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EFFECT OF CAPITAL MARKET ON ECONOMIC GROWTH: EVIDENCE FROM NIGERIAN STOCK EXCHANGE

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ABSTRACT

This study examined the effect of capital market on the Nigerian economic growth, evidence from the Nigerian stock exchange within the period 2001-2021. It further employed the ordinary least square method (OLS) in analyzing the time series variables obtained for the study. The findings show market capitalization, total number of deals in the stock exchange have positive but insignificant effect on GDP in Nigeria except all share indexes that the result shows positive and significant effect on GDP. It therefore recommended that there should be need

Introduction

The financial system in any economy plays significant role in stimulating economic growth and development. It channels funds efficiently to various economic agents that need them for productive uses. This function is very important for economic growth and development because it creates and makes link between the surplus and deficit units of an economy. The financial system provides this basically through the activities in the financial market. The capital market which is a subset of the financial market provides an avenue for the efficient channeling of long term funds (idle funds) to the users of funds for investment uses from the savers of fund. The other subset being money market, serves as a medium through which short term fund are channeled.

The capital market is essentially a market for long term securities such as stock, debentures and bonds lasting for usually longer than three years. It is the cornerstone of every financial system which provides the funds needed for financing not only business and other economic institutions, but also the programme of government as a whole (Ubesie, Nwanekpe & Ejilibe, 2020).

In the view of Avery and Obah (2018), capital market is a collection of financial institutions set up for the granting of medium and long term loans. It is a market for government. In this market, lenders (investors) provide long term funds in exchange for long term financial assets offered by borrowers. The market encompasses of two arms; the primary market which creates a medium for long-term fresh funds to be raised through the issuance of new financial securities, and, secondary market which provide opportunities for the sale and purchase of existing financial securities that have already been traded

for stock market operates in a macroeconomic environment. Government should subsidized impediments to stock market development also companies listed on the Stock Exchange should be mandated to provide timely electronic information on their operations.

Keywords: Gross domestic product; Market capitalization; Number of deals; All share index.

in the primary market, among investors thereby encouraging investment in financial securities and boosting economic growth.

Economic growth has to do with increase in the quantity of goods and services produced in a country usually quarterly, semi-annually and annually. It is measured at the rate of gross domestic product. Also, economic growth is the continuous improvement in the capacity to satisfy the demand for goods and services, resulting from increased production scale and also improved productivity that is innovation in product and processes. Successful economic growth simple means a situation where almost all the citizen of a given country lives a better, along almost every dimension of material life. If we consider good economic policies and good circumstances accelerate economic growth then we can infer that bad circumstances will result in lowering long run economic growth. As such, economic growth can be positive or negative depending on the situation. Economic growth is said to be negative when an economy is reducing in size, but when there is an increase in an economy, economic growth is said to be positive.

Moreover, since capital market provide an avenue for business to raise funds for expansion and increase in production. As long as there is an increase in production of goods and services, then this can lead to economic growth. It is against this background scholars try to explain the relationship between capital market and economic growth.

On the issue of relationship between capital market and economic growth, authors have conflicting views with regard to the contribution of capital market to the economic growth. Akinbohunbe (1996) and Adebiyi (2005) all discovered that Nigerian capital market is very Nutm important to the Growth, Development and strength of the Nigerian economy. Whereas, Ewan, Esang and Bassey (2009), discovered that, Nigerian Capital Market has enough potential for growth, but it has not contributed meaningfully to the economic growth of Nigeria. Donwa and Odia (2010) found that, the Nigerian Capital Market indices have not impacted on the economic growth of Nigeria. Odetayo and Sajuyigbe (2012) examines the impact of Nigerian Capital market on economic growth and development for the period 1990-2011, and authors found that, capital market indices have significant impact on the economic growth.

In the light of the above background, the question that would come to mind is whether or not capital market has impacted the economy of Nigeria significantly, given the enabling environment provided by the supportive democratic system. The strength of an economy is partly dependent on how competently the capital market is performing its allocated function of capital. Thus, it is very important to assess the effect of capital market on economic growth in Nigeria. However, in a bid to ascertain the effect of capital market on economic growth in Nigeria, the study must strive to examine the effect of stock market capitalization, total number of deals and all share indexes on real gross domestic product in Nigeria.

