

Examining the Impact of Corporate Bond Market Development on Nigeria's Economic Growth

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Abstract. Researchers have widely explored the finance–growth nexus, but they have paid limited attention to the role of corporate bond markets in bank-dominated emerging economies. To address this gap, this study examined the relationship between corporate bond market development and economic growth in Nigeria over the period 1981–2024. The study employed an Autoregressive Distributed Lag (ARDL) model to analyse both the short-run and long-run dynamics. Key indicators of corporate bond market development, including market capitalisation, traded value, bond yields, and the number of deals, were incorporated, with inflation as a control variable. The empirical findings revealed that, in the short run, most corporate bond market indicators exerted insignificant effects on economic growth, except bond yields, which showed a negative, statistically significant relationship with economic growth. In the long run, none of the corporate bond variables significantly influenced economic growth, although a stable long-run relationship existed among the variables. Inflation consistently exerted a negative and significant effect, underscoring the importance of macroeconomic stability for fostering economic performance. The results suggested that Nigeria's corporate bond market remains shallow, illiquid, and weakly integrated into the financial system. The dominance of government securities and structural inefficiencies further constrained its effectiveness as a financing channel. Consequently, the study recommended strengthening regulatory and institutional frameworks to enhance market depth, reducing excessive government borrowing to limit crowding-out effects, and promoting macroeconomic stability to lower borrowing costs.

Keywords: Corporate bond market; Economic growth; Nigeria; ARDL.

INTRODUCTION

The importance of the financial sector in driving economic growth has remained a central theme in economic discourse for decades. Financial development and economic growth are obviously connected, and this relationship has attracted the attention of scholars, including Robinson, Schumpeter, and Goldsmith [1, 2]. However, while a large body of literature has explored this relationship, the dominant focus has largely been on some sub-sectors of the system (banking and equity segments), with comparatively little con-

sideration of bond markets, particularly corporate bonds [3]. This imbalance is especially evident in developing regions such as Africa and parts of Asia, where financial intermediation is heavily skewed toward bank lending and, to a lesser extent, equity financing [4, 5].

Corporate bonds, however, represent one of the three principal channels through which firms can access financing, alongside bank credit and equity issuance. In advanced economies, particularly the United States, corporate bond markets play a critical role in mobilising long-term capital and

supporting large-scale investments. In contrast, evidence suggests that in many emerging economies, corporate bond financing remains a relatively small proportion of gross domestic product (GDP), reflecting structural and institutional limitations [6, 7]. This disparity has increasingly drawn the attention of policymakers and international organisations, who recognise that the absence of deep and liquid corporate bond markets may constrain economic development [8, 9]

Concerns about underdeveloped bond markets are not merely theoretical. Historical experiences, particularly the 1997 Asian Financial Crisis, have demonstrated that economies lacking diversified financial systems are more vulnerable to systemic shocks [4]. In response, many Asian economies implemented reforms to strengthen their bond markets, which subsequently played a vital role in their recovery and long-term growth [5, 10].

A well-developed corporate bond market offers several advantages. It enhances market discipline by allowing prices to reflect underlying risks, promotes efficient allocation of resources, and reduces excessive reliance on bank lending. Moreover, it broadens the range of financial instruments available to investors, thereby improving liquidity and supporting portfolio diversification. Author [11] emphasises that robust bond markets contribute to more efficient corporate financial structures and reduce the likelihood of systemic crises. In addition, the shift from bank-based to market-based financing has been reinforced by global trends such as corporate restructuring, mergers, and acquisitions, which often require large volumes of long-term funding [7, 12].

Nigeria's economic experience further underscores the importance of developing alternative financing channels. The country has experienced significant macroeconomic instability in recent years, including the 2007-2009 global financial crisis, a 2016 recession triggered by a sharp decline in global oil prices, and another downturn in 2020 connected to the COVID-19 pandemic. These shocks exposed the vulnerabilities of an economy heavily dependent on oil revenues and bank-dominated financing structures. According to the Author [13], the pandemic exacerbated existing economic challenges, disrupted production activities, and weakened fiscal and external balances.

Despite the recognised importance of corporate bond markets, Nigeria's bond market remains largely dominated by government securities, with relatively low levels of corporate participation. Available evidence indicates that corporate bond issuance in Nigeria is significantly lower than government bond issuance, and the market has exhibited considerable fluctuations over time. This underdevelopment has been attributed to factors such as weak financial infrastructure, limited investor confidence, and inadequate regulatory frameworks [5, 14]. As a result, Nigerian firms continue to rely predominantly on short-term bank financing, which exposes them to several risks, including high borrowing costs, refinancing challenges, and maturity mismatches. These constraints limit firms' ability to undertake long-term investments, thereby hindering economic growth and structural transformation [12, 15].

