CAPITAL MARKET AND ECONOMIC DEVELOPMENT OF NIGERIA

By

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Abstract

The study focuses on the capital market development as it relates to the economic growth on the Nigeria economy between 2002 and 2018. To achieve this objective, multiple regression analysis was used to analyze the data and an error correction model was estimated for economic growth using Vector Error Correction techniques and Co integration of the variables were checked with the help of E-view 7.0 statistical software. It was revealed that market capitalization rate, new issues, total value of listed securities, and total listing are significant macroeconomic Determinant factors of economic development in Nigeria within the scope covered. The study then concluded that the variables used for the study have played a significant role in the capital market development influence on Nigeria's economic growth. To enhance the development of the Nigerian capital market as the engine of economic growth, it was recommended that the government should maintain state of the art technology that will ensure a free flow of information in the market to attract more investors as well as increase new issues and volume of transactions which will in turn increase the quantum of market capitalization. The government should remove impediments to stock market development in the form of tax, legal and regulatory barriers because they are sometimes disincentives to investment, the ease with which investors can purchase and sell shares, as this will increase the value of traded securities and need for improving declining market capitalization by encouraging more foreign investors to participate in the market.

INTRODUCTION

In the last two decades, studies on the capital market have received considerable attention from contemporary finance and economics literature resulting from its role in the provision of long-term, non-debt financial capital which enables companies to avoid over-reliance on debt financing, thus improving corporate debt-to-equity ratio and also in the mobilization of resources for national growth. In recent time, there has been increasing emphasis on capital market development as an avenue through which nations can achieve economic development and growth (Taiwo, Alaka and Afieroho, 2016).

The theoretical framework on the effects of capital market on economic growth dates back to the work of Schumpeter, (1911) which explained that a well-developed financial system can facilitate technological innovation and economic growth through the provision of financial services and resources to investors. The above argument of Schumpeter, (1911) was later advanced as the McKinnon-Shaw, (1973)

hypothesis, which is a policy analysis tool for developing countries with strong recommendation and high priority on the efficiency of financial systems in facilitating capital accumulation and financial intermediation.

The above hypothesis became formalized and popularized through the endogenous growth models of Fry (1988), Greenwood and Jovanovic (1990) and Pagano (1993) which specify explicitly the modelling of the link between financial intermediation role of capital markets and growth indicators. These models have identified the capital market as an institution that contributes to the economic growth of emerging economies, they are also considered as a variable in explaining the economic growth in the most-developed ones (Yadirichukwu and Chigbu, 2014).

The Nigerian capital market started its operations in 1961 with eight stocks and equities; with about seven United Kingdom (UK) firms quoted on the Nigerian Stock Exchange (NSE) which had, at the same time, dual quotations on the London Stock Exchange. At the commencement of operations, the market started with 0.3 million shares worth N1.5 m in 334 deals and the value continued to grow steadily to N16.6m in 634 deals by 1970 (CBN 2004). According to Nigerian Stock Exchange report (NSE, 2009), in 1995 the Federal Government liberalized the capital market with the abrogation of Laws that prevent foreign investors from participating in the domestic capital market. This includes: The Foreign Exchange; Monitoring and Miscellaneous Provision Decree No: 17, 1995; Nigerian Investment Promotion Commission Decree No: 16, 1995; Companies and Allied Matters Decree of 1990 and Securities and Investment Act (ISA) 45 of 1999 (Yadirichukwu and Chigbu, 2014). These legislations have accorded Nigerians and foreign investors the same right, privileges and opportunities With a market size of over 233 listed equities and gradual stability of the market resulting from the aftermath of the volatility induced by global economic crisis, potential fund abound in the Nigeria financial sector, hence this paper seek to empirically evaluate the impact of capital market in the mobilization of resources to generate economic growth and development in the country.

This study will seek to provide answers to the following questions; how does market capitalization economic growth? how does new issues affects the economy? does volume of transactions and equity listing has any contribution towards the economy.?

