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APPRAISING THE RESPONSIVENESS OF ECONOMIC GROWTH TO CAPITAL MARKET DEVELOPMENT OF NIGERIA

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Abstract

This study examines the roles of capital market in the development of the Nigerian economy. Economic growth is the amount or value of goods and services produced by a nation over a period using GDP to gauge it. Capital market is characterised by market capitalization, volume of transaction and listed equities. Data was collected using secondary source of data only. The technique employed was multiple regressions as tool of analysis for the study. The findings of the study show that market capitalization (MCAP) and Total Listed Equity (TLE) has a positive effect on the Nigeria GDP as a result of their coefficients value which is 61.74622 and 1226.677 respectively. While volume of transaction (VOT)" has a negative effect on GDP as a result of the coefficients value of -0.206736. This implies that capital market performance has positively and significantly impacted on the Nigerian economy. The study therefore, recommend among others that the central bank of Nigeria (CBN), the Nigerian stock exchange (NSE) and security and exchange commission (SEC) should ensure free flow of information in the market. This is essential in order to draw more investors and increase the issues which will repeatedly increase the total amount of the market capitalization that will result in improving the performance of the Nigerian capital market.

Keywords: Stock, Stock exchange, stock market, capital, economic growth

Introduction

The capital market is a set of connections (network) of financial institutions and infrastructure that interact to mobilize and allocate long-term funds in the economy for the development. Is the market for buying and selling of medium/long term investment or financial instruments (equities and debt) in form of stocks and bonds of more than one year that channels savings and investment from suppliers of capital such as retail investors and institutional investors to users of capital akin to businesses, government and individuals? This study centred on the issues of capital market and how it has impacted on the Nigerian economy. Capital market is an essential agent of economic growth because of its capacity to make easy and assemble savings and investment (Olawoye 2011). The ability to mobilize and invest lies in the nation's strength in effective resource mobilization which enables internal wealth creation and domestic savings as well as inflows of foreign capital. So, capital market, no doubt, is crucial to the level of growth and development of the economy. Capital market is one of the major institutions that act in propelling a desperate economy for growth and development (Chinwuba and Amos 2011). Capital market is a multipart institution imbued with intrinsic machinery through which long-term funds of the surplus sectors of the economy are mobilized, harnessed and made available to deficit sectors of the economy. It is a highly specialized and organized financial market and essential agent of economic growth because of its ability to facilitate and mobilize saving and investment. However, capital market includes primary markets; a market where new stock and bond issues are sold to investors and the secondary markets, which deals or trade with the existing securities. Indeed all these are done through underwriting and computerized trading systems.

Nevertheless, the Nigerian capital market has witnessed apparent renovation over the years, evident by the enlarged level of participation of the private and public investors at the floor of the stock exchange and in various public offers of quoted companies. The promising market has also fascinated and embraced the concentration and the interest of international investors, thus increasing capital inflow (CBN, 2009). The Nigeria capital market was deregulated in 1993, thereby allowing for the determination of the prices of new issues by issuing houses and stock brokers (CBN, 2009).

More also, The Nigeria capital market is regulated by the Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN). However, the size of capital market of a country should be relative to the size of the economy if actually the real economic progress is to be achieved by the operations of the market, since this market moves resources from people who have it, to organizations that need it for productive purposes which vitally smoothing the growth of the economy.

Despite the significant financial reforms experienced in the financial sector over the years, there has been an underdevelopment of the real sector as a result of lack of funds from the financial sector (Ekundayo, 2002). The Nigerian capital Market since its inception has various problems which include among others, poor economic environment, and the problem of buy and hold strategy, whereby stocks are bought and locked up in custody without being traded on the stock market. Therefore, this study seeks to evaluate the effect of capital market on the Nigeria economic growth between the years 1983 to 2019.

Research Objective

In the light of the above mentioned facts, the study aimed at appraising the responsiveness of economic growth to capital market development of Nigerian (1983-2019).

Research Hypotheses

Ho: Capital market development does not have responsiveness to economic growth of Nigerian.

Literature Review

Conceptual Review of the Study

The Concept of Capital Market

According to Al-Faki (2016), the capital market is a network of specialized financial institutions, series of mechanism, processes and infrastructure that, in various ways facilitate the bringing together of suppliers and users of medium to long term capital for investment in economic developmental project. Is the market where stocks, bonds, commodities, foreign exchange and even derivatives are traded to raise cash for government or businesses, reducing companies' risks and increasing investors' wealth (Taiwo et al, 2016). It is the market that creates avenue through which funds are generated, mobilized and availed effectively and efficiently from the all-savers camps to the users of funds. The activities involve the interaction of individuals, institutions and instruments.