Given these challenges, there is a growing need to explore alternative financing mechanisms in support of sustainable economic progress. In this context, the corporate bond market emerges as a potentially critical instrument for mobilising long-term capital and enhancing financial system resilience. Drawing from evidence in other regions, particularly Asia, where bond market development played a key role in post-crisis recovery, it is reasonable to expect that a similar mechanism could be effective in Nigeria [5, 10]. A closer investigation of the financial markets reveals that the aggregate bond market capitalisation is as important as stock market capitalisation.

A good understanding of the dynamics between bond market development and economic growth, as well as other macroeconomic variables, provides vital capabilities for academia and policymakers. In this paper, we focus on corporate bond market development and its impact on economic expansion, paying attention to the components of the market, namely, market size, liquidity and yields. The choice of the corporate bond market in this study is due to the glaring scarcity of empirical research on it compared with the stock market, government bond market, and banking sector. In Nigeria, it is largely unexplored. The findings of this study contribute to the overall literature on the finance-growth nexus. Against this background, this paper analyses the interplay between Nigeria's corporate bond market and economic growth over the period 1980–2025. Specifically, the study employs a dy-

namic model, such as an autoregressive distributed lag model, which offers methodological advantages over static tests by addressing issues related to non-stationarity.

Literature Review

Conceptual Review. The corporate bond market constitutes a critical segment of the financial system through which corporations mobilise long-term funds by issuing debt securities. These instruments, which may carry fixed or floating interest rates, are traded in both primary and secondary markets, thereby facilitating capital formation and investment expansion. As a complementary financing mechanism to bank lending and equity markets, the corporate market plays a vital role in enhancing the depth and efficiency of the financial system [7, 11].

From the perspective of financial intermediation, corporate bond markets serve as a direct channel linking surplus units, such as households and institutional investors, with deficit units, firms. Unlike traditional bank financing, which is often constrained by maturity structures and credit rationing, bond markets provide access to longer-term capital at relatively predictable costs, thereby supporting large-scale investments in infrastructure and industrial development [12]. Corporate bonds are generally considered the riskiest among fixed-income assets due to the likelihood that the issuing firm may delay or renege on interest and principal payments, particularly during periods of economic slump. As compensation for this risk, they usually offer higher returns relative to other fixed-income instruments.

Corporate bond markets contribute significantly to financial system diversification and stability. A diversified financial system reduces dependence on banking institutions, thereby mitigating systemic risks associated with concentrated credit allocation. According to the author [4], economies lacking advanced bond markets tend to be more vulnerable to financial crises due to excessive reliance on banks. Recent global evidence further suggests that large and liquid bond markets improve price discovery, enhance market transparency, and attract institutional investors, including pension funds and insurance firms [8, 9].

Key proxies of bond market development include bond market capitalisation, total bonds traded,

and bond yields, among others. These three dimensions indicate the size, liquidity, and profitability of the bond market, respectively, and also reveal its depth, particularly when measured relative to gross domestic product. Bond market capitalisation measures the total value of all bonds issued in the bond market. The total value of bonds traded refers to transactions in the secondary market segment, which indicates the market's liquidity. A liquid bond market involves improved trading efficiency [16].

Contextual Review. In many emerging economies, including Nigeria, financial systems remain predominantly bank-based, with limited development of capital markets, particularly the corporate bond market. This structural imbalance constrains long-term investment and reduces the efficiency of financial intermediation. In Nigeria, government securities dominate the bond market, while corporate bond issuance remains relatively low compared to global standards [5, 14]. The preponderance of bank lending in Nigeria has led to a financing structure characterised by short-term credit, high borrowing costs, and poor access to capital for small and medium-sized enterprises. As noted in previous studies, firms' reliance on bank financing exposes them to refinancing risks, interest rate volatility, and maturity mismatches, which ultimately hinder productive investment and economic growth [7, 12]. Additionally, weak financial infrastructure, low investor participation, and inadequate credit rating systems have further constrained the expansion of the corporate bond market in Nigeria.

Comparative experiences from other regions provide useful insights into the critical role of bond market development. Following the 1997 Asian Financial Crisis, several Asian economies implemented reforms to deepen their domestic bond markets, which contributed significantly to financial stability and economic recovery [5, 10]. In contrast, many African economies, including Nigeria, have yet to achieve similar levels of market development, thereby limiting their capacity to mobilise domestic savings for long-term investment.

Recent institutional reports reinforce this argument. The author [13] highlights the need for Nigeria to strengthen its domestic capital markets to promote sustainable economic growth. In contrast, the author [8] emphasises that countries with deeper bond markets were better positioned to recover from the COVID-19 pandemic.