REVIEW OF RELATED LITERATURE
CONCEPTUAL FRAMEWORK
Capital Market

Capital market has been identified as an institution that contributes to the socio economic growth and development of developing nations. The level of growth and development that a given country experiences is dependent to a large extent how its capital market flourishes. Hence, the capital market can be seen as a key facilitator of economic development. The capital market is a subset of the financial system that is involved in the provision of long-term funds for productive use (Taiwo, *et al.,* 2016). The role of capital market has assumed a developmental role in global economies following the observable impact the market has exerted in corporate finance and economic activity. Thus the capital market has been the focus of economic development policies and policy makers because of the perceived benefits it provides for the economy (Yadirichukwu and Chigbu, 2014).

Enekwe, *et al.,* (2014) and Osaze, (2000), opine that capital market drives economic growth and development because the long term capital formation is dependent on it. Levine and Zervos (1998) opine that the capital market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Better savings mobilization may increase the savings rate. Capital markets also provide an avenue for growing companies to raise capital at lower cost. In addition, companies in countries with developed stock markets are less dependent on bank financing, which can reduce

the risk of a credit crunch. Stock markets therefore are able to positively influence economic growth through encouraging savings amongst individuals and providing avenues for firm financing (Yadirichukwu and Chigbu, 2014).

Challenges of long Term Funding

The challenge of economic development is the assess to long term funding, far longer than the duration for which most savers are willing to commit their funds and this constitutes a barrier to economic growth. In this regards, the capital market provides an avenue for the mobilization and utilization of long-term funds for development and hence it is referred to as the long term end of the financial system (Yadirichukwu and Chigbu, 2014).

Sule and Momoh (2009) in their study argues that through the capital formation and allocation mechanism the capital market ensures an efficient and effective distribution of the scarce resources for the optimal benefit to the economy and it reduces the over reliance of the corporate sector on short term financing for long term projects and also provides opportunities for government to finance projects aimed at providing essential amenities for socioeconomic development.

Analysis of the Nigerian capital market performance

The Nigerian capital market could be access as having performed fairly well in terms of increased listing, despite the numerous challenges and problems some of which include the buy and hold attitude of Nigerians, massive ignorance of a large population of the Nigerian public, the nature and benefits of the capital market, few investment outlets in the market, lack of capital market friendly economic policies and political instability, private sector led economy and less than full operation of recent developments like the Automated Trading System (ATS), Central Securities Clearing System (CSCS), On-line and Remote Trading, Trade Alerts and Capital Trade Points

of the Nigerian Stock Exchange (Yadirichukwu and Chigbu, 2014).

. In Nigerian, the government influences the capital market through the Nigerian Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE). SEC has the primary objective of being in charge of the overall regulation of the entire capital market while NSE supervises the operations of the formal quoted market (as a self- regulatory organization). However, the Nigerian financial markets are experiencing challenges such as poor infrastructural facilities, low level of public awareness as to the benefits derivable from the operation of the capital market, inadequacy of supply of securities, stringent stock exchange listing requirements limiting mostly the smaller companies, illiquid market and unfavorable government policies (Tawio, *et al.,* 2016).

Theory of Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis was adopted as the theoretical underpin for this study and it was propounded by Fama in the year 1965. Efficient Market Hypothesis holds that financial markets are efficient on prices on traded assets that have already reflected all known information and therefore are unbiased because they represent collective beliefs of all investors about future prospects. Past test of the Efficient Market Hypothesis were based on the long-range dependence of equity returns. This goes a long way to show that past information has been found useful in improving predictive accuracy. .

Equity prices mostly tend to show long memory or long range dependence, because of the range dependence and narrowness of their market arising from immature regulatory policies and institutions.

EMPIRICAL REVIEW

Yadirichukwu and Chigbu, (2014), carried out a study on the impact of capital market on economic development: the Nigerian Perspective, and they concluded that there is need for effective and favourable

macroeconomic environment to facilitate economic growth and ensure that channels of capital market induced growth are built around effective systems; and that policy institutions are active in making systemic checks and appropriate policy innovations to ensure capital market led economic growth.

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Ewan *et al.* (2009) appraise the impact of the capital market efficiency on the economic growth of Nigeria using time series data from 1961 to 2004. They found that the capital market in Nigeria has the potential of growth but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others.

