Financial System Development in Emerging Economies: An Array of MINT Economic Bloc

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Abstract:
This study investigated financial system development in emerging economies of Mexico, Indonesia, Nigeria and Turkey (MINT) with a view to ascertaining the level of financial institutions and markets depth, access and efficiency and intra-dependency of these financial system development indicators in member countries from 2000-2020. Comparatively, the level financial institutions and markets depth, access and efficiency in some MINT member countries were below standards for emerging economies especially in Nigeria, while some performed above the benchmark. VAR results revealed that indicators of financial system development were strongly endogenous and exogenous in the short and long run except financial institutions efficiency and financial markets depth, depicting independent influence and significant self-predictions. Based on the findings, researchers recommends that MINT monetary zone should be established to facilitate cross border effect of financial institutions and markets development in member states, and there should be common policy measure to pursue a robust financial institutions and markets development to complement and harness innovations in the different components of the financial system.

Keywords: Financial system development, emerging economies, MINT economic bloc

1. Introduction
Financial system development in emerging economies precipitates emancipation of her economic throes in global competitive environment, as developing economies strives to foster economic integration beyond regional and continental organizations by forming economic blocs. Aside mutual economic policy, economic transformation of emerging markets huggd on her establishment and expansion of financial institutions, instruments and markets to facilitate multilateral trade, economic growth processes and sustainability. However, financial innovations continually brought colossal dynamism in development of the financial system which poses as a global phenomenon for virile economy. As the matrix of financial system development and economic performance has been intellectually explored, relegating the array of financial system development indicators in the contemporary issues with no attention on the presumable symbiotic dispositions. Consequently, this study investigates the level of financial system development in Mexico, Indonesia, Nigeria and Turkey (MINT) economic bloc.

2. Literature Review
The critical role of financial sector spurred economies across the globe and heralds the development of her financial system especially emerging markets. Financial system development thus involves the establishment and expansion of financial institutions, instruments and markets which supports the investment and growth process through improvements in the quantity, quality and efficiency of financial intermediary services Osuji (2015). Ronoh and Omwenga (2017) assert that the developments in the financial sector have not only led to the increase in the number of financial institutions, but also the development in level of sophistication with new payment systems and asset alternatives to holding money. While, Stiglingh, Muzindutsi and Bezuidenhout (2018) succinctly posit that there seems to be a lack of strong financial systems and policies to deliver the required economic results in most developing countries. Iheonu et al. (2020) collaborate that development of the financial sector enhances efficient access to financial services and products.
2.1. Financial System Development in MINT Countries

Economic bloc of Mexico, Indonesia, Nigeria and Turkey (MINT) was devised by Fidelity investments in 2011 and popularized by Jim O’Neill (the former chief economist of Goldman Sachs) in 2013 as emerging economic giants. MINT countries were grouped together based their similar characteristics, including large populations of youthful age, inner demographics of nations encouraging trade with other countries and demonstration of rapid economic growth based on national reforms and entrepreneurialism. According to Durotoye (2014), the term was popularized by Jim O’Neill of Goldman Sachs, who had created the term BRIC, the idea was that Mexico, Indonesia, Nigeria and Turkey have very favourable demographics and their economic prospects are encouraging. However, charts 2.1, 2.2 and 2.3 below presents the level of financial institutions depth (FID), access (FIA), efficiency (FIE) compared to the International Monetary Fund (IMF) Bench mark for emerging economies (B/Mark) across the globe. While Figure 2.4, 2.5 and 2.6 presents financial markets depth (FMD), access (FMA), efficiency (FME) in Mexico, Indonesia, Nigeria and Turkey (MINT) counties compared to the International Monetary Fund (IMF) Bench mark for emerging economies (B/Mark).

