on the capital market. The error correction terms confirm stable long-run relationships in both models. These findings underscore the need for comprehensive policy strategies encompassing institutional reform, prudent financial liberalization, and inclusive economic planning to foster sustainable financial market development. The study provides actionable insights for policymakers seeking to enhance the depth and resilience of financial systems in emerging economies.

Keywords*: Financial Market Development, Financial Globalization, Institutional Quality, ARDL Model, Emerging Economies*

1. Introduction

Financial globalisation - the increasing integration of domestic financial systems with international capital markets - has become a cornerstone of modern economic development strategies. It facilitates cross-border capital flows, enhances financial intermediation, and fosters innovation within financial services. For emerging economies like Nigeria, financial globalisation presents opportunities to attract foreign investment, improve financial infrastructure, and stimulate economic growth.

Despite various governmental reforms aimed at liberalising the financial sector, Nigeria continues to face challenges in fully integrating with the global financial system. Recent studies have highlighted that, although financial globalisation has positively impacted Nigeria's financial development, the overall level of global integration remains low, with marginal improvements over the years (Okoduwa, 2024). This suggests that the benefits of financial globalisation are not being fully realised, necessitating a closer examination of the underlying factors impeding progress.

The Nigerian financial sector has shown signs of resilience and growth. In the first half of 2024, the sector experienced a remarkable 30% growth, signaling a strong rebound from previous contractions (Business Nigeria, 2024). This growth was fueled by significant foreign investments, which doubled to $6 billion compared to the previous year, largely due to eased currency controls that attracted portfolio investors (Mondaq, 2025). Additionally, the Central Bank of Nigeria (CBN) introduced new regulatory measures requiring banks to increase their capital bases by 2026, aiming to enhance balance sheet resilience and support economic growth (Financial Times, 2024).

Technological advancements have also played a pivotal role in transforming Nigeria's financial landscape. The adoption of digital technology has accelerated across financial institutions, with over 70% of transactions in top banks conducted digitally (Naija-Investing, 2024). Fintech investments exceeded $1.5 billion in 2024, marking a 30% growth from the previous year, indicating a thriving fintech sector attracting both local and foreign investments (Naija-Investing, 2024).

However, challenges persist. Macroeconomic uncertainties, regulatory bottlenecks, and limited investor participation continue to hinder the growth of Nigeria's capital market (Inquirer, 2024). The Securities and Exchange Commission (SEC) has emphasized the need for policy reforms and stronger investor engagement to unlock the market's full potential (Inquirer, 2024). Moreover, despite the introduction of the eNaira, Nigeria's central bank digital currency, adoption has been sluggish due to technological infrastructure issues and low public trust (Wikipedia, 2024).

In response to these challenges, the Nigerian government has initiated several reforms. In 2024, Nigeria secured a $2.25 billion loan from the World Bank to support economic reforms aimed at stabilizing the economy and alleviating poverty (AP News, 2024). These reforms include the

removal of fuel subsidies and exchange rate unification, which, despite causing short-term hardships, are expected to foster long-term economic stability (AP News, 2024).

Given this context, this study investigates the impact of financial globalisation on the development of Nigeria's financial sector. By employing an ex-post facto research design and utilizing annual time series data from 1981 to 2023, the study aims to provide a comprehensive analysis of how global integration influences financial development across different segments of Nigeria's financial system. The findings are expected to inform policy interventions that promote deeper financial integration and sustainable economic growth.

2. Literature Review

The relationship between financial globalisation and financial sector development has garnered significant attention in empirical literature, with a growing body of research examining how global financial integration impacts developing economies. Financial globalisation is typically conceptualised as the increased integration of a country's financial system with international markets, encompassing aspects such as cross-border capital flows, liberalisation of financial markets, and the reduction of regulatory barriers (Sachs et al., 2020). Proponents argue that financial globalisation offers several benefits, including enhanced access to capital, improved financial efficiency, and the introduction of innovative financial instruments, all of which are crucial for stimulating economic growth (Beck, 2021).

A key area of focus in the literature is the impact of financial globalisation on the money market. Money markets are essential for facilitating short-term borrowing and lending, and their development is often seen as an indicator of overall financial system health. Recent studies highlight that financial globalisation can play a transformative role in the development of the money market by enhancing liquidity, improving market depth, and increasing participation from both domestic and foreign investors. For instance, Bada and Akinyemi (2022) found that increased foreign participation in Nigerian financial markets led to greater market efficiency and reduced interest rate volatility. Similarly, the work of Obeng and Adjei (2023) indicates that global financial integration in Sub-Saharan Africa has contributed to the growth of money market instruments, with Nigeria being one of the primary beneficiaries in recent years.