Adebiyi (2005) In his work Capital Market and Economic growth argued that the capital market is very vital to the growth, development and strength of any country because it supports government and corporate initiatives, finances the exploitation of new ideas and facilitates the management of financial risk. The rate of economic growth has been linked to the sophistication of the financial market and capital market efficiency. Both markets facilitate the mobilization and channeling of funds into productive constituents and ensuring that the funds are used for the pursuit of socioeconomic growth and development without being idle.

Anyanwu *et al.* (1997), Investigated the performance of Nigeria capital market and

opines that the Nigerian Capital Market played a paramount role in the privatization of the State Owned Enterprises (SOEs) by giving creditability and transparency to the exercise.

In Belguim, Nieuwer, *et al.,*(2005), investigated the long term link that exist between economic development and the financial market development, by adopting new variables of stock market development indicators to argue that financial markets substantially affect economic development. They were able to establish strong empirical evidence which shows that stock market development leads to economic development and growth in Belgium.

Bolbo, *et al.,* (2015), in their study found that capital market development has contributed to the economic development of Egypt. Ted, *et al.,* (2005) examined the empirical relationship between stock market development and economic development in India, they concluded that negative relationships exist between stock market development and economic development for the post liberalization period, and this contradicts previous findings.

METHODOLOGY
This study investigates the impact of capital market development on the economy of Nigeria, a multivariate framework using data from 2002 to 2018. An ex-post facto research design was adopted because the data sets used are already in existence and not subject to further manipulation. Ex-post facto research design particularly suits this study because of the time series nature of the data and most importantly because the data relate to past, verifiable historical data regarding variables relating to capital market development indices and macroeconomic variable though such data are not subject to manipulation yet on analysis especially using powerful analytical tools, can shed light on the past, help in understanding the presence and possibly predict the future. Data for market capitalization, new issues, and value of transaction, total listing and other macro-economic variables are sourced from various issues of the Central Bank of Nigeria Statistical Bulletin, Nigeria Stock Exchange fact books,

Securities and Exchange Commission (SEC) market Bulletins and other relevant journals irrespectively.

MODEL SPECIFICATION

Multiple Regression model which specifies that economic development [proxy by Real Gross Domestic Product (RGDP)] is significantly influenced by capital market development indices (market capitalization, new issues, value of transaction and total listing) was formulated thus;

GDP = f(MCAP, TNI, VLT, TLS)

LnRGDP= α_0+ α_1LnMCAP+ α_2LnTNI+α_3LnVLT+α_4LnTSL+u

Where;

The a priori expectation is $\alpha_1, \alpha_2, \alpha_3, \alpha_4 > 0$

LnRGDP = Real Gross Domestic Product
LnMCAP = Market Capitalization
LnTNI = Total New Issues
LnVLT = Value of Transaction
LnTSL = Total Listed Equity and Government Stock
α = Intercept
α_1- α_4 = Coefficient of the independent Variables
Note: All variables are in their natural logarithm form.

Data Presentation

Table 4.1 is Data on Real Gross Domestic Product (RGDP), Market Capitalization (MCAP), Total New Issues (TNI), Value of Transaction (VLT) and Total Listed Equity and Government Stock (TSL) in Nigeria.

YEAR	RGDP (₦'Billion)	MCAP (₦'Billion)	TNI (₦'Billion)	VLT (₦'Billion)	TSL (₦'Billion)
2002	23,688.33	472.3	256234	474.6	508302.2
2003	25,267.02	662.5	426234	662.6	796164.8
2004	28,957.24	764.9	451456	764.3	954628.8
2005	31,709.39	1359.3	621222	1359.3	1210033
2006	35,020.08	2112.5	973000	2,112.5	1519243
2007	37,474.16	2900.1	1021345	2,900.1	1976711
2008	39,955.55	5121	1367333	5,120.9	2524298
2009	42,922.93	13294.6	2615456	13,181.7	4813489
2010	46,012.31	9563	3535345	9,563.0	7799400
2011	49,856.08	7030.8	1739345	7,030.8	8912143
2012	54,612.18	9918.2	1925444	9,918.2	7706431
2013	57,511.77	10275.3	2461300	10,275.3	7400028
2014	59,929.04	14800.9	2585333	14,800.9	7800899
2015	63,218.73	19077.4	2763553	19,077.4	9122200
2016	67,152.84	19091.59	2893234	16,875.1	8461550
2017	69,023.94	17086.29	3287678	17,003.4	9854663
2018	67,931.93	24950.59	2892678	24,234.6	8434233