Basically, the capital market consists of two major segments, the money market and the capital market. The money market provides finance on short-term basis to individuals while the capital market provides finance to businesses, enterprises, corporate bodies, government agencies etc. (Ariyo and Adelagan 2005). The capital market is the complex of institution and mechanisms through which economic units desirous to invest their surplus fund, interact directly or through financial intermediaries with those who wish to procure funds for their businesses.

Okereke (2000) describes the capital market as constituting of market and institutions that facilitates the issuance and secondary trading of long-term financial instruments. Unlike the money market that represents the short-end of financial system that provides facilities for claims and obligations with maturity vary from one day to a year, the capital market provides government at all levels an effective way of financing public projects; thus playing a vital role in stimulating industrial as well as economic growth and development (Taiwo et al 2016).

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 unfavourable government policies (Taiwo et al 2016).

The Nigerian capital market is embodied with primary and secondary markets (a market for raising short and long term funds).The major participant in the Nigerian capital market includes development banks, private firms, the treasury and the CBN while the minor ones includes commercial and merchant banks, individuals, states and local governments. This market comprises of the organized stock exchange and the over-the counter (OTC) market but presently, there is no organized OTC market in Nigeria.

Secondary market transactions are carried out by licensed stock brokers on the trading floors of the Nigerian Stock Exchange. These are broadly classified into four categories: providers of funds (Individuals, Unit Trusts, Pension Trust, Insurance Companies), users of funds (Companies, Government at all tiers, etc), intermediaries (Stock broking Firms, Issuing houses, Registrars, Auditing Firms) and regulators (SEC, NSE, CBN) (Okereke 2000). Similarly, the financial instruments in use can broadly be classified into the following:

1. Equity (Ordinary shares, Preference shares)
2. Debt (Government bonds such as federal, state and local government bonds, Industrial loans/debenture stock and bonds)
3. Derivatives (Options rights, swaps, Futures, etc)

According to Edame and Ukoro (2013), the Nigerian capital market, like the national economy, has been faced with many problems. These problems are both endogenous and exogenous. The exogenous problems are those outside the direct control of the market but which are regulation-induced. The endogenous problems are those that are internal to the market but which are amenable to changes with improved operational procedures including the adoption of information technology. These include such as small size of the market, problem of Illiquidity of the market, double Taxation and problem of macroeconomic instability.

The Concept of Economic Growth

Economic growth is a continued increment in per capita national output or net national product over an extensive stretch of time. It infers that the rate of increment in total output must be greater than the pace of population growth. Another measurement of economic growth is that national output should be composed of such goods and services which fulfil the most extreme need of the greatest number of individuals. Economic growth can be controlled by four significant determinants to be specific, national resources, capital formation, technological development, and human resources.

Economic growth explicitly implies an expansion in the value of goods and services produced by a nation over a period and economists utilize an expansion in the nation's GDP to gauge it. Along these lines, it is conceivable to have economic growth without economic advancement in the short or even medium-term (Kareem et al., 2013 2014).In other words; there could be an increase in GDP without any increase in the standard of living of people in a state. Natural conditions that would upgrade economic growth must be made through an investment of the national income in infrastructural advancement for therefore an improvement in the standard of life of the number of inhabitants in a nation (Donwa and Odia, 2010).

However, economic growth is the increase in the inflation adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP (IMF, 2012). Since economic growth is measured as the annual percent change of gross domestic product (GDP), it has all the advantages and drawbacks of that measure. The economic growth rates of nations are commonly compared using the ratio of the GDP to population or per-capita income. The "rate of economic growth" refers to the geometric annual rate of growth in GDP between the first and the last year over a period of time.

According to Okpara (2006) economic growth is the increase in the amount of goods and services produced in an economy which is measured by positive changes in a country’s gross domestic product. Economic growth is the increase in national income, as reflected in the capacity of production of goods and services regardless of either the increase is on a larger or smaller population growth rate (Anyanwu, 1998). Adebiyi (2005) stated that economic growth is a positive change in the level of production of goods and services by a country over a certain period of time. Largely, economic growth is the increase in a country's productive capacity, as measured by increase in capital stock, advancement in technology and improvement in the quality and level of literacy.

Empirical Review of the Study

Edame et al. (2013) examine the impact of the Nigerian capital market on its economic growth from the period of 1990-2010. The economic growth was proxies by Gross Domestic Product (GDP) while the capital market variables considered include; Market Capitalization (MCAP), Total New Issues (TNI), Value of Transactions (VLT), and Total Listed Equities and Government Stocks (LEGS). The reveals that the activities in the capital market tend to impact positively on the economy as there is a clear indication of the relative positive impact the capital market plays on the economic growth of the country.

