



Capital Market Performance and Economic Growth in Nigeria

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Abstract

This study was set out to examine the effect of capital market performance on economic growth in Nigeria. Financial time series data were collected from the annual report and accounts of Securities and Exchange Commission and Central Bank of Nigeria statistical bulletin for the duration of 1990 to 2021. The data was analyze using multiple regression techniques. The results shows that capital market performance variables of market capitalization, all share index, value of transaction and total listing of stock have positive effect on economic growth in Nigeria. The global result shows that 72 percent of the changes in real gross domestic product are explained by joint effects of capital market performance variables. Thus, the study concludes that capital market plays a critical and significant positive effect in enhancing economic growth in Nigeria. We recommend the government should invest more and develop the nation's infrastructure in order to create an enabling environment for business to grow and for productivity and efficiency to thrive which will boost economic activities.

KEYWORD: Capital Market, Market Capitalization, All share indexes, Financial Intermediation, Real Gross Domestic Product

1. INTRODUCTION

The capital market is a very specialized market which is a subunit of the financial market and plays the role of financial intermediation which helps in bridging the gap between the surplus unit and the deficit unit of the economy through the mobilization of savings and investments. Jargons (2021) posits that the capital market is a market for long-term investments that have explicit or implicit claims to capital long-term investments whose lock-in period is greater than one year. Equity and debt instruments, like shares, preference shares, debentures, zero-coupon bonds, secured premium notes and the like are purchased and sold and it also covers all forms of lending and borrowing in the capital market. The capital market comprises of institutions and mechanisms which helps in providing medium and long term funds which are made available to individuals, businesses, and even the government. Both private placement sources and organized market like securities exchange are included in it, (Jargons 2021).

In recent times, the growth of an economy is dependent on how well its financial sector performs in pooling and transferring idle funds to the unit in need of it who wish to engage in productive investments projects that would yield greater return. The capital market, as it is known, is that segment of the financial market that deals with the effective channeling of medium to long-term funds from the surplus to the deficit unit (SEC Nigeria, 2019). In the

capital market, medium and long term funds for industrial development are mobilized and traded. Those who are involved in the capital markets are known as the capital market operators. These operators include, brokers, dealers, issuing houses, registrars, insurance advisers etc. They also act as financial intermediaries who helped to bridge the gap between the surplus unit (fund raisers) and the deficit unit (fund users) of the Nigerian economy. In Nigeria, some of the financial products traded in the capital market include, asset-backed securities, mortgaged-backed securities, Real Estate Investment Trust (REITs).

However, the goal for the establishment of the capital market was to encourage economic growth of the Nigerian economy but there have been factors limiting the efficacy of the capital market in Nigeria. On the 28th of May 2019, Helen Oji identified key problems faced in the capital market such as low patronage by investors in the capital market. This means that investors do not see a need to raise medium or long term funds from the capital market. Also, the unfavourable operating environment, lack of incentives, fewer product offerings and the inconsistency of government policies as a result of political issues faced in the country have affected the expansion of the capital market in Nigeria.

The inability to expand or grow the capital market in Nigeria is strongly as a result of the government's failure to make appropriate decisions and policies that would encourage capital market

expansion in Nigeria. As a result of these negative factors affecting the capital market, it has further posed threats to the economic wellbeing of the citizenry. Nigerian citizens find it difficult to raise funds in the capital market and this has led to a reduction in the involvement of people in running and operating businesses in the country, which has further led to an increase in unemployment and discouragement of foreign investors and their investments. This has brought about the relevance and necessity to find out how the capital market can boost economic growth in Nigeria and how these negative factors affecting the capital market can be controlled.

2. LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Efficient Market Hypothesis

Efficient market hypothesis states that share prices reflect all information and consistent alpha generation is impossible. Following the efficient market hypothesis when stocks are traded they are traded based on their “fair value” on exchanges which means makes it impossible for investors to buy stocks that are undervalued or which makes it impossible for the investors to sell stocks at prices that are inflated or overvalued. There have been some arguments against the efficient market hypothesis such that these opponents believe that it is of no importance for investors to look for stocks that have been undervalued or try to predict the trends in the market through fundamental or technical analysis. The proponents of the Efficient Market Hypothesis assume investors should always invest in low-cost, passive portfolio.