Source: Central Bank of Nigeria (CBN) Statistical Bulletin (2018)
Data Analysis

In order to ensure variables used in this study are not spurious, the stationarity of variables was initially tested using the Phillip Perron (PP) test. This was followed with a co integration test after the stationarity of variables have been established.

The estimation technique used, drawn from developments in the co-integration theory, is the Vector Error Correction Mechanism (VECM).Data were analyzed using Ordinary Least Square, Augmented Dick Fuller Unit Root Test, Co-integration and Error Correction Model. Granger and Newbold (1974) and Engle & Granger (1987) have proved that co-integration is a sufficient condition for an ECM formulation. The estimation was done with the aid of the Eviews7.0.

Econometric Analysis
4.1.1.1 Unit root test
Table 1: Unit Root Test Results

Variables	1st Difference		Levels	
	PP-Statistic	Critical Value at 5%	PP-Statistic	Critical Value at 5%
LRGDP	-5.395088*	-2.957210	-0.184246	-2.954011
LMCAP	-4.396044*	-2.957210	0.056414	-2.954011
LNIS	-4.137565*	-2.957210	0.417037	-2.954011
LVLT	-5.247891*	-2.957210	1.880316	-2.954011
LTLA	-4.902117*	-2.957210	-0.329213	-2.954011

** *Stationary at 5% significance level*
Source: Author's Compilation from E-views 7.0

A variable is stationary when PP value is greater than the critical value. In table 1 above, the test statistics for the log levels of real gross domestic product, market capitalization rate, new issues, total value of listed securities, and total listed assets indicate that these variables are statistically insignificant.

Hence, this study further applied the unit root tests at the first differences for the five variables. A stationary series was obtained for all the variables at first difference. At this level the PP test rejects the unit root null hypothesis for all the variables at the 5 per cent level. Thus, from all of the tests, the unit roots tests indicate that all the variables were integrated of order one process.

4.1.2 Co-integration Test
Table 2: Unrestricted Co-integration Rank test

Hypothesized No. of CE(s)	Eigen Value	Trace Statistics	0.05 Critical Value	Prob.**	Hypothesized No. of CE(s)	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.787811	143.0374	117.7082	0.0005	None *	49.60885	44.49720	0.0128
At most 1 *	0.664050	93.42852	88.80380	0.0222	At most 1 *	34.90534	38.33101	0.1175
At most 2	0.605809	58.52318	63.87610	0.1299	At most 2	29.78946	32.11832	0.0937
At most 3	0.317318	28.73372	42.91525	0.5780	At most 3	12.21526	25.82321	0.8591
At most 4	0.165900	5.804872	12.51798	0.4855	At most 4	5.804872	12.51798	0.4855

Source: Author's Compilation from E-views 7.0

The test for co-integration relationship was verified using Johansen co integration. In determining whether there is co-integration or not among the variables included in the growth model, the maximum Eigen value and trace

statistics are compared with their corresponding critical values. An Eigen value or trace statistics greater than the critical value indicates a co integrated series and the identification of the presence of at least one co integrated equation signifies that there is a long-run equilibrium relationship among the variables. In other words, Granger causality exists among the variables in at least one way (Engle & Granger, 1987). A detailed analysis of the co integration result in table 2 above indicates the maximum Eigen values of 49.60885and trace statistics of 143.0374 and 93.42852; suggesting the existence of a co integrating equation at 1

percent significance level for the maximum Eigen values and trace statistics respectively. This further reveals the existence of a long-run equilibrium relationship among the variables captured in the economic growth model.