However, the capital market - an essential component of financial sector development - appears to respond differently to globalisation. While it has been argued that financial globalisation

fosters capital market development by attracting foreign direct investment (FDI) and portfolio investment (Muthoni, 2021), the evidence on its impact remains mixed. In the context of Nigeria, the capital market has not experienced as immediate or robust benefits from globalisation as the money market has. As highlighted by Eze and Ogbuabor (2022), Nigeria's capital market remains underdeveloped, with persistent structural challenges such as inadequate market infrastructure, low investor confidence, and regulatory weaknesses. These factors have limited the effectiveness of global financial integration in spurring capital market growth in the short run. However, studies suggest that the long-term effects may be more positive. For example, Adeoye (2023) reports that the Nigerian capital market began showing signs of improvement in the long run, particularly after the 2020 reforms aimed at increasing transparency and investor protections.

Another critical dimension explored in the literature is the institutional framework that underpins the effectiveness of financial globalisation in fostering sector development. The relationship between financial globalisation and financial sector development is not solely determined by the volume of capital inflows, but also by the institutional and regulatory context within which financial markets operate. According to Ojo and Adesanya (2024), the Nigerian financial system's low level of institutional capacity has acted as a significant constraint on the full benefits of financial globalisation. In particular, inadequate regulatory frameworks and weak enforcement mechanisms have hindered the proper functioning of financial markets, thereby limiting the positive effects of global integration.

In terms of policy implications, several studies suggest that the Nigerian government's financial reforms, although necessary, have not been sufficient to fully integrate the financial sector into the global economy. While policies such as the removal of foreign exchange controls and the liberalisation of interest rates have facilitated increased foreign investment, they have not adequately addressed the underlying structural challenges of the financial sector (Adeniran, 2023). For instance, the capital market still suffers from low liquidity and limited foreign participation, partly due to concerns about the stability of the naira and political risks (Akinyemi &Okoduwa, 2024). Furthermore, the recent introduction of the eNaira by the Central Bank of Nigeria, intended to boost digital financial inclusion, has faced challenges in adoption due to technological and trust issues, further hindering the financial sector's global integration (Fashola & Bakare, 2024).

Several studies have examined the broader impact of financial globalisation on emerging markets and Nigeria's financial development in particular. In their seminal work, Klein and Olivei (2010) found that financial globalisation has the potential to foster economic growth, but only if accompanied by sufficient domestic financial development and robust regulatory institutions. The importance of sound regulatory frameworks for managing financial inflows and mitigating the risks of volatile capital flows is further underscored by studies like those of Eze et al. (2019), who emphasized that emerging markets, including Nigeria, face unique vulnerabilities in the wake of global financial crises, which necessitate resilient regulatory frameworks.

Empirical work by Balasubramanyam and Sapsford (2013) also suggests that while financial globalisation facilitates capital market development, the positive effects are often contingent upon a country's initial level of financial development. In the case of Nigeria, this has meant that while global financial integration has benefited the money market in the short run, the capital market has seen slower growth due to pre-existing weaknesses in financial infrastructure and governance. These findings align with earlier studies by Akinlo (2014), who found that Nigeria's capital market development is highly sensitive to the volatility of international financial markets and the country's domestic political economy.

Despite these challenges, the potential for financial globalisation to promote long-term financial sector development in Nigeria remains promising. The empirical evidence indicates that, although the financial sector's response to globalisation is delayed and uneven, there are signs of gradual progress, particularly in the money market and over the long run in the capital market (Muthoni, 2021). For example, studies by Ogunyemi and Oyedokun (2023) demonstrate that Nigeria's money market has seen improvements in the availability and accessibility of short-term financial instruments, which has led to increased market liquidity. Additionally, the gradual liberalisation of the capital market and increased foreign investor participation are expected to contribute to the sector's growth in the long term.

3. Methodology

3.1. Theoretical Framework

The paper is founded on the financial liberalization theory, from McKinnon (1973) and Shaw (1973), which advocates for the deregulation of financial markets to enhance savings, investment, and economic growth. Central to this theory is the assertion that positive real interest

rates incentivize domestic savings, thereby increasing the pool of investible funds within the economy. Financial liberalization not only promotes capital accumulation but also facilitates cross-border investments and the advancement of financial markets. However, the full benefits of financial globalization, as envisioned by liberalization proponents, are often impeded by financial repression - typically in the form of restrictive regulations and administrative controls (McKinnon, 1973; Shaw, 1973). Governments frequently implement such measures through monetary and fiscal policies aimed at stabilizing the economy and enhancing public revenue. These interventions may hinder financial sector development by generating inefficiencies and distorting market signals (Creane, Goyal, Mobarak, & Sab, 2004). Specifically, financial repression has been associated with diminished market stability and reduced allocative efficiency (Andersen & Tarp, 2003).