Similarly, the author [9] identifies underdeveloped debt markets as a major constraint to infrastructure financing across Africa.

Theoretical Framework. This study is based on the Financial Intermediation Theory and the Supply-Leading Hypothesis, both of which provide a strong theoretical basis for understanding the finance–growth relationship.

According to the Financial Intermediation Theory, financial systems are instrumental in mobilising savings and allocating resources efficiently within an economy. While traditional models emphasise the role of banks, modern financial systems incorporate capital markets, including corporate bond markets, as alternative channels for financial intermediation. By reducing transaction costs, improving risk allocation, and enhancing liquidity, bond markets contribute to economic efficiency and growth [11].

The Supply-Leading Hypothesis argues that financial sector development leads economic growth by increasing credit availability and promoting investment. In this context, the development of corporate bond markets expands financing opportunities for firms, thereby supporting capital formation and productivity growth. Empirical evidence increasingly supports this hypothesis, particularly in emerging economies where financial systems are evolving [15, 17].

Empirical Review. Empirical investigations into the nexus between bond market development and economic performance reveal a complex but generally positive association. Early studies, such as [3], provide cross-country validation of both one-way and reciprocal causal associations between bond markets and economic activity. They discovered that the influence of bond markets on growth is strong, though in varied degrees across countries, lending support to the supply-leading hypothesis. Similarly, authors [18] demonstrate that the development of domestic debt markets contributes significantly to economic growth in developing countries by improving financial intermediation and reducing reliance on external borrowing. In the Asian context, the author [10] found that both public and private debt play important roles in driving economic growth, although the magnitude of their impact differs across countries.

In emerging markets, more recent studies provide stronger support for the growth-enhancing effects of bond market development. Author [15],

using panel data for Sub-Saharan Africa, established that financial market diversification, covering bond markets, significantly improves economic resilience and growth. Likewise, Author [17] reported that corporate bond markets enhance capital allocation efficiency and reduce macroeconomic volatility across emerging economies. Country-specific evidence further reinforces these findings. Authors [20] examined Nigeria's debt market using the ARDL approach. They found that corporate bond issuance has a positive and significant effect on real output growth, whereas excessive government borrowing crowds out private-sector financing. Similarly, Author [14] indicated that the bond market has a positive effect on investment and economic performance in Nigeria, although the effect remains relatively weak due to the market's underdeveloped nature.

Authors [20] investigated the effect of the bond market on Nigeria's economic progress over the period 1986–2018 using the cointegration bounds testing technique. Their findings reveal that corporate bonds and traded bond values have a positive and significant effect on economic growth. In contrast, bond yields exhibit a negative relationship with the growth of the Nigerian economy. Other findings include that government bonds exhibit an insignificant positive relationship. Authors [21] examined the Contribution of the bond market to Nigeria's economic development using the ARDL technique. The study found that corporate bond market capitalisation does not promote significant economic growth in Nigeria. Authors [22] explored how Nigeria's gross domestic product interacts with different components of the bond market over the period 1981–2021. It applied the error correction model (ECM) alongside the Granger causality test to capture both short- and long-run dynamics. The findings indicated that corporate bonds and federal government bonds have a significant relationship with Nigeria's GDP.

Turning to panel-based evidence, the authors [23] examined the impact of the bond market on the economic growth of selected emerging economies over the period 1990–2020, adopting autoregressive distributed lag (ARDL) for estimation. Among the variables adopted are GDP per capita, government and corporate bond capitalisations. The results showed that corporate bond capitalisation and domestic credit to the private sector negatively affect economic expansion, while government bond capitalisation, trade

openness, and inflation positively influence output growth. Authors [24] investigated the effect of the bond market on economic growth across 44 selected countries, comparing the periods before and after the Global Financial Crisis from 1990 to 2017. A dynamic GMM model is employed in the study, and it was found, among other things, that the government and corporate bond markets positively impact economic development.

Other studies also offer revealing evidence. Author [12] found that increased foreign participation in local currency bond markets improves market liquidity and supports economic performance. Authors [7] emphasised the role of corporate bond markets in providing long-term financing and enhancing the efficiency of the financial system. Meanwhile, [5] argued that bond markets contribute to macroeconomic stability by facilitating efficient resource allocation. Further, recent institutional evidence also underscores the importance of bond markets. Author [8] reported that countries with deeper corporate bond markets experienced faster recovery from the COVID-19 pandemic. In contrast, the author [9] highlighted that weak bond markets remain a major constraint to development in Africa.

Beyond direct measures of bond market development, several studies have examined bond market indicators such as yield spreads and term structures. Author [25] showed that yield curves are strong predictors of future economic activity in the United States. At the same time, [26] confirmed that interest rate spreads serve as reliable indicators of economic cycles in OECD countries. These findings highlight the informational role of bond markets in signalling macroeconomic conditions.