The validity of the efficient market hypothesis has in many ways been questioned on both theoretical and empirical grounds. This is because some investors have beaten the market and as stated earlier that Warren Buffet whose strategy of investment was mainly on stocks that have been undervalued and still managed to make billions off the market. The Efficient Market Hypothesis is attributed to “Eugene Fama” who conducted a research in his book, *Efficient Capital Markets*, published in the year, 1970. He assert that a market is said to be “informationally efficient” if prices at each moment incorporate all available information about future values. Kasie, (2012) assumes that the weak-form hypothesis posits that stock prices already reflect all information that can be derived by examining market trading data such as the history of past prices, trading volume or short interest (Baiz et al, 1999). The Weak Form hypothesis means that unanticipated return is not correlated with previous unanticipated returns. In other words, the market has no memory, knowing the past does not help to earn future returns. This version of EMH implies that trend analysis is fruitless. Past stock price data are publicly available and virtually costless to obtain. This version holds that if such data ever conveyed reliable signals about future performance, all investors would have learned already to exploit the signals. Ultimately, the signals lose their value as they become widely known because a buy signal, for instance, would result in an immediate price increase. In a weak form efficient market, past prices and volume data are already impounded in security prices and no amount of chart reading or any other trading device is likely to consistently outperform the buy and hold strategy.

2.1.2 Separation Theorem

This theory was propounded by Irving Fisher and he posits that given an efficient capital market, a firm’s choice of investments is separate from its owners’ investment preferences and so the firm should only be motivated to maximize profits. The theory suggests that firms should aim for an optimal production function which would bring about the highest profits possible for the shareholders. Fisher’s separation theorem assumes the goals of the company’s managers and shareholders are different. While shareholders wish to benefit from dividends and increase in share price, this theory argues that shareholders’ or management’s goals must be to increase the value of the company to the highest possible. Fisher assumes managers should ignore the needs or wants of investors and instead focus on increasing the company’s worth to the maximum extent possible. With this, he posits the value of the company is more important than dividend pay-outs.

2.1.3 Harrod – Domar Growth Model

Harrod-Domar propounds that for there to be growth in the economy of a nation then savings and investment has to be encouraged. Harrod-Domar growth model is not a growth strategy but a model that posits that the level of growth of an economy is dependent on two things which are the national savings (S) and the capital-output ratio (the productivity of capital investment). The rate of growth of the Gross Domestic Product can be calculated by dividing the ratio of savings by the capital-output ratio. That is,

$$\text{Rate of Growth of GDP} = \frac{\text{Savings Ratio}}{\text{Capital Output Ratio}} \quad (2.1)$$

Following this model, for there to be an increase in the rate of economic growth of any economy, there should be an increase in the level of savings (that is, Gross National Savings) and there should be a reduction in the capital output ratio.

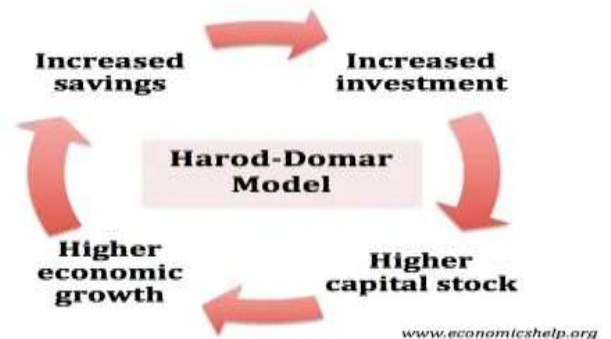


Figure 2.1: A Representation of Harrod–Domar Growth Model

This theory explains that the cause of low economic growth in most countries is as a result of low savings rate and this eventually leads to low investment and low output.