Error Correction Model

The Vector Error Correction Model was employed to determine the error correction mechanism in the co integration relationship, as well as to test for long and short-run causality among co integrated variables. The error correction process within the system is obtained by the mean of the Error Correction Term (ECT).

Table 3: Long run coefficient estimates

Normalized co integrating coefficients (Standard error in parenthesis)				
LRGDP	LMCAP	LNIS(-1)	LVLT(-1)	LTLA
C	0.451389	0.503318	0.329890	-2.023221
202.0478	(0.17367)	(0.16150)	(0.04368)	(0.31337)
	[2.59911]	[3.11643]	[7.55298]	[-6.45643]

Note: Standard error and t-statistics are stated in parenthesis () and [] respectively
Source: Author's Compilation from E-views 7.0

Table 3 shows the result of the normalized co-integration coefficients of the variables for the case of a co-integrated equation with respect to the standard error and t-statistic result associated with each variable. The value of the t-statistic is used to indicate the significance or otherwise of the independent variable in the long run. Generally using the rule of thumb, if the t-Statistics is 2 or greater than two, the variable is considered to be significant but if otherwise, it is insignificant.

Thus the result of the normalized co integrated relationship reveals a significant relationship between market capitalization rate, new issues, total value of listed securities, and total listed assets and real economic growth in Nigeria.

A significant relationship between market capitalization and economic development was found at 5 percent level of significance and furthermore reveals that, a percentage change in market capitalization results to a corresponding 0.451 percent change in real GDP holding other variables at a constant. The elasticity estimate

reveals that the degree of responsiveness of economic growth to the change per time in market capitalization is less than one and therefore inelastic. This shows that market capitalization plays a significant role in economic development in Nigeria.

Similarly, new issues by Nigeria Stock Exchange were found to have a significant long run relationship with economic growth at 5 percent level of significance. A percentage change in savings deposit indicates 0.503 percentage change in real economic growth.

The above evidence further implies that the degree of the responsiveness of economic growth to the lagged effects of the variations in new issues with Nigerian stock exchange is less than a unit elasticity and thus inelastic. Likewise for value of transaction and economic growth; a detailed analysis of the cumulative effect of total value of transaction shows that the variations in previous year value of transaction still accounted for significant changes in economic growth in the current period over the

period under consideration. Hence, value of transaction could be considered a significant determinant of the variations in economic growth and development within this period. It was ascertained that, a percentage change in listed assets reveals 2.023 percent change in economic growth. Therefore the degree of responsiveness of economic growth to total listed market securities is observed to be elastic and statistically significant. However, economically the listed securities appear not to be growth supportive as expected.

TESTING OF RESEARCH HYPOTHESES

The following null hypotheses were formulated in line with the objectives and research questions of the study and

Ho₁: Market capitalization has no significant impact on gross domestic product in Nigeria.

From the analysis so far, we reject the null hypothesis stated above and accept the alternative and conclude there is significant impact between market capitalization and gross domestic product. This is in line with the finding of Yadirichukwu, and Chigbu, (2014), that also found that market capitalization is

bedrock for economic growth and development in emerging economies.

Ho₂: Total new issues have no significant effect on gross domestic product in Nigeria.

This hypothesis is not supported,hence;we reject the null hypothesis stated above and accept the alternative which states Total new issues have significant effect on gross domestic product in Nigeria.

Ho₃: Volume of transaction has no significant effect on gross domestic product in Nigeria.

The Ho₃, is rejected and that alternative is accepted that Volume of transaction has significant effect on gross domestic product in Nigeria. This conforms to the findings of Taiwo, *et al.* (2016) which also concluded that volume/value of transaction significantly affect gross domestic product of Nigeria.

Ho₄: Total listed equity has no significant impact on gross domestic product in Nigeria.

Null Hypothesis 4 is rejected, though the relationship between the two variables is very weak this contradicts previous studies that showed strong positive relationships.