A careful review of these studies reveals several important patterns and insights. Overall, the empirical literature suggests that bond markets can serve as a crucial driver of economic expansion, particularly when supported by sound macroeconomic policies. The majority of empirical evidence supports a positive association between bond market development and economic growth. Cross-country and panel studies provide stronger support for the growth-enhancing role of bond markets. Despite the generally positive findings, the literature also reveals some inconsistencies, particularly regarding the significance and magnitude of the relationship. Further, while some

studies support the positive association, others suggest a negative relationship.

Furthermore, the majority of studies focus generally on the bond market, with only a very few disaggregating it into the corporate bond market. The studies have largely focused on broader capital market indicators rather than isolating the specific role of corporate bonds, thereby leaving an important gap in the literature. They usually merged the government and corporate bond markets in their analysis, thereby concealing the specific effects of the latter on growth.

METHODS

Data. The context of this research is the Nigerian economy, with a focus on the corporate bond market and output growth. It utilised six variables, including the corporate bond market capitalisation ratio, the corporate bond value traded ratio, corporate bond interest yields, the number of deals, real gross domestic product growth rate, and the inflation rate. The review period comprised historical data spanning 1981 to 2024 (44 years), obtained from several issues of the Central Bank of Nigeria (CBN) Statistical Bulletin.

Description of Variables

Corporate Market Capitalisation Ratio: This captures the size of the corporate bond market and reflects the total value of all listed corporate bonds on the Nigerian Stock Market. It is measured in relation to Nigeria's gross domestic product.

Corporate Bond Traded Value Ratio: It reflects the level of liquidity in the corporate bond market, indicating the monetary aggregate of secondary-market securities transactions relative to the economy.

Corporate Bond Interest Yields: The percentage of periodic interest paid to bond investors by the issuer. It is the coupon rate and constitutes one of the asset's main attractive features.

Number of Deals: represents the total number of corporate bond transactions in a year; it also indicates market activity and liquidity. A high number of deals implies high liquidity, whereas a low number means lower activity.

Real Gross Domestic Product Growth Rate: It measures the growth rate of a country's output, reflecting its aggregate productivity. It is indicative of a country's economic worth and prosperity.

Inflation Rate: It reflects the price levels of goods and services in an economy and indicates the stability of its national currency.

After specifying the functional and econometric models, this study will conduct preliminary analyses of the dataset, including descriptive statistics and unit-root tests. The study would then empirically model the variables to determine their relationships using an autoregressive distributed lag (ARDL) model. Then, the study analyses the robustness of the model and the estimations through autocorrelation, heteroscedasticity, CUSUM, and normality tests.

Functional Specification. The relationship between the corporate bond market development and economic growth is specified thus:

$$RGDP = f(CBCR, CBTR, CBY, NOD, INFR) \quad (1)$$

where RGDP – real gross domestic product growth rate; CBCR – corporate bond market capitalisation ratio; CBTR – corporate bond total value traded ratio; CBY – corporate bond yields; NOD = number of deals; INF – inflation rate.

The GDP is in real terms to adjust for inflationary effects; at the same time, the number of deals is converted to natural logarithms to moderate the skewness of the series.

Econometric Specification

$$RGDP_t = \alpha_0 + \alpha_1 CBCR_t + \alpha_2 CBTR_t + \alpha_3 CBY_t + \alpha_4 NOD_t + \alpha_5 INF_t + \mu_t$$

A priori expectation is constructed thus:

$$\alpha_1, \alpha_2, \alpha_3, \alpha_4 > 0, \text{ whereas } \alpha_5 < 0$$

Positive signs of $\alpha_1, \alpha_2, \alpha_3, \text{ and } \alpha_4$, and negative sign of α_5 are consistent with theoretical literature.

Before proceeding, it is necessary to specify the study's unit root model and the Augmented Dickey-Fuller (ADF) test to determine the regression technique to be used.

$$\Delta y_t = \psi y_{t-1} + \sum_{i=1}^p \alpha_i \Delta y_{t-i} + \xi_t$$

The study employed the ARDL model of [27] along with its bounds testing approach to determine the short- and long-run relationships among the variables. This method is open, adapt-

able, and well-suited to modelling mixed unit root features, as it can overcome the difficulties that series with varying unit roots pose for other dynamic models, such as the Vector Error Correction Model. The model also has an inbuilt capacity to determine whether the study's variables share a long-run association. Besides these, it can generate credible, reliable results due to its dynamic nature. Additionally, it can estimate both short- and long-run results concurrently and is suitable for modelling small sample sizes.