![Figure 1: Financial Institutions Depth in MINT and Bench Mark for Emerging Economies](image1)

Source: Researchers Graph of Financial System Development Indicator

Figure 1 above reveals that ratios of financial system depth (FID) in Mexico, Indonesia, Nigeria and Turkey ranges from 0.11% to 0.25%, 0.09% to 0.15%, 0.04% to 0.07% and 0.07% to 0.19% respectively with annual average of 0.18% in Mexico, 0.13% in Indonesia, 0.06% in Nigeria and 0.3% in Turkey below the average bench mark of 0.21% for emerging economies ranging from 0.17% to 0.24%. FID in all MINT countries were significantly below the emerging markets IMF bench mark throughout the period except in Mexico that recorded slight ratios above the bench mark from 2000 to 2005.

![Figure 2: Financial Institutions Access in MINT and Bench Mark for Emerging Economies](image2)

Source: Researchers Graph of Financial System Development Indicator
Figure 2 above depicts that ratios of financial system access (FIA) in Mexico were strongly correlated with emerging economies benchmark, ranging from 0.21% to 0.43% with annual average of 0.32% as FIA was slightly above the average benchmark of 0.34%, ranging from 0.23% to 0.42%. However, FIA in Indonesia and Nigeria significantly performed below standard throughout the period except in 2014 to 2018 that ratios of Indonesia were slightly above the benchmark. Indonesia ratio ranges from 0.10% to 0.44% with annual average of 0.23% while Nigeria ranges from 0.38% to 0.65% with annual average of 0.52%. Turkey’s FIA significantly performance above the benchmark ratios with average of 0.55% and range 0.26% to 0.62%.

Figure 3 above presents financial system efficiency (FIE) and emerging economies benchmark (B/mark), aside 2000 to 2002 and 2014 to 2018 weak performance in Mexico, ratios of Mexico and Indonesia outweighs the IMF benchmark throughout the period with annual average of 0.62% and 0.67%, ranging from 0.44% to 0.72% and 0.60% to 0.72% compared to 0.62% average annual benchmark with the range of 0.56% to 0.65%. However, Nigeria and Turkey strongly performance below the emerging markets standard with ratios of 0.05% and 0.30%, which ranges from 0.02% to 0.11% and 0.21% to 0.37% respectively except the 2018 equality ratio in Nigeria.

From Figure 4 above, the ratios of financial market depth (FMD) in Mexico, Indonesia and Turkey strongly performed beyond the IMF annual benchmarks for emerging economies with annual average of 0.24%, 0.20% and 0.30% respectively, ranging from 0.12% to 0.33%, 0.14% to 0.26% and 0.21% to 0.37% compared to annual average standard of 0.21% with the range of 0.19% to 0.24% except 2002 and 2003 in Mexico below the standard. While, Nigeria
ratios significantly performed below standard with annual average of 0.05% and range of 0.02% to 0.11% throughout the period.

![Graph of Financial System Development Indicator](image)

**Figure 5: Financial Markets Access in MINT and Benchmark for Emerging Economies**
*Source: Researchers Graph of Financial System Development Indicator*

MINT financial markets access (FMA) in Figure 5 reveals that ratios of Mexico, Indonesia, Nigeria and Turkey significantly performed above the emerging economies benchmark throughout the period with annual average of 0.47%, 0.36%, 0.50% and 0.36%, ranging from 0.42% to 0.57%, 0.29% to 0.40%, 0.47% to 0.51% and 0.29% to 0.40% respectively, compared to 0.18% annual average standard and range of 0.15% to 0.27%.

![Graph of Financial Markets Efficiency in MINT and Benchmark for Emerging Economies](image)

**Figure 6: Financial Markets Efficiency in MINT and Benchmark for Emerging Economies**
*Source: Researchers Graph of Financial System Development Indicator*

In Figure 6 above, Mexico, Indonesia and Turkey significantly performed beyond standard throughout the period with most glaring ratios in Turkey. Annual average of 0.33% and 0.39% with the range of 0.23% to 0.50% and 0.21% to 0.92% recorded in Mexico and Indonesia respectively. While, Turkey was 1.00% on annual average recording 1.00% each year. However, Nigeria performed below the annual benchmark throughout the period except in 2007 and 2008, and the ratio ranges from 0.05% to 0.42% with annual average of 0.12%.