2.2 Empirical Review

There have been some Nigerian researchers who have investigated the relationship between the capital market and economic growth in Nigeria. Osinubi and Amaghionyeodiwe (2003) also carried out a research to find out the relationship that existed between the Nigerian Stock Exchange Market and economic growth between the time span of 1980-2000. But the result of their findings showed that stock market development does not foster or promote economic growth in Nigeria. Obamiro (2005) examined the role the Nigerian stock market played in fostering economic growth. He

assumed that the Nigerian government should create a more conducive environment so as to increase the efficiency and effectiveness of the stock market, and to boost economic growth in the country. In this case, he believes the environment such as the business or political environment can affect the efficacy of the Nigerian Stock Market.

Ewah, et al (2009) appraised the Nigeria capital market efficiency and how it has encouraged economic growth of the Nigerian economy making use of the time series data from 1961 to 2004. They discovered that the Nigerian capital market in has the potential of growth-inducing but it has not contributed meaningfully to the economic growth of Nigeria and this was because of the low market capitalization, illiquidity, and misappropriation of funds. They posit that the capital market is the mainstream in every economy and can boost economic growth and so, the private sector of the economy as well as the government are encouraged to invest in the capital market, and the government is encouraged to invest in government securities and make laws that will reduce threats in the capital market.

Ezeoha, et al (2009) investigated the relationship that existed between stock market development and the level of investment (domestic private investment and foreign private investment) flows in Nigeria. In the study, they discovered that through stock market development, there was an increase in domestic private investment flows, which brought about the enhancement of the Nigerian economy's production capacity and it promoted the growth of national output. But the results of their work shows that stock development was unable to encourage or increase the flow of foreign private investments in Nigeria. They also posit that the low flow of private investments was caused by the underdevelopment of the Nigerian banking system. Abu (2009) investigated the impact of the stock market development to find out whether or not it fosters economic growth by employing the error correction approach. The econometric results proved that stock market development ensures economic growth. The study suggests that the government should remove any form of barrier that would limit the stock market development like tax, legal and regulatory barriers. He suggests that the nation's infrastructure should be developed to create a conducive environment where businesses can thrive, and the government should make employment policies that would raise the level of productivity, efficiency, and effectiveness of organizations. He posits that the Nigerian Securities and Exchange Commission (NSEC) should be encouraged to facilitate the growth and development of the stock market as well as restore the confidence of the various participants of the stock market and to

ensure that the interests of shareholders are protected by checking the activities of the market operators.

Adam and Sanni (2005) examined the role of the Nigerian stock market in fostering economic growth by employing the Granger-Casualty test and regression analysis. The result showed that there is a one-way casualty between the growth of Gross Domestic Product (GDP) and market capitalization and there was a two-way casualty between the growth of Gross Domestic Product (GDP) and market turnover. They also discovered that there was a positive and significant relationship between the growth of GDP and turnover ratios. In their work, they suggested to the Nigerian government to encourage the development of the capital market as it had a positive relationship with economic growth.

3. METHODOLOGY

The study adopted the financial time series methodology. This is to say that data were collected on each of the variables from the Central Bank of Nigeria (CBN) statistical bulletin for a period of 31 years ranging from 1990 to 2021. To analyze the data sourced, we apply the multivariate regression analysis technique with the help of E-view 9.0 version. The Nigeria economic growth is characterized with a series of equations that showed the connection between market capitalization, all share index, value of transaction and the total listing of securities. Therefore, capital market performance and economic growth in Nigeria is modeled in the functional relationship below:

$$RGDP_t = f(MCAP_t, ASI_t, VTS_t, TLS_t) \quad (3.1)$$

Equation 3.2 presents the estimable version of equation (3.1)

$$RGDP_t = \alpha_0 + \beta_1 MCAP_t + \beta_2 ASI_t + \beta_3 VTS_t + \beta_4 TLS_t + \mu \quad (3.2)$$