Afolabi (2015) examines the impact of the Nigerian Capital Market on the Nigerian economy looking at a 20 years period from 1992 to 2011. Using the multiple regression analysis, the result shows that capital market has an insignificant impact on the economy within the period under review. Therefore, the study advised that policies and measures that would boost investors' confidence should be enshrined in the running of Nigerian Capital Market so that it could contribute significantly to the growth of Nigerian economy noting that all elements of the market are essential ingredients to the development of a nation.

Edame at al., (2013) investigated the impact of capital market on the economic growth in Nigeria: Annual time series data were obtained from the Central Bank of Nigeria Statistical Bulletin and Securities and Exchange Commission statistical bulletin for the period 1981 to 2016. Augmented Dickey Fuller test technique was used and the result showed that the variables were stationary though at different levels. The result showed that the variables in the model are co-integrated implying that the variables have a long run relationship.

Kareem et al., (2013) examined the impact of capital market on economic growth in Nigeria using annual data from 1981 to 2010. Ordinary least square test was used to verify the statistical significance of the variables used and vector auto regression technique to determine the long run relationship within the variables in their study. Their investigations indicated that two variables are statistically significant at 10% and these variables are market index and market capitalization. Their study recommended that there is need to address the reported case of abuse and sharp practices by some companies in the market. There is also the need to boost the value of transactions in the Nigerian capital market.

Olawoye (2011) investigated the relationship between capital market development and economic growth using data on GDP (proxy for economic growth), market capitalization ratio; value traded ratio and stock market turnover ratio (proxies for capital market development) over the period 1981-2014. Using vector error correction model, the study showed that in the short-run, market capitalization ratio and turnover ratio have significant negative effect on aggregate national output (GDP). The Granger causality test result shows evidence of causal impact of market capitalization ratio, value traded ratio and turnover ratio on aggregate national output. Osaze, (2011) examined the impact of capital market on economic growth in Nigeria using a time-series research design relying extensively on secondary data covering 1985 -2012. The study revealed that there is a statistically significant relationship with economic growth. It was therefore recommended that relevant regulatory agencies should focus on enhancing efficiency and transparency of market to improve investor's confidence.

Taiwo et al., (2016) evaluated the contribution of capital market to the growth of Nigeria's economy. Their studies make use of vector error correction techniques on an annual time series data spanning from 1981 to 2014. The result of their study showed that, at 1% level of significance, all the variables were stationary and is significant to the economic growth in Nigeria. It was then recommended that, for the capital market to realizes its full potentials, its environment must be enabled to promote and encourage investment opportunities for both local and international investors, since the stock market operates in a macroeconomic environment.

Adamu (2008) examined the impact of capital market on the Nigeria economy and also examined how stock exchange market has contributed to the economic growth which aims at studying the second tier securities market. The secondary data employed in the work were collected from the statistical bulletin of the Central Bank of Nigeria (CBN) 2008. The study used ordinary least square to determine the linear relationship between the independent and independent variable. Multiple regression result showed that integration into the world capital market will accelerate the growth process.

Mishira (2010) evaluated the impact of capital market development on economic growth and development since the liberalization policy in 1986 to 2010 in Nigeria. The study employed Ordinary Least Square (OLS) and Johansen co-integration estimation techniques. The study used Gross Domestic Product (GDP) as measure for economic growth while the capital market development was represented with (MCAP), (TVT), (TNI), (ALSI) and (TLT). The result indicates that capital market development has not impacted positively on Nigeria economic growth and development due to the relative small size of the market despite its development as a result of the liberalization policy. Therefore, the study recommended that policies that would encourage domestic as well as foreign investors to participate in the market be formulated.

Ewah et al., (2009) examined the impact of capital market on economic growth of Nigeria between the periods of 1990-2013. Their study adopted time series econometrics analysis to determine the long run and causal relationship between capital market and economic growth in Nigeria. The OLS result revealed that there was a significant impact of capital market on economic growth in Nigeria. The therefore, recommended that there is the need for government to intensify effort in promoting investment in Nigeria by creating enabling environment for investment to thrive in the country.

Methodology

Research Design

The study adopted a quantitative research approach where data were gathered through secondary approach for obtaining the fact needed to structure or solve study problems. However, ex-post facto research design was adopted for this study, because it is verifiable investigation which the researcher cannot manipulate the independent variables.

Method of Data Collection

Data used for this study was collected through secondary source, mainly from Central Bank of Nigeria (CBN) and Nigeria Stock Exchange (NSE) for the period of thirty-seven years (1983-2019).