### 2.2. Empirical Review

Sulemana and Dramani (2020) comparatively revealed that FSD led to growth in SADC but no statistically significant effect in ECOWAS, as the effect of FSD through institutional development supports a positive complementarity effects on growth in both regions but only statistically significant in ECOWAS. Iheonu et al. (2020) research found the impact of financial sector development on domestic investment depends on the measure of financial sector development utilized, as banking intermediation efficiency and broad money supply negatively and significant influence domestic investment. Sarwar et al. (2020) study revealed that financial development has a positive and significant effect on economic growth of emerging economies. Guru and Yadav (2019) depicts that banking sector development and stock
market development indicators are complementary to each other in stimulating economic growth for five major emerging economies of Brazil, Russia, India, China and South Africa (BRICS). Stiglingh, Muzindutsi and Bezuidenhout (2018) showed a long run and short run relationship between economic growth and financial development in BRICS.

2.3. Theoretical Review

Researchers anchored this study on Legal Theory of Finance (LTF) which prostrates that in countries where legal systems enforce private property rights, support private contractual arrangements, and protect the legal right of investors, savers are more willing to finance firms and financial system flourish. According to Pistor (2013), the LTF posits that financial markets are constructed legally and ensconced in a hybrid location between market and state. Confidence in the financial system encourages investors to allocate their savings through financial markets and institutions rather than to invest in non-productive assets in order to hedge against inflation or the risk of financial collapse (Chittedi, 2014). LTF states that law is fundamental to modern finance, as it offers authority to private and public financial instruments; and validates financial instruments generated from private contracts if they are consistent with the law (Sarpong and Deodutt, 2019).

Levine (2001) Avers that legal adaptability channel of the law and finance theory holds that legal traditions differ in terms of their ability to adapt to changing commercial and financial circumstances and that legal systems that adapt more effectively to changing conditions will concomitantly support financial development more effectively. Arguably, significance of law to finance has increased with the transition from relational finance to entity and ultimately, market based finance. Financial instrument fungibility in anonymous markets depends on credible contractual commitments that can be legally enforced.

3. Methodology and Data Analysis

As a result of endogenous model variables, the VAR approach was adopted as the most plausible technique of analysis in this study as it deals with dependent variables only. VAR Model automatically specified thus:

\[
\begin{align*}
FID &= C(1,1)*FID(-1) + C(1,2)*FIA(-1) + C(1,3)*FIE(-1) + C(1,4)*FMD(-1) + C(1,5)*FMA(-1) + C(1,6)*FME(-1) + C(1,7) \\
FIA &= C(2,1)*FID(-1) + C(2,2)*FIA(-1) + C(2,3)*FIE(-1) + C(2,4)*FMD(-1) + C(2,5)*FMA(-1) + C(2,6)*FME(-1) + C(2,7) \\
FIE &= C(3,1)*FID(-1) + C(3,2)*FIA(-1) + C(3,3)*FIE(-1) + C(3,4)*FMD(-1) + C(3,5)*FMA(-1) + C(3,6)*FME(-1) + C(3,7) \\
FMD &= C(4,1)*FID(-1) + C(4,2)*FIA(-1) + C(4,3)*FIE(-1) + C(4,4)*FMD(-1) + C(4,5)*FMA(-1) + C(4,6)*FME(-1) + C(4,7) \\
FMA &= C(5,1)*FID(-1) + C(5,2)*FIA(-1) + C(5,3)*FIE(-1) + C(5,4)*FMD(-1) + C(5,5)*FMA(-1) + C(5,6)*FME(-1) + C(5,7) \\
FME &= C(6,1)*FID(-1) + C(6,2)*FIA(-1) + C(6,3)*FIE(-1) + C(6,4)*FMD(-1) + C(6,5)*FMA(-1) + C(6,6)*FME(-1) + C(6,7)
\end{align*}
\]