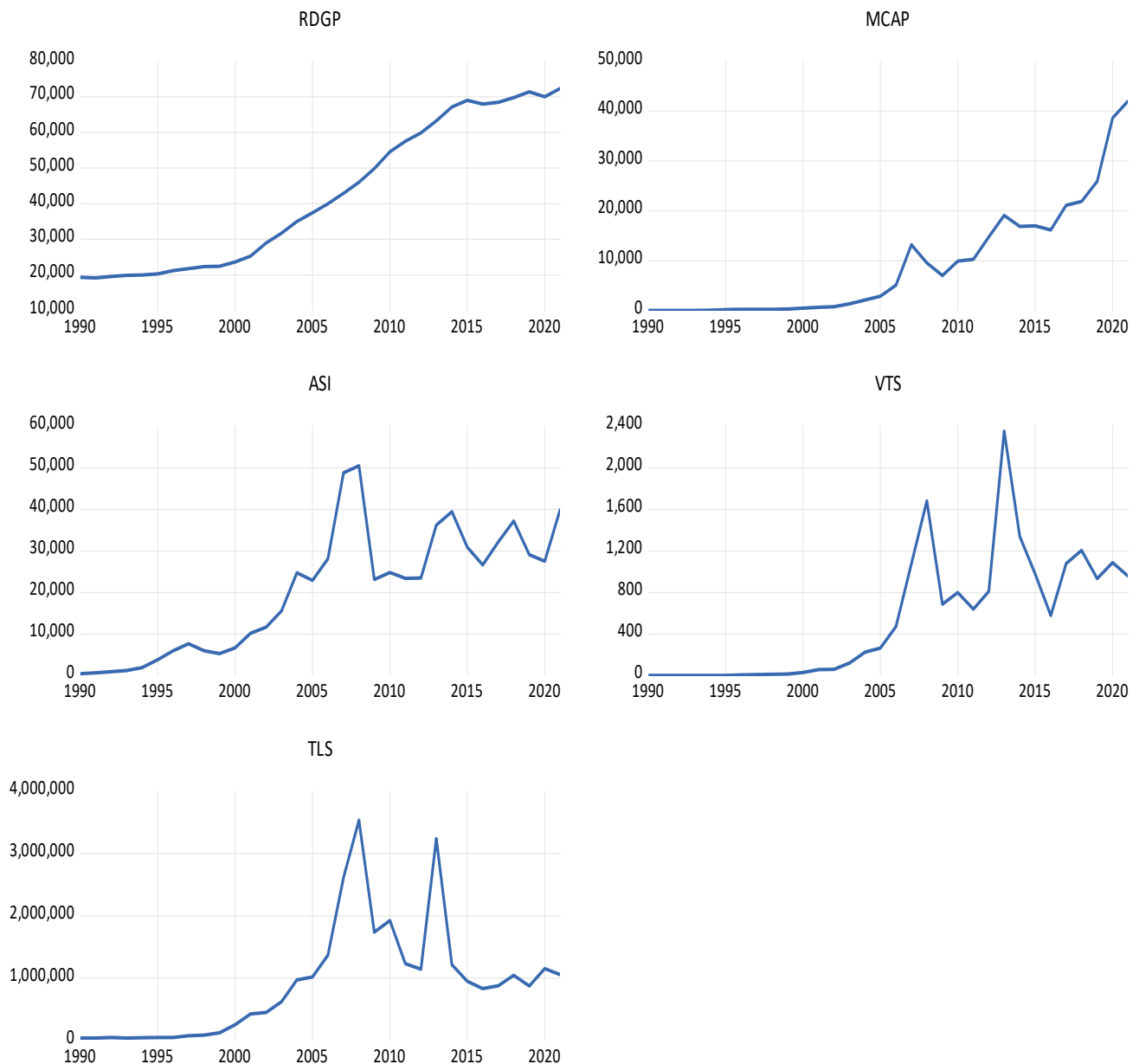
$$= \alpha_0 + \sum_{i=1}^n \beta_i + E_{it}; \beta_i \geq 0 \quad (3.3)$$

Where:

RGDP	=	Real Gross Domestic Product
MCAP	=	Market Capitalization
ASI	=	All Share Index
VTS	=	Value of Transactions
TLS	=	Total Listing of Stock
β_0	=	Intercept
$\beta_1 - \beta_4$	=	Coefficient of the explanatory variables
ϵ	=	Error Term or residuals

4. RESULTS AND INTERPRETATIONS

4.1 Trend Analysis of Capital Market Performance and Real GDP



Source: E views Output 12.0

Figure 4.1: Graphical Representation of Research Variables

Figure 4.1 shows the graphical representation of research variables (Real Gross Domestic Product, market capitalization, All Share Index, value of transactions, and total listing of stock). As revealed by the figure, a graph representing market capitalization, All Share Index, value of transactions, and total listing of stock moved upward and downward in an inconsistent manner from 1990 to 2021. On the other hand, Real Gross Domestic Product experienced mostly consistent movement throughout the study period (1990 to 2021).