Literature Review

Conceptual Review

Essentially, the Capital Market plays a lot of roles in the development of the economy which may include but not limited to:

a. Providing opportunities for companies to borrow funds needed for long term investment purposes.
b. Providing an avenue for the marketing of shares and other securities in other to raise fresh funds for expansion of operations leading to increase in output/ production.
c. Providing a means of allocating the nations real and financial resources between, various industries and companies. Through the capital formation and allocation mechanism the capital market ensures an efficient and effective distribution of scarce resources for the optimal benefit of the economy.
d. Reducing the overall reliance of the corporate sector on short term financing for long term projects and also provides opportunities for government to finance project aimed at providing essential amenities for socio-economic development.
e. Aiding the government in its privatization programme by offering her shares in the public enterprises to members of the public through the stock exchange and many more.

The Nigerian Financial System

In Nigeria, the financial system is made up of two major markets namely: the money market and the capital market. The money market is the short-term funds and securities, including treasury bills, one- year treasury certificates, Central Bank notes, negotiable certificates of deposit, commercial papers, commercial and merchant bank savings and investment notes and other funds of less than one-year duration. On the other hand, the Capital Market is for longer term funds and securities whose tenure extend beyond one year. These include long- term loans, mortgage bonds, preference stocks, ordinary shares, federal Government bonds, industrial loans and debentures.
According to Osaze (2007), capital market is a complex institution and mechanism through which intermediate funds and long-term funds are pooled and made available to business, government and individuals and instrument already outstanding are transferred. The institutions that interact within the capital market are: Insurance companies, pension found Administrators, Central Bank of Nigeria, Nigerian Stock Exchanges, Professional bodies, Corporate Affairs commission, Financial Reporting council, Ministry of Finance, Investment and securities Tribunal, market intermediaries, Investors, media, etc. these institutions which traditionally play one role or the other in the transfer of funds from saving public to users include stock exchanges, stock registrars, issuing houses, stockbrokers, underwriters and security and exchange commission.
Impact of Commercial Banks: Following the full capitalization of banks to a minimum of N25billion, almost all banks utilized and accessed the capital market to raise funds. Within two years, plus, many of the banks besieged the capital market more than once, falling over one another in raising funds through mega offers in a single tranche. The banks competed to suck liquidity from the

Nigerian financial system, thus overheating it. Through enticing marketing strategies, the banks succeeded in their various offers, but left the capital market place bleeding and gasping for breath. The primary market seemed to experience a boom while the secondary market was sucked dry as many investors dumped their shares in the secondary market was sucked dry as many investors achieved through bewitching marketing efforts of banks and many others.

Economic Growth

Economic growth means an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth is a process by which a nation wealth increases over time. The most widely used measures of economic growth is the rate of growth in a country's total output of goods and services gauged by the gross domestic product (GDP) Economic growth can also be refers to as the increase of per capita gross domestic product (GDP) or other measures of aggregate income, typically reported as the annual rate of change in the real GDP. Economic growth is primarily driven by improvement in productivity, which involves producing more goods and services with the same inputs of labour, capital, energy and materials (Ubesie, Nwanekpe & Ejilibe, 2020).

Empirical Literature

Dowa and Odia (2010) empirically analyzed the impact of Nigerian capital market on her socio-economic development. The study used a sample period of 1981-2008. The methodology adopted was ordinary least square regression and the result showed that the capital market indices did not have significant impact on the GDP in Nigeria

Kolapo and Adaramola (2012) examined the impact of the Nigerian capital market on economic growth from 1990-2010. They employed ordinary least squares (OLS) regression analysis procedures capturing to integration and granger causality. Their results revealed that activities in the capital market impact positively on the economy.

Oluwatosin, Adekanye & Yusuf (2013) examined the impact of Nigerian capital market on economic growth and development between 1999 and 2012. The study explored secondary data collected from security Exchange Commission reports, Nigerian Stock Exchange Review Reports, and central Bank of Nigeria Statistical bulletin. Methodology employed was ordinary least square regression analysis while the result showed that capital market indices had not significantly impacted on the GDP in Nigeria. This was attributed to low market capitalization, low absorptive capitalization, illiquidity, and misappropriation of funds among others. The study therefore recommended that government should restore confidence to the market through regulatory authorities which would portray transparency, fair trading transactions and dealing in the stock exchange, improve dealing in the market capitalization by encouraging more foreign investors to participate in the market and also to increase investments instruments such as derivatives, convertibles, swap and option in the market.