### Table 1: Description of Model Variables

| Notation | Variable Description | Data Source | A’priori Expectation |
|----------|----------------------|-------------|----------------------|
| FID      | Financial institutions depth | IMF         | Strong endogeneity and exogeneity |
| FIA      | Financial institutions access | IMF         | Strong endogeneity and exogeneity |
| FIE      | Financial institutions efficiency | IMF         | Strong endogeneity and exogeneity |
| FMD      | Financial markets depth | IMF         | Strong endogeneity and exogeneity |
| FMA      | Financial markets access | IMF         | Strong endogeneity and exogeneity |
| FME      | Financial markets efficiency | IMF         | Strong endogeneity and exogeneity |
Table 2: Summarized Results of Preliminary Analysis

Table 2 above summarized the panel unit root test, optimal lag structure and measure of regression. A positive value of the Augmented Dickey Fuller (ADF) statistic indicates stationarity of the variables, and confirmed by the probability values less than one each. FID, FIA, FIE and FMA integrated in order one, while FMD and FME attained stationarity at level form. Optimal lag structure of one was obtained across the variables and R square individual coefficients of determination shows the high degree of self prediction by each variable tested in the model except for FIE.

Table 3: VAR Result of MINT Countries

The VAR estimates revealed strong endogeneity and exogeneity of FID, FIA FMA and FME variables. The coefficients of t-statistic and percentage increase depicted that FID, FIA, FMA, and FME strongly influenced selves, as their
pass realizations associated with 98.77%, 97.44%, 88.18%, and 76.51% increase in FID, FIA, FMA and FME respectively on average ceteris paribus. The coefficient of determination as represented by R square was 0.984114, 0.985390, 0.883394 and 0.932928 with adjusted R of 0.982648, 0.984041, 0.872630 and 0.926737 respectively. While, FIE and FMD were weakly endogenous and relatively exogenous as their pass realizations associated with 49.71% and 35.06% and the coefficients of t-statistic and percentage increase depicted that FIE and FMD weakly influenced selves. The coefficient of determination as represented by R square was 0.495905 and 0.887233 with adjusted R of 0.449374 and 0.876824 shows that FIE was strongly influenced by external factors aside the financial system development indicators while FMD was Deodat significantly influenced by other variables in the model. FID had weak positive influence on FIE and FMD, but weak negative influence. Aside FIE, FIA had weak positive influence on all the variables. FIE and FMD had weak positive influence on FIA but FID, FMA and FME recorded weak negative influence. FMA had weak positive influence on FID and FME, weak negative influence on FIA, FIE and FME. Other variables had weak positive influence on FID except FMD with weak negative influence. All the variables had weak positive influence on FIA but FID, FME and FMD recorded weak negative influence.

Apart from FME, all the variables had weak positive influence on FIE confirming strong external influence, aside FID, FIE had weak negative influence on all the variables. FMD had strong positive influence on FME confirming its relative exogeneity, weak positive influence on FIA and FMA, but weak negative influence on FID and FIE. As FID strongly influenced FMD positively, other variables had weak positive influence on FMD excluding FMA with weak negative influence. FMA had weak positive influence on FID and FME confirming its positive influence on FIE, FIA and FME. Other variables had weak positive influence on FMA except FID and FME with weak negative influence. FIE and FMD had relative positive influence on FID and FME, but weak negative influence on FIA, FMA and FME. All the variables had weak positive influence on FID, FIA, FMA and FME with weak negative influence. FIA, FMA and FME exhibited weak positive influence on FME, but FID and FIE had negative influence on FME.

### Table 4: Summary of Diagnostic Tests

| Test                  | Prob | Chi-sq | Joint |
|-----------------------|------|--------|-------|
| F-stat                | 10.24940 | 15.23524 | 23.06824 |
| Prob                  | 0.05000 | 0.00000 | 0.00000 |
| Chi-sq (Joint = 318.5349) | 0.0193 | 0.4269 | 0.0000 |
| Joint                 | 34.25473 | 23.08735 | 17.59608 |
| Normality             | 0.9731 | 0.0068 | 0.5684 |
| Autocorrelation       | 32.06902 | 20.64902 | 0.0000 |

VAR residual serial correlation LM test indicated absence of serial correction at lags 1 to h. The Normality Tests revealed that all the six components were normally distributed. Heteroskedasticity tests at levels and squares depict presence of Heteroskedasticity.