4.2 Descriptive Statistical Analysis

The section presents the descriptive analysis. The concern basically was to get descriptive statistics comprising the mean, median, standard deviation, amongst others. This was done to form the basis for a clearer appreciation of the more extensive inferential statistical analysis which subsequently followed. Accordingly, the descriptive statistics below are in respect of the basic variables of the study which include Real Gross Domestic Product (RGDP), market capitalization (MCAP), All Share Index (ASI), value of transactions (VTS), and total listing of stock (TLS):

Table 4.1: Descriptive Statistics Results

	RGDP	MCAP	ASI	VTS	TLS
Mean	42453.32	9323.951	20205.86	545.6763	911485.2
Median	38735.23	4010.480	23242.60	366.5950	876282.5
Maximum	72393.67	42054.50	50424.70	2350.880	3535493.
Minimum	19199.06	16.30000	423.6583	0.230000	39103.00
Std. Dev.	20381.60	11433.30	14897.46	600.0845	911263.1
Skewness	0.230055	1.310056	0.246723	1.022385	1.333115
Kurtosis	1.413089	4.125234	1.992481	3.667258	4.471152
Jarque-Bera	3.639984	10.84152	1.678112	6.168426	12.36410
Probability	0.162027	0.004424	0.432118	0.045766	0.002066
Sum	1358506.	298366.4	646587.6	17461.64	29167527
Sum Sq. Dev.	1.29E+10	4.05E+09	6.88E+09	11163142	2.57E+13
Observations	32	32	32	32	32

Source: E-view Results, 2022.

The table above presents the results of the descriptive analysis of the variables covered in this study. These include mean, median, standard deviation, minimum, maximum, and so on. The variables covered in this study include Real Gross Domestic Product (RGDP), market capitalization (MCAP), All Share Index (ASI), value of transactions (VTS), and total listing of stock (TLS) which ranged from 1990 and 2021.

4.3 Regression Analysis

Table 4.2 relationship between capital market operation and real GDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.803148	1.945461	0.412832	0.6829
MCAP	0.574600	0.170743	3.365298	0.0022
ASI	0.057487	0.093000	2.618141	0.0355
VTS	0.256903	0.247661	1.037315	0.3085
TLS	0.413565	0.556116	2.743665	0.0306
R-squared	0.722558	Mean dependent var		6.050635
Adjusted R-squared	0.682923	S.D. dependent var		1.030013
S.E. of regression	0.579996	Akaike info criterion		1.887135
Sum squared resid	9.419057	Schwarz criterion		2.113878
Log likelihood	-26.13772	Hannan-Quinn criter.		1.963427
F-statistic	18.23049	Durbin-Watson stat		2.180745
Prob(F-statistic)	0.000000			

Source: E-Views 12.0.Output

The relationship of the model is expressed as $RGDP = 0.803148 + 0.574600MCAP + 0.057487ASI + 0.256903VTS + 0.413565TLS$. The regression intercept is positive with a coefficient of 0.803148. This indicates that the Real Gross Domestic Product (RDGP) will experience 0.803148 increases when all other variables are held constant. Also, the result of the regression analysis showed that market capitalization (MCAP) has a positive relationship with Real Gross Domestic Product (RDGP). This is because the parameter of market capitalization (MCAP) is positively signed (0.574600). Thus, this means that a unit increase in market capitalization (MCAP) will bring about 0.574600 units increase in Real Gross

Domestic Product (RDGP) while a unit decrease in market capitalization (MCAP) will bring about 0.574600 units decrease in Real Gross Domestic Product (RDGP). Also, the result of the regression analysis showed that All Share Index (ASI) has a positive relationship with Real Gross Domestic Product (RDGP). This is because the parameter of All Share Index (ASI) is positively signed (0.057487). Thus, this means that a unit increase in All Share Index (ASI) will bring about 0.057487 units increase in Real Gross Domestic Product (RDGP) while a unit decrease in All Share Index (ASI) will bring about 0.057487 units to decrease in Real Gross Domestic Product (RDGP).