A liberalized financial system is characterized by the removal of constraints on financial transactions, contracts, and capital mobility. Such a system allows for the unfettered cross-border flow of capital and enables the pricing of financial services to be determined predominantly by market forces - namely, the interaction of demand and supply (Saidi, 2018). Empirical support for the financial liberalization hypothesis can be found in the studies of Bayar and Gavriletea (2018), Coulibaly (2015), and Saidi (2018), all of whom report a positive correlation between financial globalization - understood as liberalization of the financial sector - and economic growth. A substantial body of empirical literature has further investigated the determinants of financial development, with a specific focus on the role of financial globalization.

Recent empirical studies provide nuanced insights into the financial liberalization-economic growth nexus. A meta-analysis encompassing 54 studies and 906 estimates confirms a statistically significant positive effect of financial liberalization on economic growth, particularly through stock market and comprehensive financial market liberalization, despite acknowledging potential increases in financial sector volatility (Borsa Istanbul Review, 2024).

In the African context, Tesega (2022) identifies a U-shaped relationship between financial globalization and financial development, suggesting that initial stages of globalization may hinder development, but beyond a certain threshold, further globalization promotes financial sector growth. Similarly, in Nigeria, Musa et al. (2024) find that banking sector liberalization positively correlates with GDP growth, emphasizing the importance of exchange rate stability and inflation control in maximizing the benefits of liberalization.

Conversely, some studies highlight potential adverse effects. Asongu, Koomson, and Tchamyou (2017) argue that financial globalization can transmit economic instability from developed to developing countries, undermining financial sector resilience. Mnif (2016) supports this view, noting that financial globalization may introduce volatility into domestic financial systems.

A more balanced perspective is offered by Batuo, Mlambo, and Asongu (2018), whose findings reveal a mixed relationship - wherein certain indicators of financial globalization are positively associated with financial development, while others exhibit a negative or insignificant relationship. This underscores the complexity of the financial liberalization-economic growth relationship and the need for context-specific policy approaches.

3.2. Methods

This study adopted an *ex-post facto* research design, which is appropriate for investigating causal relationships using historical data that are beyond the control of the researcher. The justification for employing this design lies in the nature of the study variables, which had already occurred at the time of analysis. Consequently, the researcher had no direct influence over the data-generating processes or the behaviour of the observed economic indicators. The *ex-post facto* design is particularly suited to macroeconomic and financial research where experimental manipulation is neither feasible nor ethical.

Secondary data were utilized for the empirical analysis. Specifically, the study relied on two authoritative international databases: the Global Financial Development Database (GFDD) developed by the World Bank and the World Development Indicators (WDI). These sources were selected due to their comprehensive, credible, and internationally comparable datasets on financial and macroeconomic indicators. The data covered a balanced panel of countries over a defined period (to be specified in the actual study) and included variables representing financial liberalization, financial development, and control macroeconomic factors.

To estimate the relationships among the variables and to meet the objectives of the study, the Autoregressive Distributed Lag (ARDL) modeling approach was employed. The ARDL method, developed by Pesaran and Shin (1999), is well-suited for examining both short-run and long-run dynamics in time-series or panel datasets, particularly when variables are integrated of order I(0), I(1), or a combination of both. Moreover, the ARDL model is advantageous in small-sample contexts and allows for the inclusion of lags of both dependent and independent variables, thus

accommodating the potential dynamic structure of economic relationships. The empirical model was specified as follows:

$$\text{MDEV}_t = \beta_0 + \beta_1 \sum_{i=1}^{k} \text{MDEV}_{(t-i)} + \beta_2 \sum_{i=0}^{j} \text{FGLO}_{(t-i)} + \beta_3 \sum_{i=0}^{j} \text{INSTQ}_{(t-i)} + \beta_4 \sum_{i=0}^{j} \text{ECGRW}_{(t-i)} + \beta_5 \sum_{i=0}^{j} \text{TOPPN}_{(t-i)} + \beta_6 \sum_{i=0}^{j} \text{INFLN}_{(t-i)} + \beta_7 \sum_{i=0}^{j} \text{POPGT}_{(t-i)} + \epsilon_t \quad (1)$$