Briggs (2015) empirically examined the impact of the capital market on the Nigeria economy from 1981-2011. The study used Gross Domestic product (GDP) as proxy for economic growth while the capital market variables considered were; Market capitalization (MCAP), total new issues (TNI), value of transactions (VLT), and total Listed Equities and government stocks (LEGS). Johansen cointegration and Granger causality tests were applied. The result showed the clear relative positive impact the capital market plays on the economic growth and invariably on the economy.

Kimeli (2017) studied IFRS adoption and capital markets. Through a review of relevant literature. The study which centred on IFRS adoption effects on the functioning and operations of capital markets, opined that enhanced liquidity of markets and minimized information asymmetry improved foreign holdings and turnover of capital markets.

Onulaka (2014) empirically investigated the effect of audit expectation gap in Nigeria capital. In the study, a cross sectional survey was conducted in Lagos and Abuja stock Exchange to capture the perception of key users of financial statements in Nigerian capital market. The study employed the Chi-square (x2) test techniques and discovered a wide expectation gap in the areas of auditors 'responsibility for fraud prevention and detection in Nigeria.

Idowu and Babatunde (2012) investigated the effect of financial reform on capital market development in Nigeria over the period 1986 to 2010. The study used ordinary Least square (OLS) techniques and Chow-break-point Test. The result revealed that the financial reform of 1995 impacted significantly on the capital market development in Nigeria. However, finding revealed that the variables that represent the development of the banking sector, the activities of the Central Bank and other financial institutions interacted negatively with market capitalization which implies that the activities of those institutions deterred the development of the capital market.

Angahar and lorpev (2012) empirically analyzed the effect of insecurity on capital market performance and economic growth in Nigeria. The study used data on peace index (PINDEX) and peace score (PSCORE) as proxy for insecurity, market capitalization as proxy for capital market performance and gross domestic product (GDP) a proxy for economic growth and total of listed equity and government stock as control variable collected from the global peace index (GPI), central bank of Nigeria (CBN) annual report, securities and exchange (SEC) annual report and Nigerian stock Exchange (NSE) annual report for a period of five years (2007-2011). Multiple regression analysis technique was employed while the result showed a negative relationship between capital market performance, economic growth, and insecurity in Nigeria. Particularly, the result showed that peace index is statically significant to capital market performance while peace score is not. However, peace score is statistically significant to economic growth while peace index is not statically significant. The study recommended that government at all level should not rest until peace is restored in the country so as to enable the capital market contribute positively to economic growth, at the same time help in the attainment of vision 2020.

Onulaka (2014) examined the impact of adoption of IFRS in Nigeria capital market; looking at the challenges facing the preparers and auditors of IFRS based financial statements in Nigeria. The study used structured questionnaire for primary data collection and analysis of variance (ANOVA) technique for the analysis. Findings revealed an increase in the volume of trading in the capital market and also the training gap on the part of preparers and auditors of IFRS based financial statement.

Methodology

Research Design

For the purpose of this research, the time-series research will be used as a research design. This 1s because, the research is on the Effect of Nigerian stock market performance indicators on Economic Growth and relevant data will be collected from the past record of Nigerian Stock

Exchange, Central Bank of Nigeria, Securities and Exchange Commission and National Bureau of Statistics.

Method of Data Collection

The method for data collection for the research is secondary source, where the data is expected to be collected from report and publication of Nigerian stock Exchange, Central Bank of Nigeria and Securities and Exchange Commission for period of 10 years that is 2001-2021.

Method of Data Analysis

The proposed method of data analysis is Multiple Regression analysis.