Table 4: Vector Error Correction estimates

Variable	D(LRGDP(1))	D(LMCAP (1))	D(LNIS)	D(VLT)	D(LTLA(1))
ECM (-1)	-0.524164	-0.266008	0.023304	-0.741225	0.162446
Standard Error	0.17685	0.33865	0.13312	0.62581	0.23285
t-Statistic	-2.96394	-0.78549	0.17506	-1.18443	0.69765

Source: Author's Compilation from E-views 7.0

From the table 4 above, the result shows that the coefficient of the normalized growth model has the right sign (-) and magnitude (between zero and one) at5 percent significance level. It is therefore statistically significant. The significance of the error correction model provides further confirmation to the co integration evidence, giving the impression of a long run movement between economic growth and the explanatory variables. Implying that in the incidence of the presence of external shock resulting to disequilibrium of the system, the model can still converge with time to its normal

state with a relatively average speed of adjustment of 52.41 percent per time.

SUMMARY OF FINDINGS

The study investigated empirically the impact of capital market development on economyof Nigeria, using an annual time series of a period of 2000 to 2018. To achieve this objective, multiple regression modeland error correction model was estimated for economic growth using Vector Error Correction techniques. It was revealed that market capitalization rate, new issues, total value of listed securities, and total

listing are significant macroeconomic determinant factors of economic development in Nigeria within the scope covered. Findings from the study are consistent with previous studies such as Levine &Zervos (1998), Minier (2003), Abdullahi (2005), Liu & Hsu (2006), Taiwo, *et al.,*(2016), Yadirichukwu&Chigbu (2014) and Muhammed, Nadeem&Liaquat (2008).

The result of the normalized co integrated relationship reveals a significant relationship between market capitalization rate, new issues, total value of listed securities, and total listing and real economic development; with market capitalization, new issues and total value of listed securities having a direct effect on economic development in Nigeria while that of total listed securities in the market is inverse. This signifies that higher stock market capitalization increases the ability of firms to raise capital in order to increase investment spending and expand production of goods and services and this translates to higher growth rate in the long run. Similarly, increase in new issue will significantly increase the volume of transaction and further facilitate easy access to funds and investment.

This is a very pertinent and prerequisite consideration for any economy desiring increase rapid economic development.The results obtained showed that all explanatory variables have their correct expected signs, as predicted by the relevant economic theories. The positive sign of the coefficient of market capitalization shows that there is a positive relationship between market capitalization and economic growth in Nigeria

Therefore, the higher the physical capital made available for investors, the greater the likelihood of attracting prospective local and international investors that will boost capital investments within the economy. The negative impact of total value traded ratio on economic growth may be due to the difficulties involved in trading shares such as high transaction costs, delay in the issuance of shares certificate to mention just few.

CONCLUSION

This study examined the contribution of capital market development to economy of Nigeria and it was found that it has positive effect on the Nigeria Economy . This suggests that for a significant growth to be achieved in an economy, the main focus of policy makers should be on measures to promote growth in the stock market.

RECOMMENDATIONS

The findings from this study raise the following policy issues and recommendations

In order to enhance the development of the Nigerian capital market as the engine of economic growth, it is recommended that government should remove impediments to stock market development and provide a conductive environment to enhance capital market development.

There is need for the government through the central bank to implement policy that will increase the level and size of market capitalization in the capital market. Such increase in capital market will provide the needed funds for investors for further investments and hence increased productivity in Nigeria.

In order to increase the ease with which investors can purchase and sell shares, thus guaranteeing liquidity on the stock market, the Nigerian Security and Exchange Commission should improve on the trading system, as this will increase the value of traded securities.

Given that the stock market operate in a macroeconomic environment, it is therefore necessary that the environment must be an enabling one that will promote and encourage investment opportunities for local and international investors.

The value of the total traded securities and equities revealed no direct relationship with economic growth indicator-gross domestic product growth rate. This suggests that companies listed on the Stock Exchange should

be mandated to provide timely electronic information on their operations such as quarterly and annual financial statements, in order to enable the market learn, absorb and act on information quickly leading to market efficiency and precise pricing of securities.

With the existence of a positive relationship between stock market development and economic development, it is pertinent to recommend that there should be sustained effort to stimulate productivity in both the public and private sectors.

The Nigerian government should employ appropriate trade policies that promote the inflow of international capital and foreign investment, so as to enhance the production capacity of the nation

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