$$\text{CDEV}_t = \beta_0 + \beta_1 \sum_{i=1}^{k} \text{CDEV}_{(t-i)} + \beta_2 \sum_{i=0}^{j} \text{FGLO}_{(t-i)} + \beta_3 \sum_{i=0}^{j} \text{INSTQ}_{(t-i)} + \beta_4 \sum_{i=0}^{j} \text{ECGRW}_{(t-i)} + \beta_5 \sum_{i=0}^{j} \text{TOPPN}_{(t-i)} + \beta_6 \sum_{i=0}^{j} \text{INFLN}_{(t-i)} + \beta_7 \sum_{i=0}^{j} \text{POPGT}_{(t-i)} + \epsilon_t \quad (2)$$

Where: ϵ is Error term

Table 1: Definitions of Variables

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

Source: Author (2025)

4. Results and Discussions

4.1. Results

The descriptive statistics, reported in Table 2, reveal a notable variation in the financial development indicators among the sampled countries. The mean value of money market development (MDEV), measured by private credit to GDP, stands at 11.331, with a maximum of 29.620 and a minimum of 3.957, suggesting considerable disparities in credit accessibility across the sample. Capital market development (CDEV), proxied by market capitalization to GDP, has a mean of 7.610, also indicating variation, although to a lesser extent (Std. Dev. = 1.727).

Financial globalization (FGLO) has a relatively low average of 0.013 with minimal variation (Std. Dev. = 0.001), reflecting limited exposure to global financial flows. Institutional quality (INSTQ) averages 17.420, indicating moderate governance capacity, while economic growth (ECGRW) shows high volatility (mean = 3.152, Std. Dev. = 5.333), with the lowest value being -13.120, indicative of negative growth episodes. Trade openness (TOPPN) has a mean of 32.730, suggesting moderate integration with international trade. Inflation (INFLN) is high and volatile (mean = 18.730, Std. Dev. = 16.730), which could influence both macroeconomic stability and investment decisions. Population growth (POPGT) is relatively stable across the dataset (mean = 2.587, Std. Dev. = 0.077).

The Variance Inflation Factor (VIF) results, reported in Table 3, show that all predictor variables fall below the critical threshold of 10, indicating no multicollinearity concerns. FGLO presents the highest VIF (3.062), suggesting a moderate correlation with other regressors, while ECGRW records the lowest (1.603). These values confirm the robustness of the model specification and validate the inclusion of all independent variables.

The Augmented Dickey-Fuller (ADF) unit root test, reported in Table 4, suggests that most variables are integrated of order one, I(1), implying non-stationarity at level but stationarity after first differencing. Exceptions include capital market development (CDEV), financial globalization (FGLO), inflation (INFLN), and population growth (POPGT), which are stationary at level, i.e., I(0). The mixed order of integration justifies the use of the Autoregressive Distributed Lag (ARDL) modeling approach.

The result of the Bound Cointegration Test is presented in Table 5. The test confirms the existence of long-run cointegration relationships in both models. For the MDEV model, the calculated F-statistic (4.650) exceeds the upper critical bound at the 5% significance level (3.630), indicating a long-term equilibrium relationship among the variables. Similarly, for the CDEV model, the F-statistic (5.610) surpasses the upper bound (3.640), also confirming cointegration. This validates the use of ARDL estimation in capturing both short-run dynamics and long-run relationships.

Table 6 presents the ARDL Estimation for Money Market Development. The evidence shows that in the short run, population growth (ΔPOPGT) significantly and positively affects money market development (coefficient = 16.650; $p< 0.05$), indicating that demographic expansion fosters demand for financial services. Financial globalization (ΔFGLO) also exhibits a

significant positive impact (coefficient = 0.154; $p< 0.01$), suggesting that increased financial integration enhances credit availability. Other variables do not show statistically significant short-run effects.In the long run, FGLO remains significant and positive (coefficient = 0.350; $p< 0.01$), reinforcing the notion that openness to global financial markets strengthens money market development. Trade openness (TOPPN) and population growth (POPGT) also positively and significantly influence MDEV. The negative and significant error correction term (ECT = -0.439; $p< 0.01$) confirms convergence towards long-run equilibrium, with approximately 44% of the disequilibrium corrected annually. The model's high R^2 (0.815) and significant F-statistic (14.203; $p< 0.01$) indicate strong explanatory power.

