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"The Capital Market and Nigeria's Economic Growth and Development: Analysing the Last Two Decades"

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ABSTRACT

The primary and secondary markets are the two segment markets in capital market that cannot be overemphasis in any of the financial market in the world. The effectiveness of these markets has a great impact on a nation's economy. This implies the way capital markets are managed has a greater impact on the economic growth and development. The paper analysed how the Nigerian capital market impacted on its national economic growth and development from the period of 1999 to 2018 which described the last two decades. Secondary source of data was gathered from the publications of Nigerian Stock Exchange (NSE). Multiple regression analysis was employed in analysing the variables via E-views 9.0 statistical package. Gross Domestic Product (GDP) was used as economic growth variable while Market Capitalisation (MCAP), Value of Transactions (VOT), All Shares Index (ASI) and Interest rate (INTR) were capital market variables. The results revealed that all the capital market variables were positively significant on economic growth and development in Nigeria within the period of under review except market capitalization which has negative impact. It is therefore, necessary for the government to improve with the implementing policies and measures that constantly increase investors' self-confidence; make the market more efficient and more practical in inspection task to ensure that there is no room for prickly practices that might dent the integrity of the market.

Keywords: All share index, Value of Transaction, Interest rate, Market Capitalisation, Economic Growth

Background to the Study

Financial institutions and financial markets are the two segments in the Nigerian financial system that constituted with the rules and regulations for proper interaction among the agents or intermediaries of the entire system. The major task of a financial structure in any nation is to improve the changes of the savings of both individuals and business into the investments purpose by others. Financial system of a nation provides a medium for swapping over to promote specialization and mobilization of savings from the surplus economic units channeling these resources to deficit economic units.

In a simple term, financial system is a combination of different markets, institutions, instruments and participants or operators that interact within an economy to render financial services for economic development. Capital market is a network for mobilization and allocation of funds on long term basis. The market is segmented into two: the primary market and secondary market. The primary capital market is establishes to cater for raising new capital through issuing of new security which can take the forms direct issue, offer for sale, right issues and host of others. It is a platform where individual, corporate bodies or government traded stocks i.e. where funds can be raised for the purpose of investment especially when new securities or already quoted companies' raises fresh capital for expansion. The secondary market is for the second hand securities, which are market for the existing securities where shares and stocks are traded. Pandey (2006) described secondary market as a type of market for the existing securities to be traded on continuous and daily basis. Therefore, the importance of capital market in any nation's economy cannot be overemphasized as their efficiency determines the economic growth of a country.

Poorly functioning or undeveloped capital markets can be more expensive and illiquid which can discourage foreigners to invest in Nigerian markets. A good efficiency structured capital market encourages larger domestic enterprises as well as foreigner investors to provide their resources into the economy. Al-Faki (2006) also described capital market as a network that involved a group of specialized financial institutions with series of mechanisms as well as processes and infrastructure that can bringing together of providers and users of medium and long term capital for purpose of investment for socio-economic development.

Osaze (2000) explained that capital market is a driven tool for any economy to growth as it supplies long-term finances for economic development. Therefore, the channeling of mobilized savings for profitable investment is very essential matter for the capital market as it require a good and performing financial system structure.

Akingbohungbe (1996) defined capital market as the network for medium and long-term finance to be raised. More also, Ekezie (2002) described capital market to be the market for lending and borrowing in a long-term funds.

Mbat (2001) defined capital market as a market (network) that amassed long-term funds the surplus economic units to the deficit economic units. Therefore, operation of stock market has helped the corporate entities and government to generate long term fund for financing several investments. Furthermore, Olawoye (2011) opined that essentially capital market an economic agent that facilitate growth because of its ability to mobilize savings and investment from various sources. And the effectiveness of the market to mobilize and invest depends on the strength of the market resources through the internal wealth mobilization from the domestic savings and foreign capital inflows. According to Osaze (2011) the Nigerian Capital Market raises funds for running the lenders and borrows those in the deficit economic units for investment purpose. Consequently, in a broader form the stock market is a composite institution which embedded with mechanism through which the major economic sectors (individuals, corporate firms, and government) mobilizes long-term and short-term funds and made available to the same various economic sectors in a country.

However, Ariyo and Adelegan (2005) argued that the impact of Nigerian capital market at the macro-economic level was insignificant despite their contribution towards the growth of the nation. Based on these backgrounds this study is seeks to inspect the activity of capital market on economic growth in Nigeria.

Research Question

To what extents can the Nigerian capital market impacts on the Nigeria economic growth and development?

Research Objective

The study focuses on evaluating the level of economic growth and development impacted by the Nigerian capital market on economy.

Research Hypothesis

There is no significant relationship between the Nigerian capital market and economic and development.