Model Specification

This study adopted the statistical method of multiple regression approach in line with that of Olawoye (2011) and Ewah et al (2009) to suit our study. In the model we make use of real gross domestic product as the explanatory variables (total market capitalization, total listed equityand volume of transaction at the stock exchange). The model is expressed as an implicit function and as follows:

GDPGR= f (MCAP, VOT, TLE)…………………. (1)

The model is specified as follows:

$GDPGR=\beta_0 + \beta_1 MCAP + \beta_2 VOT + \beta_3 TLE + + \mu$………………. (2)

Where:

GDPGR=Gross Domestic product Growth Rate
MCAP =Total Market Capitalization
VOT= Value of transactions
TLE = Total listed equity
B_0, β_1, $\beta_{2,}$ and β_3 = constant parameters
μ = the error term

Method of data Analysis

Regression analysis was employed to analyze the relationships between the variables (multiple regressions) using E-view statistical package.

Results of Data Analysis and Discussion

Dependent Variable: GDP
Method: Least Squares
Sample: 1982 2019
Included observations: 37

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-28306.61	152186.2	-0.176242	0.6441
MCAP	52.72411	4.122414	11.113342	0.0000
VOT	-0.110210	0.054412	-2.144620	0.0012
TLE	1105.566	512.5121	1.711611	0.0510

R^2	0.932311	Durbin-Watson stat	1.407298
Adj R^2	0.916448		
S.E. of reg	93193.84		
Sum sqd res	2.87E+11		
Log likelihood	-473.7543		
F-stat	121.5131		
Prob(F-stat)	0.000000		

(Eview 9 output, 2019)

Results Discussion

The study estimates the relationship between three explanatory variables; market capitalization, volume of transaction and listed equities and one explained variable, Gross Domestic Product, by means of the ordinary least square technique. The table above shows that the coefficient of multiple determination is (R^2) is 0.932311; the implication of this is that 93.2311% of the variation in the dependent variable (Gross Domestic Product (GDP)) is explained by the independent variables "Total Listed Equity (TLE)", "Volume of Transaction (VOT)" and "Market Capitalization (MCAP)") in the model, while the remaining 6.7689% is explained by other factors which are not included in the model. The regression equation (model formulated) appears be very useful for making predictions since the value of R^2 is close to 1.

From the table, $F = 121.5131$, p-value = 0.000 which is less than 0.05 (sig.). Since p-value 0.000 is less than 0.05 (critical value) then the null hypothesis is rejected and the alternative is accepted. This implies that total listed equity, volume of transaction and market capitalization have a statistically significant effect on Nigeria's gross domestic product growth.

The table "Coefficients" provides information effect of individual variables (the "estimated coefficients" or "beta") on the dependent variable. The coefficient of market capitalization (MCAP) is 52.72411 with p-value of 0.000 which is less than 0.05 (critical value), the coefficient of Volume of Transaction (VOT) is -0.110210 with p-value of 0.0012 which is less than the 0.05 (critical value), the coefficient of Total Listed Equity (TLE) is 1105.566 with p-value of 0.0510 which is greater than the 0.05 (critical value). This implies that "Total Listed Equity (TLE)" does not contribute to the model since it p values are greater than the critical value 0.05. But "Market Capitalization (MCAP)" and "Volume of Transaction (VOT)" contribute to the model since their p value is less than 0.05.

Overall, this also shows that "Market Capitalization (MCAP)" and "Total Listed Equity has a positive effect on the Nigeria GDP as a result of their coefficients value which is 52.72411 and 1105.566 respectively. This also shows that a unit increase in Market Capitalization (MCAP)" and "Total Listed Equity will bring about a 52.72411 and 1105.566 and respectively increase in GDP. While "Volume of Transaction (VOT)" as a negative effect on GDP as a result of the coefficients value for "Volume of Transaction (VOT)" which is -0.110210, this also shows that a unit increase in VOT will bring about a -0.110210 decrease in Nigeria GDP.

Conclusion

The study concluded that two out of the three variables have played a significant role in influencing the capital market performance on Nigeria's economic growth. The two major independent variables have positive impact on the economic growth. Both are having significant correlation with the dependent variable.

Recommendations

Based on the findings of the study, we recommend that there is need for improvement in the declining market capitalization by encouraging more foreign investors to participate in the market. There is also the need to restore confidence in the market by the Securities and Exchange Commission and the Nigerian Stock Exchange through ensuring transparent and fair trading transactions and dealings in the stock exchange to improve the confidence of shareholders (investors).

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