The (ARDL) framework is stated as:

$$\Delta Y_t = \alpha_0 + \sum_{i=1}^q \alpha_1 \Delta Y_{t-i} + \sum_{i=0}^q \alpha_2 \Delta X_{t-i} + \varpi_{1p} X_{t-1} + \xi_t$$

Note that Y_t is a regressand; X_{t-i} is a regressor and may take I(1) or I(0) order of integration. α_1 and α_2 represent short-term coefficients while ϖ_{1p} signifies the long-run coefficient, α_0 is the intercept and ξ_t , the white noise term.

The study's variables are then inserted in the ARDL model as follows:

$$\begin{aligned} \Delta RGDP_t = & \alpha_{0i} + \sum_{i=1}^q \alpha_{0i} \Delta RGDP_{t-i} \\ & + \sum_{i=1}^q \alpha_{1i} \Delta CBCR_{t-i} \\ & + \sum_{i=1}^q \alpha_{2i} \Delta CBTR_{t-i} \\ & + \sum_{i=1}^q \alpha_{3i} \Delta CBY_{t-i} \\ & + \sum_{i=1}^q \alpha_{4i} \Delta NOD_{t-i} \\ & + \sum_{i=1}^q \alpha_{5i} \Delta INF_{t-i} + \varpi_{1p} CBCR_{t-1} \\ & + \varpi_{2p} CBTR_{t-1} \\ & + \varpi_{3p} CBY_{t-1} + \varpi_{4p} NOD_{t-1} \\ & + \varpi_{5p} INF_{t-1} + \xi_{1t} \end{aligned}$$

Since we are also interested in determining the speed of adjustment from disequilibrium, the study undertook the estimation of the error correction term through the error correction model as specified thus:

$$\Delta RGDP_t = \alpha_{01} + \sum_{i=1}^p \alpha_{1i} \Delta RGDP_{t-i} + \sum_{i=1}^q \alpha_{2i} \Delta CBCR_{t-i} + \sum_{i=1}^q \alpha_{3i} \Delta CBTR_{t-i} + \sum_{i=1}^q \alpha_{4i} \Delta CBY_{t-i} + \sum_{i=1}^q \alpha_{5i} \Delta NOD_{t-i} + \sum_{i=1}^q \alpha_{6i} \Delta INF_{t-i} + \lambda ECT_{t-1} + \xi_{1t}$$

where λ is the parameter that determines the speed at which disequilibrium is corrected.

Table 1 – Descriptive Statistics

	INF	LNNOD	CBCR	RGDP	CBTR	CBY
Mean	19.42289	3.37125	2.75088	4.06733	0.04066	13.06111
Median	13.25000	2.70805	2.79000	4.03000	0.01000	11.30000
Std. Dev.	15.48085	2.95784	1.59990	1.86098	0.07670	4.283540
Skewness	1.71739	1.20919	-0.02146	0.16458	2.48481	0.575571
Kurtosis	5.44173	3.39984	1.86514	2.61315	7.58124	2.035572
J-Bera	33.29974	11.2658	2.41825	0.48374	85.6593	4.228592
Prob	0.0000	0.0035	0.2984	0.7851	0.0000	0.1207

The skewness and kurtosis statistics provide valuable insights into the symmetry and tail thickness of the distributions, respectively. Regarding the skewness statistic, all variables in this study were positively skewed, except for the corporate bond market capitalisation rate. The kurtosis statistics showed that corporate bond traded value, number of deals, and inflation rate were higher than normal because their kurtosis statistics were greater than 3. On the other hand, kurtosis statistics for the corporate bond market capitalisation ratio, corporate bond yields, and real gross domestic product growth rate were less than 3, indicating a flatter distribution than normal. The Jarque-Bera statistic failed to reject the null hypothesis of normality for corporate bond traded value, number of deals, and inflation rate at the 5% significance level.

Table 2 indicates that the real gross domestic product growth rate and the inflation rate were stationary at the level.

Table 2 – ADF Test (Trend and Intercept)

Variables	Stat	Critical value (5%)	Prob	Decision
CBCR	-6.9512	-2.9369	0.0000	1(1)
CBTR	-6.1397	-2.9314	0.0000	1(1)
CBY	-6.0130	-2.9314	0.0000	1(1)
LNNOD	-8.5028	-2.9314	0.0000	1(1)
RGDP	-6.2258	-2.9297	0.0000	1(0)
INF	-3.0864	-2.9297	0.0349	1(0)

RESULTS AND DISCUSSION

The standard deviations showed that all variables, in terms of their distributions, are clustered around their means and medians, except the inflation rate, which is somewhat volatile (Table 1).