Literature Review

Amadeo (2013) defined financial markets as the markets that deal with stocks, bonds, and many other securities. A market where securities are raised as capital for the corporate business and government for investment purpose. Funds are mobilized and available for effective and efficient utilization from the all category of surplus units to the deficit economic units. The behaviour in the financial market involves different instruments, agents and dealers who act as individuals and institutions. Market here does not necessarily means a particular place where buyers and sellers meet to transact business with each other. But rather a consensus of minds over buying and selling of valuable items (securities). Therefore, the need is warranted to link the two parties together (those who are willing to part away with their surplus funds with those people who are also ready to borrow these surplus money). As we have commodity market where people replace their products for money so also we have financial market for people to lend and borrow funds through financial instruments. Financial instruments are nothing than title documents which are meant for obtaining the payment of money in future time. These include: debt instruments and securities such as equity stocks, debenture, bonds and other financial instruments. Financial instruments are financial assets owned by the individuals in different establishments which provide finance for economic growth and development.

According to Akigbounde (1996) capital market is a market to raise medium and long term finances in a financial market. Ekezie (2002) described capital market as a market that deals with long term and medium term funds. The advance of capital market provides opportunities for greater fund mobilization (Inanga and Chiedozie 1997). Levine (1991) stated that a developed financial market reduces the investors shock on investment funds and improve liquidity position of investing companies Capital market offers varieties of financial instruments that facilitate economic growth.

Al-Faki (2006), examined the impact of capital market on the economic growth. The result shows that there is a strong relationship between the capital market and economic growth. Also, Tharavaniji (2007) deposited that a country with an effective capital market will face fewer harsh business cycle production. And this does not means that the establishment of capital market yielding economic growth but it depends on the ability to predict the expected growth rates on per capita income as well as productivity level. Ewah et al (2009) examined the efficiency of capital market on economic growth in Nigeria using multiple regressions analysis to analyse the data for period of 1961-2004. The result revealed that the capital market in Nigeria has not been contributed significantly to the economic development of Nigeria though it has potential of growing.

Nieuwerburgh et al (2005) investigated the long-term relationship between financial market and economic development in Belgium. The result revealed that the economic growth of Belgium is considerably affected by financial market. Hsu et al (2004) examined the position of financial market on economic development of Taiwan, Korea and Japan as case study, the result shows a positive relationship exists in Taiwan than in Korea and Japan. Chee et al (2003) determined the impact of stock market development on economic growth in the context of Malaysia. Result revealed that there is significant positive impact in the long run on economic development in Malaysia. Nwokoma (2002) examined the long-run association between the stock market and macroeconomic variables. The result revealed that at long run level of interest rates have long-run relationships with the stock market.

Ibrahim and Aziz (2003) examine the correlation between stock prices and macroeconomics indicators in Malaysia. The result establishes that there is strong positive relationship between stock prices and industrial production. Irving (2004) examined stock exchanges and socio-economic growth in Africa. He scientifically came out that African countries should address poverty levels, inadequate social services and undeveloped infrastructure rather than devote scarce resources and efforts to promoting stock exchange. Also, Adam and Sanni (2005) studied the function of stock market in Nigeria's economic development. The result shows a one-way causality involving market capitalization and GDP growth while a two-way causality occurred between GDP growth and market turnover. Ted Arzarmi et al (2005) evaluate the relationship between development of stock market and economic growth in India. The result shows a negative relationship between the va

Riables.Elumilade and Asaolu (2006) investigate the associations connecting stock market capitalization and interest rate for the period 1981-2000 using regression analysis. Results showed that there is positive relationship between interest rate and stock market capitalization rate. Oluwatoyin and Ocheja (2009) investigate the relationship between the stock market earnings and income of the average Nigerian for period of 1980-2007. The findings show that there is positive impact of market earnings on income per capita of Nigerian.

Enisan and Olufisayo (2009) examine the relationship between stock market and economic growth in seven of the Sub-Saharan African countries on long-run. The findings show that there is positive relationship between the stock market and economic growth while Nigeria has weak evidence towards the economic growth. Maku and Atanda (2010) investigate the long-run effect of macroeconomic determinants of stock market on the performance of Nigeria between 1984 and 2007. The results reveal that there is simultaneous significant effect between the macroeconomic variables and stock market performance in Nigeria.

Methodology

Data Sources

Secondary sources were used for this study and information was gathered from the Nigerian Stock Exchange (NSE) Fact books and Annual Report of the companies. The period of study covered 1999 to 2018.

Variables Used

This study used capital market elements as independent variables and economy (GDP) as dependent variable.

$Y = f(x_1, x_2, x_3, x_4)$………. (1)

Where

Y represents the economic growth (dependent variable)

x_1- x_4 representing the functional notation (independent variables)

It can be stated thus:

GDP= f (MCAP, VOT, ASI, INTR) ………….. (2)

Where;

GDP = gross domestic product (economic growth)
MCAP = market capitalization
VOT = total value for Transactions
ASI = all shares index
INTR = interest rates
Equation (i) can be explicitly written as:
$Log(GDP) = b_0 + b_1Log(MCAP) + b_2Log(VOT + b_3LogASI + b_4 LogINTR + e$…………(3)

Where:

b_0 = interrupt of relationship
b_1-b_4 = Coefficients
e = inaccuracy (error term)

Method of Analysis

Quantitative analysis was employed for this study since data was numerical in nature. The study makes use of multiple regression analysis using ordinary least squares via E-views 9.0 statistical analysis. However, the study based the statistical significance limit for hypothesis testing at 5%.