Furthermore, result of the regression analysis showed that value of transactions (VTS) has a positive relationship with Real Gross Domestic Product (RDGP). This is because the parameter of value of transactions (VTS) is positively signed (0.256903). Thus, this means that a unit increase in value of transactions (VTS) will bring about 0.256903 units increase in Real Gross Domestic Product (RDGP) while a unit decrease in value of transactions (VTS) will bring about 0.256903 units decrease in Real Gross Domestic Product (RDGP). Lastly, result of the regression analysis showed that total listing of stock (TLS) has a positive relationship with Real Gross Domestic Product (RDGP). This is because the parameter of total listing of stock (TLS) is positively signed (0.413565). Thus, this means that a unit increase in total listing of stock (TLS) will bring about 0.413565 units increase in Real Gross Domestic Product (RDGP) while a unit decrease in total listing of stock (TLS) will bring about 0.413565 units decrease in Real Gross Domestic Product (RDGP).

The value of R^2 as shown in table 4.2 is 0.722558. The result of R^2 implies that about 72% of the changes in Real Gross Domestic Product (RDGP) are explained by the changes in market capitalization, All Share Index, value of transactions and total listing of stock while the remaining 28% of the changes in Real Gross Domestic Product is explained by other variables outside the model.

4.4 Discussions of Findings

The study has provided a detailed analysis of the evaluation and contribution of the capital market in ensuring economic growth in Nigeria. The results of the analyses showed that market capitalization has a positive and significant relationship with Real Gross Domestic Product of Nigerian capital market, which is in conformity with the a priori expectation of market capitalization. This result agrees with the result of Ifionu and Omojefe (2013) which showed that in the long run, market capitalization impact significantly on the Gross Domestic Product. In the same manner, the short-run error correction model still indicates that market capitalization impacts positively on the economy measured by Gross Domestic Product. Also, the findings of this study showed that All Share Index has a significant positive relationship with Real Gross Domestic Product in Nigeria. This is in agreement with the a priori expectation of All Share Index. This finding conforms to the finding of Adeoye (2015) which established a significant positive effect of All Share Index on Gross Domestic Product in Nigeria.

In addition, the findings of this study indicated that value of transactions has an insignificant positive relationship with Real Gross Domestic Product in Nigeria, which is in agreement with the a priori expectation of value of transactions. This result agrees with the result of Charles and Charles (2007) which stated that value of transaction and total listing of stock impact positively on economic growth measured by Gross Domestic Product. Lastly, the findings of this study showed that total listing of stock has a significant negative relationship with Real Gross Domestic Product in Nigeria. This is in agreement with the a priori expectation of total listing of stock. His result agrees with the result of Charles and Charles (2007) which stated that value of transaction and total listing of stock impact positively on economic growth measured by Gross Domestic Product.

5. CONCLUSION

This study has examined the impact of capital market on Nigerian economic growth and the findings of the study showed that, to a considerable extent, different capital market variables influence economic growth in Nigeria differently. Overall, the study has provided evidence on market capitalization, all share index, and value of transaction in explaining and predicting economic growth in Nigeria and found that market capitalization, all share indexes, value of transaction as capital market variables have joint significant effect on Real Gross Domestic Product in Nigeria. Based on the findings, the study concludes that capital market plays a significant positive role in enhancing economic growth in Nigeria. Based on the findings and conclusions of the study, the following recommendations are hereby presented:

- i. There is need for improvement in the declining market capitalization by encouraging more foreign investors to participate in the market, 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 which will automatically increase the quantum of market capitalization.
- ii. To boost the value of transactions in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, futures, swaps, options in the market.
- iii. There is a need to restore confidence to the capital market by regulatory authorities by ensuring transparency and fair trading transactions and dealings in the market.
- iv. To boost the value of transactions in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, futures, swaps, options in the market.
- v. Finally, the government should invest more and develop the nation's infrastructure in order to create an enabling environment for businesses to grow and for productivity and efficiency to thrive which will boost economic activities.

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