In contrast, the other variables, including corporate bond market capitalisation ratio, corporate bond value traded, corporate bond yields, and number of deals, were stationary at the first difference. This indicates that we reject the null hypothesis of non-stationarity for the order-1 variables. Since the results show that the variables comprise both $I(0)$ and $I(1)$, the study adopts the ARDL model.

The regression analysis presents short-term results for bond market capitalisation ratio, bond total traded value ratio, bond yields, number of deals, and inflation rate, both in their current and lag forms (Table 3).

Table 3 – Short Run and Error Correction Estimates

Variable	Coeff	Std. Error	T-Stat	Prob
RGDP(-1)	-0.106365	0.149669	-0.710672	0.4839
INF	-0.010357	0.019187	-0.539787	0.5941
INF(-1)	-0.041239	0.020695	-1.992656	0.0573
LNNOD	0.149692	0.149781	0.999408	0.3272
CBCR	0.568143	0.731325	0.776867	0.4445
CBCR(-1)	-0.274583	0.674517	-0.407081	0.6874
CBTR	1.978130	5.151612	0.383983	0.7042
CBTR(-1)	-15.91956	6.688793	-2.380034	0.0253
CBY	-0.344772	0.110708	-3.114245	0.0046
CBY (-1)	0.225117	0.151881	1.482193	0.1508
CBY (-2)	-0.273343	0.146333	-1.867949	0.0735
CointEq(-1)	-1.335070	0.176406	-7.568189	0.0000

Notes: R^2 – 0.661773; Prob(F-statistic) – 0.006050; Durbin-Watson stat – 1.556323.

CBCR has no significant influence on economic performance; however, the contemporary CBCR is positive (0.56), whereas the lagged CBCR is negative (-0.27) in terms of coefficients. The contemporary CBTR shows a positive relationship (1.97) with growth, but it does not reach significance. However, its lag 1 is negatively significant (-15.9) at the 0.02 level with economic growth. The CBY is negative (-0.34), indicating a statistically significant relationship with economic progress, whereas the lagged CBY is not significant, albeit positive (0.23). For the NOD, it does not contribute to economic growth, despite its positive coefficient (0.15). Both the current and the lag of the control variable, INF, showed negative parameter estimates, -0.01 and -0.04, with lag 1 of INF being statistically significant. The error correction term (ECT) is negatively and correctly signed (-1.34), indicating a significant probability of 0.00 at the 0.05 significance level.

Since the bounds test statistic of 6.59 is above both the lower (2.39) and upper (3.38) bounds, it confirms the presence of a long-run relationship between corporate bond market development and economic growth in Nigeria (Table 4).

Table 4 – ARDL Bounds Test

Statistic Value	Lower Value	Upper Value
6.5987	2.39	3.38

For long-run relationships, none of the indicators of corporate bond market development is significant at the 0.05 significance level with Nigeria's economic performance (Table 5).

Table 5 – Long Run Estimates

Variable	Coeff	Std. Error	T-Stat	Prob
INF	-0.038646	0.013913	-2.777776	0.0102
LNNOD	0.112123	0.111753	1.003315	0.3253
CBCR	-0.384985	0.206363	1.865577	0.0739
CBTR	-3.979949	2.859500	-1.391834	0.1762
CBY	-0.077814	0.056431	-1.378904	0.1801

Additionally, they exhibit a mix of positive and negative relationships with output growth. CBCR, CBTR, CBY and NOD have, respectively, -0.38, -3.97, -0.07 and 0.11 parameters. Contrary to INF, INF displays a negative (-0.03) but significant effect on economic advancement.

Table 6 – Diagnostic Estimates

	F-statistic	Probability
BG LM Test	1.31233	0.2886
Het- BPG	0.51403	0.9151
JB- Normality	9.01490	0.0110
Ramsey RESET	0.07888	0.7812

Notes: BG LM Test – Breusch-Godfrey Serial Correlation LM Test; Het-BPG – Heteroscedasticity Test.

The post-estimation tests indicate the absence of serial correlation and heteroscedasticity.