Results of the Data Analysis (Presentation of Results and Discussion)
Descriptive Analysis Results

	GDP	C	MCAP	VOT	ASI	INTR
Mean	6.087500	1.000000	9531.851	728922.5	26070.30	18.39700
Median	6.445000	1.000000	9740.590	662321.5	24757.08	17.51500
Maximum	14.60000	1.000000	21904.04	2350876.	50424.70	24.85000
Minimum	0.520000	1.000000	300.0000	14072.00	5264.192	15.14000
Std. Dev.	3.527890	0.000000	7570.185	622428.9	12551.66	2.517971
Skewness	0.333358	NA	0.171399	0.859691	0.183695	1.188341
Kurtosis	3.036132	NA	1.597400	3.381998	2.510376	3.604654
Jarque-Bera	0.371512	NA	1.737332	2.585162	0.312256	5.011853
Probability	0.830476	NA	0.419511	0.274561	0.855450	0.081600
Sum	121.7500	20.00000	190637.0	14578450	521405.9	367.9400
Sum Sq. Dev.	236.4742	0.000000	1.09E+09	7.36E+12	2.99E+09	120.4634
Observations	20	20	20	20	20	20

Results Discussion

The descriptive statistics table shows that MCAP have mean value of 9531.851 and respectively the maximum and minimum values were 21904.04 and 300.0000. However, the standard deviation that measures the spread of the distribution stood at 7570.185 which is an indicator for a good considerable dispersion from the mean. The Jarque-Beta statistic stood at 1.737332 and the p-value of 0.419511 also indicates that the data is normally distributed at 5% level of significance ($p<0.05$). VOT is also observed with a mean value of 728922.5 with maximum and minimum values of 2350876.00 and 14072.00 respectively. The standard deviation value of 622428.9 also indicates the considerable dispersion from the mean. The Jarque-Bera statistics of 2.585162 and p-value of 0.27 indicate that the distribution passed the normality. ASI and INTR means stands at 26070.30 and 1839700 respectively, the VOT and INTR p-values of 0.855450 and 0.081600 also indicate normal distribution at 5% level of significance.

Dependent Variable: GDP
Method: Least Squares
Sample: 1 20
Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11.70789	8.938468	-1.309832	0.2100
MCAP	-0.000380	0.000139	-2.730167	0.0155
VOT	1.19E-06	2.04E-06	0.582781	0.5687
ASI	0.000206	9.61E-05	2.141004	0.0491
INTR	0.825519	0.395335	2.088151	0.0543
R^2	0.562724	Durbin-Watson stat		1.010183
Adj R^2	0.446116			
S.E. of reg	2.625574			
Sum sqd res	103.4046			
Log likelihood	-44.80794			
F-stat	4.825810			
Prob(F-stat)	0.010553			

The above regression results observed that the R^2 coefficient is 0.56 which indicate and explained about 56% of the systematic variations of the dependent variable in the model. The adjusted R^2 of about 0.45 of the explanatory variables on the degree of freedom shows the fitness of the model. Also, the F-statistics value of 4.82 and the related p-value of 0.0105 shows that the hypothesis statistical significance of the model can be discarded at 5% and specified that the model is appropriate.

The result of the coefficients of the explanatory variables also revealed that there is negative correlation between market capitalization and economic growth which shows coefficient of -0.000380. However, the result is significant as the p-value of 0.01 is less than the critical p-value of 0.05 at 5% level ($p>0.05$). VOT is found to have positive relationship with the economic growth. The relationship statistically insignificant as indicated by its coefficient value of 1.1900 and p-value of 0.56 which exceeds the critical p-value of 0.05 at 5% level ($p<0.05$).

Furthermore, All Share index shows a positively and significantly relationship with economic growth as it shows a coefficient of 0.0002 and p-value of 0.04 established to be less than the decisive p-value of 0.05 at 5% level of significance. Also, interest rate was also found to have positive relationship with the economic growth as revealed by coefficient of 0.8255. This shows that the relationship significant as the p-value of 0.05 equal the critical p-value of 0.05 at the degree of freedom of 5% level of significance. Finally, the Durbin-Watson value of 1.01 is an indicator that stochastic dependence of the error term is doubtful.

Conclusion

The study examined the impact of capital market on economic growth of Nigeria. The study viewed dependent variable GDP as against the independent variables (MCAP, VOT, ASI and INTR). The study established that only market capitalization has negative impact on economic growth but significantly related while VOT, ASI and INTR have positive impact on the economic growth. The ASI has a significant correlation with the dependent variable, while VOT and INTR have insignificant relationship.

Recommendations

In line with the discussion of findings of the study, we recommend that government need to introduce policies that will encourage and enable both public and private organization to gain access to the financial market for capital rising. Also, policy should be instituted to increase value of transaction in the market and the transaction costs of trading should be downward reviewed to promote more energetic trading in stocks. Regulatory authorities need to be more proactive in monitoring so as to check mate and disallow insiders operation in the capital market.

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