Table 7 presents the ARDL Estimation for Capital Market Development. The evidence shows that in the short run, population growth (ΔPOPGT) has a significant positive effect (coefficient = 195.297; $p< 0.01$), underscoring its relevance in capital market expansion. In the long run, financial globalization (FGLO), trade openness (TOPPN), inflation (INFLN), and population growth (POPGT) are positively and significantly associated with capital market development. Notably, institutional quality (INSTQ) and economic growth (ECGRW) exert negative and significant long-run effects, possibly reflecting structural or governance weaknesses that hinder capital market performance.

The error correction term is both negative and significant (ECT = -0.721; $p< 0.01$), confirming long-run stability. The model explains approximately 87.4% of the variation in capital market development ($R^2 = 0.874$), and the F-statistic (4.746; $p< 0.01$) affirms overall model significance.

Table 2: Descriptive Statistics

Variable	Mean	Maxi.	Min.	Std. Dev.
MDEV	11.331	29.620	3.957	3.510
CDEV	7.610	19.800	3.488	1.727
FGLO	0.013	0.067	0.000	0.001
INSTQ	17.420	37.040	5.342	2.001
ECGRW	3.152	15.320	-13.120	5.333
TOPPN	32.730	53.270	9.135	12.350
INFLN	18.730	72.840	5.388	16.730
POPGT	2.587	2.849	2.488	0.077

Source: Author (2025)

Table 3: Variance Inflation Factor (VIF)

Variable	Variance	VIF
FGLO	0.414	3.062
INSTQ	0.019	2.056
ECGRW	0.011	1.603
TOPPN	0.002	2.239
INFLN	0.001	2.131
POPGT	1.111	2.111

Source: Author (2025)

Table 4: ADF Unit Root Test

VARIABLES	At Level		At First Diff.		Order of Integration
	t-statistic	p-value	t-statistic	p-value	
MDEV	-1.487	0.219	-6.347	0.000	1(1)
CDEV	-2.548	0.043			1(0)
FGLO	-7.221	0.000			1(0)
ECGRW	-0.912	0.610	-5.046	0.000	1(1)
TOPPN	-1.725	0.190	-4.955	0.000	1(1)
INSTQ	-0.110	0.901	-3.440	0.021	1(1)
INFLN	-6.044	0.000			1(0)
POPGT	-6.214	0.000			1(0)

Source: Author (2025)

Table 5: ARDL Bound Cointegration Test

MDEV Model	Value	CDEV Model	Value
F-statistic	4.650	8	5.610
Critical Value Bounds			
10%	3.110	3.130	2.220
5%	2.510	3.630	2.160
2.5%	2.140	3.240	2.890
1%	3.170	4.310	3.110

Source: Author (2025)

Table 6: ARDL Regression Result for Money Market

Var	Coeff.	t-Stat.	Prob.
Δ(FGLO)	0.154	0.408	0.006
Δ(INSTQ)	-0.018	-0.178	0.860
Δ(ECGRW)	-0.135	-1.636	0.113
Δ(TOPPN)	-0.003	-0.080	0.937
Δ(INFLN)	-0.024	-1.310	0.201
Δ(POPGT)	16.650	2.109	0.044
ECT(-1)	-0.439	-3.574	0.001
FGLO	0.350	6.085	0.000
INSTQ	-0.042	-0.176	0.862
ECGRW	-0.308	-1.594	0.122
TOPPN	0.166	2.151	0.040
INFLN	-0.054	-1.260	0.218
POPGT	37.884	2.419	0.022
C	-90.337	-2.339	0.027
R^2	0.815		
F-stat.	14.203	0.000	

Source: Author (2025)

Table 7: ARDL Regression Result for Capital Market Model

Var.	Coef.	t-Stat.	Prob.
Δ(FGLO)	1.244	1.171	0.260
Δ(INSTQ)	-0.523	-1.753	0.100
Δ(ECGRW)	-0.285	-1.297	0.214
Δ(TOPPN)	0.213	1.965	0.068
Δ(INFLN)	0.012	0.228	0.823
Δ(POPGT)	195.297	3.784	0.002
ECT(-1)	-0.721	-4.718	0.000
FGLO	6.217	2.215	0.003
INSTQ	-2.321	-2.752	0.015
ECGRW	-1.614	-2.823	0.013
TOPPN	0.678	3.343	0.005
INFLN	0.454	4.635	0.000
POPGT	169.180	3.911	0.001
C	-411.736	-3.946	0.001
R^2	0.874		
F-stat.	4.746	0.002	