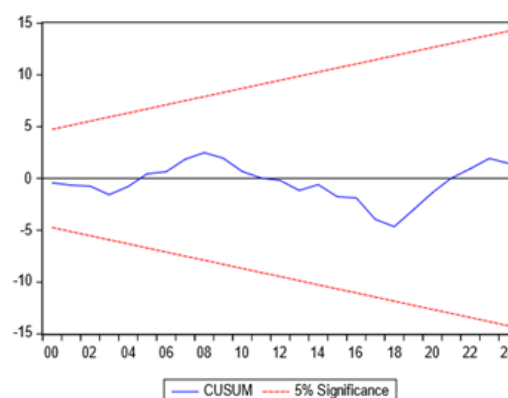


Figure 1 –Cusum

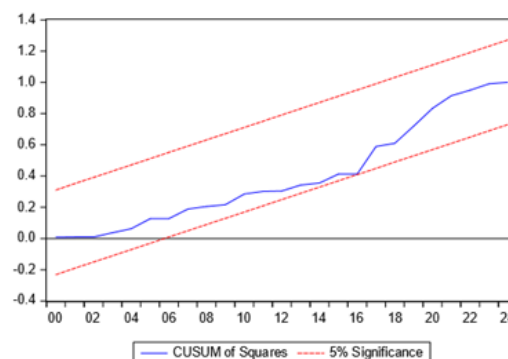


Figure 2 = Cusum Square

The model is not normally distributed, with a probability of 0.01. Further, the model's stability is confirmed by CUSUM results. The blue lines in the two diagrams lie between the red lines, indicating stability. Also, the model is not suffering from specification error, as the Ramsey RESET probability is 0.78.

The market size, measured by corporate bond market capitalisation, does not affect Nigeria's economic performance in the short- and long-term; this is contrary to our theoretical a priori expectation. It also contradicts the positions of [21–24], who stated that corporate bond capitali-

sation had a significant influence. While [23] established a negative impact on Nigerian economic growth and the human development index, [24] did the same. (in selected developing economies), and [22] (on the Nigerian economy) claimed a positive impact on economic growth.

However, our empirical outcomes align with reality and practical situations in Nigeria. Thus, the result is not surprising, as deposit money banks, the stock market, and the government bond market heavily dominate Nigeria's financial system. The vast majority of Nigerian companies rarely approach the bond market to raise funds; banks and the stock market have always been their primary sources of investment capital. Further, the allegation of the Federal Government's dominance over the bond sub-sector and the consequent crowding out of the corporate entities from the market resonates here. For instance, between 2005 and 2012, corporate firms could raise only about 200.44 billion naira in the primary segment of the domestic bond market.

In contrast, just under six months in 2012 (between July and December, 2012), a huge amount of 411.49 billion naira was raised through the government bond at the same domestic market [28]. This provides a reasonable explanation for the lack of impact of corporate bonds on economic activity. Adequate market size is imperative for the corporate bond market to exert any meaningful effect on the economy; size reflects the market depth.

Similarly, market liquidity, as measured by the total traded value of corporate bonds and the number of deals, is not significant in the short- or long-term, except for the lag in CBTR; this suggests that the secondary market lacked sufficient transactions to affect the Nigerian economy. This result is rational given the bond market shallowness; corporate bodies are averse to approaching the bond market for funds. It further suggests that the investors practice a "buy-and-hold" approach and do not offload their holdings before maturity. The empirical findings of authors [20, 29] showed that total bond transactions were positively significant in the Nigerian economy, contradicting our results. Corporate bond yields, which reflect the returns on corporate bonds, slowed Nigeria's short-term economic growth. Our empirical result is consistent with the author [20], who found that bond yields (both corporate and government) were negatively associated with Nigeria's economic growth. Corporate

bonds are considered riskier than government bonds; as a result, they are virtually always more expensive, even if the company has a high credit rating. It is important to note that bond yields can serve as indicators of macroeconomic direction.

Policy Implications. The empirical findings carry significant policy implications, particularly in Nigeria and similar emerging economies where financial systems are heavily bank-dominated.

First, the insignificant effect of corporate bond market indicators on economic expansion suggests that Nigeria's corporate bond market remains too shallow to drive meaningful economic activity, underscoring the urgent need for policies to deepen it. Regulatory authorities, including the Central Bank of Nigeria and the Securities and Exchange Commission of Nigeria, need to strengthen market infrastructure, streamline issuance procedures, reduce transaction costs, improve market accessibility for firms, and reduce bureaucratic bottlenecks that discourage corporate participation.

Second, the dominance of government securities and the crowding-out effect observed in the study indicate that public-sector borrowing is limiting private-sector access to the bond market. Policymakers should therefore adopt debt management strategies that rebalance the market, including gradual reductions in excessive domestic borrowing, creation of incentives for corporate bonds, and encouragement of public-private co-financing structures.

Third, the negative and significant impact of bond yields highlights the role of macroeconomic instability, particularly high interest rates; this suggests that monetary authorities must prioritise the stability of interest rates and inflation. A more stable macroeconomic environment will lower borrowing costs, improve investor confidence and encourage corporate bond issuance.

Fourth, the weak role of liquidity (total traded value) and the number of deals reflect low investor participation on the secondary market and a "buy-and-hold" culture. To address this, policies should focus on developing an active secondary market, encouraging participation from institutional investors, such as pension funds and insurance companies, and encouraging foreign portfolio investment. Greater foreign participation in domestic currency bond markets improves market liquidity and supports economic performance.