Model Specification

Model Specification

The study formulated four testable null hypotheses which states that all the independent variables under study (savings accumulation, gross fixed capital formation, labour force, and stock market capitalization) does not significantly affect gross domestic product. Multiple regression analysis was employed to test the stated hypotheses. The multiple regression model was specified as follows:

GDP = f (TMS, NDL,ASI)

The econometric form of the model is as follows

$GDPt= \beta_o + \beta_1 TMCt + \beta_2 NDLt + \beta_3 ASIt + \mu t$

Where:

GDP= Real Gross Domestic Product at constant factor cost

TMC = Total Market Capitalization

NDL = Number of Deals

ASI = All Share Index

f= functional relationship

β_o*= Constant term*

β_1, β_2 *and* β_3*= Slope coefficients*

μ*= unpredictable random variable*

t= Time Period

Discussion and Result

Table 1 Descriptive statistics of GDP, OILP, OILF and EXR

Mean	71.1905	81.6381	3.6092E2	28.9524
Std. Deviation	50.9044	211.02191	378.67419	10.83271
Minimum	8,234.49	662.50	57.68	10,965.10
Maximum	176,057.50	42,054.50	1,679.14	57,450.78
Observations	21			
Sample	20001– 2021			

Source: Author's Computed result 2022.

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Table 1 above indicated the mean value as 71.1905GDP, 81.6381TMC, 3.6092E2 NDL and 28.9524ASI with standard deviation of 50.9, 27.03, 211.02191, 378.67419, and 10.83271 respectively. The maximum figures of 176,057.50 GDP in Nigeria and 42,054.50TMC that was in the 2021, and the NDL reached its maximum level in the year 2008 (1,679.14), all share indexes was peak in 2021. The minimum value for GDP, TMC, NDL and ASI is 8,234.49, 662.50, 57.68 and 10,965.10 respectively.

Table 2 Regression Analysis
Dependent Variable: GDP
Method: OLS (Regression Analysis)
Date: 11/26/22 Time: 12:29
Sample: 2001 – 2021
Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-22.041	42.804	-0.515	0.631
TMC	0.007	0.060	0.114	0.911
NDL	0.053	0.029	1.821	0.086
ASI	2.542	1.152	2.206	0.041
R-squared **0.357** .				
Adjusted R-squared **0.243**				
Mean dependent var. **71.1905**				
Std. error of the est. **44.28176**				
F-statistics **3.143**				
Obs. **21**				

Source: Author's Computed result.

The estimation function is;
GDP = -22.041+ 0.007TMC + 0.053NDL + 2.542ASI
The estimation function in the table 2 above TMC, NDL and ASI shows positive value of the coefficient, only GDP indicated negative value. This implies that a unit increase in TMC, NDL and ASI will results in the increase of GDP inflows by 0.07%, 53% and 2.54 in Nigeria.
It also implies that 36% variation in GDP inflows is explained by oil price oil price fluctuations and exchange rate in Nigeria.

Hypotheses Testing
Both two out of the three independent variables show positive but insignificant effect Gross domestic product which is a proxy to economic growth. At 5% significant level Total market capitalization has a *P-value of 0.911*, Number of deals *P-value at 0.086*. Only that all share indexes indicated positive and significant effect on GDP (*P-value of 0.041*) level of significant. Therefore in the entire three hypotheses the alternate hypothesis accepted and null hypothesis rejected.

Summary of findings
The findings of the research summarized as follows;

- Total market capitalization has positive but insignificant effect on GDP in Nigeria.
- Also total number of deals in the stock exchange has positive but insignificant effect on GDP in Nigeria.

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- All share indexes shows positive and significant effect on GDP in Nigeria.

Conclusion

In conclusion, this study examined the effect of capital market on the Nigerian economic growth, evidence from the Nigerian stock exchange. It was concluded that capital market has positive but insignificant effect on economic growth in Nigeria. Though all share indexes indicated positive and significant effect on GDP therefore have influence on Nigerian economic growth and development. Also the variables used indicated good fit in measuring performance of the Nigerian stock exchange and economic growth in Nigeria.

Recommendations

There should be need for stock market operate in a macroeconomic environment in such a way that the environment must be an enabling one that will promote and encourage investment opportunities for local and foreign investors.
Government should subsidized impediments to stock market development in the form of tax, legal and regulatory barriers because they are sometimes disincentives to investment.
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 get adequate information.

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