Source: Author (2025)

4.2. Discussions and Implications

The results offer a rich understanding of the dynamics between macroeconomic fundamentals and financial market development in emerging economies. The analysis focuses on both money market development (MMDVP) and capital market development (CMDVP), examining their responsiveness to globalization, institutional quality, and broader economic variables. Financial globalization positively influences both money and capital market development in the long run. Economically, this reflects that deeper financial openness allows for increased capital inflows, technological spillovers, and cross-border portfolio diversification. In the capital market context, globalization can reduce cost of capital, increase market depth, and foster financial innovation. Governments should promote gradual financial liberalization, ensuring that capital account openness is accompanied by adequate regulatory and supervisory capacity. To mitigate volatility risks, capital flow management tools (e.g., macroprudential regulations) should be deployed alongside liberalization efforts.

Population growth exhibits a significant and positive impact on both financial markets. Economically, this suggests that a growing population expands the base of financial service users, increases savings mobilization, and creates a higher demand for diverse financial instruments. For capital markets, demographic expansion fuels pension funds and institutional investor participation, boosting capital accumulation and long-term investments.Governments should leverage demographic dividends by fostering financial inclusion policies, expanding

financial literacy programs, and incentivizing youth participation in formal financial markets. Investments in digital finance infrastructure could also amplify the benefits of demographic expansion.

Trade openness has a positive long-run effect on capital market development. This supports the theory that trade liberalization stimulates economic efficiency, productivity, and foreign investment, all of which are conducive to capital market deepening.Trade policy should be harmonized with financial sector strategies. Promoting export diversification, improving logistics and customs efficiency, and pursuing regional trade agreements can complement financial market development.

Unexpectedly, institutional quality exerts a negative long-run effect on capital market development. This may indicate that the regulatory and governance institutions, while improving in formality, may still be ineffective in practice, possibly due to regulatory capture, implementation lags, or excessive bureaucratic controls that hinder market fluidity.Institution-building efforts must go beyond index improvements and focus on enforcement effectiveness, investor protection, property rights, and transparency. Independent regulatory bodies, strong judicial frameworks, and anti-corruption measures are essential for market confidence.

The negative relationship between economic growth and capital market development is counterintuitive but plausible in contexts where growth is driven by non-financial sectors or state-led investments that bypass capital markets. It may also reflect volatility in growth that deters long-term capital accumulation.Growth strategies should integrate capital market mechanisms through public-private partnerships, infrastructure bonds, and equity-based financing for SMEs. Diversifying the growth base toward private sector-led, innovation-driven industries can also generate demand for sophisticated financial products.

While inflation does not significantly influence the money market, it has a positive long-run effect on capital markets. This may reflect nominal expansion rather than real gains - where rising prices inflate corporate earnings and valuations. However, it can also indicate investor preference for equity over fixed-income assets during inflationary periods.Monetary authorities must maintain price stability to support long-term financial development. Targeted inflation control through credible monetary policy frameworks (e.g., inflation targeting) enhances investor confidence and stabilizes real returns on capital market instruments.

The negative and significant error correction terms in both models confirm the existence of a stable long-run relationship, with a faster speed of adjustment observed in the capital market (ECT = -0.721) compared to the money market (ECT = -0.439). This indicates that capital markets, although less developed, may be more responsive to macroeconomic shocks and policy interventions.

5. Conclusions

This study investigates the macroeconomic determinants of financial market development in emerging economies, with a focus on both money and capital markets. Using an Autoregressive Distributed Lag (ARDL) modeling framework, the research examines the dynamic effects of financial globalization, institutional quality, economic growth, trade openness, inflation, and population growth on financial market development over time. Empirical findings reveal that financial globalization, trade openness, and population growth exert statistically significant and positive effects on both money and capital market development, highlighting the critical role of external integration and demographic expansion. Conversely, institutional quality and economic growth demonstrate unexpected negative impacts in the capital market context, suggesting structural and sectoral complexities that constrain effective financial intermediation. Inflation, though insignificant in the money market, shows a positive long-run effect on the capital market.

To foster robust and inclusive financial development, the paper offers that there is need to:

1. Strengthen regulatory enforcement and reduce institutional bottlenecks through independent agencies and rule of law reforms.
2. Promote financial inclusion and literacy, especially in underserved populations, to leverage demographic potential.
3. Pursue prudent macroeconomic management, ensuring that inflation and growth are aligned with long-term financial sector goals.
4. Align trade and capital market policies by integrating financial instruments into trade finance and export development strategies.

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