CONCLUSIONS

This study investigated the nexus between the corporate bond market and economic growth in Nigeria from 1981 to 2024, using the ARDL framework. The analysis incorporated key indicators of corporate bond market performance, including the market capitalisation ratio, the traded value ratio, bond yields, and the number of deals, as well as inflation as a control variable. The empirical findings revealed that, in the short term, most corporate bond market indicators had insignificant effects on economic growth, except bond yields, which showed a statistically significant negative relationship with economic growth. This indicates that higher yields, reflecting higher borrowing costs, tend to dampen economic performance.

In the long term, the results also revealed that none of the corporate bond market variables exerted a statistically significant influence on output growth, although they displayed mixed signs. Inflation, however, remained negatively and significantly associated with economic growth, underscoring the importance of macroeconomic stability. Additionally, the cointegration test confirmed the presence of a long-run equilibrium among the indicators. At the same time, the error-correction term indicated a high adjustment toward equilibrium after short-run deviations. Overall, the outcomes indicate that Nigeria's corporate bond market remains underdeveloped and insufficiently integrated into the real economy, thereby limiting its potential Contribution to economic growth.

This study concludes that corporate bond markets should enhance economic growth through efficient capital allocation and long-term financing, but the Nigerian experience does not yet reflect this outcome. The empirical evidence indicates that the corporate bond segment of the Nigerian capital market remains at a nascent stage of development, characterised by low participation, weak liquidity, and limited depth. The dominance of government securities, combined with high interest rates and macroeconomic instability, has constrained the corporate bond segment from functioning as an effective financing channel. In essence, the study reinforces the argument that financial market development alone is not sufficient; sound macroeconomic policies, strong institutions, and an enabling regulatory framework must support it.

Contribution To Knowledge

Theoretical Contribution. This study adds to the existing literature on financial development by re-evaluating the validity of the Supply-Leading Hypothesis in a developing, bank-dominated economy. While the theory posits that financial market deepening stimulates real output growth, the findings suggest that such outcomes are not automatic and depend critically on underlying structural and institutional conditions. By demonstrating that corporate bond market development does not influence economic expansion in Nigeria, the study refines existing theory by emphasising the conditional nature of the finance–growth nexus, particularly in environments characterised by shallow markets and macroeconomic instability.

Empirical Contribution. The study makes several key contributions. First, it provides a focused analysis of corporate bond market indicators, including market capitalisation, trading volume, yields, and deal activity, thereby extending existing studies that rely on aggregate financial market measures.

Second, it uses a long-time series dataset (1981–2024) that captures multiple economic cycles and structural shifts in Nigeria.

Third, the application of the ARDL methodology enables robust estimation of both short-term and long-term dynamics in the presence of mixed integration orders.

Finally, the study uncovers new evidence of weak, insignificant associations between the corporate bond market and economic performance, while also identifying key structural constraints, such as government borrowing and limited market liquidity. These findings enrich the empirical literature by providing context-specific insights into why corporate bond markets in emerging economies may underperform relative to theoretical expectations.

Study Limitations. While this study makes important contributions, it is not without limitations.

First, the analysis is confined to aggregate macro-level indicators of the corporate bond market. This approach does not capture firm-level financing behaviour and sector-specific bond market dynamics. As a result, the results may not fully capture the heterogeneous effects of bond financing across industries.

Second, although the ARDL methodology is robust with mixed integration orders, it has limited ability to capture policy somersaults and complex structural breaks, including the 2008 global economic meltdown, the 2016 Nigerian recession, and the COVID-19 shock. These events may have significantly influenced the finance–growth relationship.

Third, the study includes only a limited set of control variables (inflation), thereby omitting other important macroeconomic and institutional factors, such as exchange rate volatility, financial openness, and institutional quality; this will significantly affect the robustness of the findings.

Suggestions For Future Research. These key findings and study limitations suggest several directions for further research.

First, future studies should use firm-level or micro-level data to better understand how corporate bond financing affects firm performance, investment decisions, and productivity.

Second, there is a need for comparative or panel studies across African economies; this would

help determine whether Nigeria's experience is unique or part of a broader regional pattern, thereby enhancing the generalisability of the findings.

Third, future research should incorporate additional macroeconomic and institutional variables, such as exchange rate dynamics, institutional quality indicators, and financial openness, to deepen understanding of the determinants of bond market effectiveness.

Fourth, given the structural changes in Nigeria's economy, researchers should explore nonlinear models or structural break techniques to capture regime shifts and crisis effects.

Fifth, future studies could examine the interaction between bond markets and other financial sectors, particularly banking sector development, stock market performance and fintech and digital financial platforms; this would align with the financial diversification argument emphasised in the literature.

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