### Table 5: Cholesky Variance Decomposition Results

| Period | FID | FIA | FIE | FMD | FMA | FME |
|--------|-----|-----|-----|-----|-----|-----|
| 1      | 0.9731 | 1.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 |
| 2      | 0.01761 | 0.01398 | 0.01073 | 0.00840 | 0.00617 | 0.00403 |
| 3      | 0.01320 | 0.01130 | 0.00947 | 0.00784 | 0.00621 | 0.00448 |
| 4      | 0.01130 | 0.01000 | 0.00850 | 0.00716 | 0.00580 | 0.00425 |
| 5      | 0.01073 | 0.00947 | 0.00822 | 0.00694 | 0.00572 | 0.00436 |

### Table 5: Cholesky Variance Decomposition Results

| Period | FID | FIA | FIE | FMD | FMA | FME |
|--------|-----|-----|-----|-----|-----|-----|
| 1      | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 |
| 2      | 0.01398 | 0.01398 | 0.01398 | 0.01398 | 0.01398 | 0.01398 |
| 3      | 0.01073 | 0.01073 | 0.01073 | 0.01073 | 0.01073 | 0.01073 |
| 4      | 0.01130 | 0.01130 | 0.01130 | 0.01130 | 0.01130 | 0.01130 |
| 5      | 0.01073 | 0.01073 | 0.01073 | 0.01073 | 0.01073 | 0.01073 |

Cholesky Ordering: FID FIE FMD FMA FME
All the variables exhibited strong endogeneity and exogeneity both in the short run and long run. There was trace of weak influence from shocks of other variables, as no degree of unexpected variation was produced by innovations from these variables and this was in tandem with the VAR results. In the short run, 100% and 97.09% forecast error variance in FID was self-explained, while 94.05%, 91.53% and 89.52% explained on the long run. This confirms that FIA, FIE, FMD, FMA and FME had weak influence on FID both in the short run and long run. FIA 90.73% and 85.46% forecast variance in the short run was self-predicted and 81.17%, 77.42% and 73.95% on the long run, confirming that FID, FIE, FMD, FMA and FME had weak influence on FIA in both short and long run. In the short run, FIE was self-predicted by 97.29% and 95.96% forecast error variance, and 94.16%, 92.51% and 91.23% in the long run confirming weak influence of other variables on FIE. However, FMD revealed 73.98%, and 66.17% self-prediction on the short run, and 60.11%, 55.57% and 52.01% on the long run. 27.87% and 32.40% forecast error variance in FMD was predicted by FID in the short and long run respectively, and 10.68% was explained by FME in the long run, confirming relative positive influence of FID and FME on FMD. In the short run, FMA forecast error variance of 90.97% and 90.65%, and 89.45%, 87.60% and 85.34% in the long run, confirming weak influence of FIE in both short and long run. Finally, FME recorded 95.32% and 86.74% self-prediction in the short run, and 81.29%, 78.09% and 76.02% on the long run. 20.56% forecast error variance in FME was explained by FMD in the long, confirming its strong positive influence.

4. Conclusion/Implication of Results and Recommendations

Generally, the comparative analysis reveals that some MINT member countries especially Nigeria performed below standard in most of the indicators of financial system development compared to the emerging economies bench mark. VAR shows that indicators of financial system development had strong endogeneity and exogeneity except FIE and FMD, as independent influence and significant self-predictions were revealed both in the short and long run. Implying that movement in the individual components of financial system does not have strong external influence on the other, as all the segmented indicators of financial system development exhibited magnificient independence except FIE and FMD. Based on the findings, researchers recommends that MINT monetary zone should be established to facilitate cross border effect of financial institutions and markets development in member states, monetary authorities should legitimize currency swap to mitigate exchange rate huddles in the MINT and facilitate trade among member nations and establish common financial system development secretariat to pursue a robust financial institutions and markets development framework to complement and harness innovations in the different components of the financial system.

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