ABSTRACT

The study investigated the impact of the capital market on growth of Nigerian economy. The study used a 26-years time series data (1990-2015) to regress GDP (dependent variable) on capital market development indicators: market capitalization ratio (MACR), turnover ratio (TUOR), total value of Shares traded (TVSR), total new issues (TNISS), total listed Equities and Government stock (TLEGs) and financial deepening (FDEEF). The Ordinary least squares (OLS) multiple regression estimation techniques were adopted in the analysis. The study has shown that, capital market development variables, significantly affect economic growth of Nigeria. This implies that the operations of the Nigerian capital market have had significant impact on the Nigerian economy. The study recommended that more listings as well as foreign investors’ participation should further be encouraged in order to improve market capitalization. In addition, the regulatory authorities should ensure transparency, fair trading transactions and dealings in the market to restore confidence, among others.

Keywords: Capital Market Development, Economic Growth, Stock Market Capitalization, Financial Deepening, Nigerian Economy

INTRODUCTION

The financial system of any economy plays significant role in stimulating economic growth and development by efficiently channeling hinds to various economic agents for productive uses. This function is very important for economic growth and development (Adenusi, Sulaiman and Azeez, 2013). The financial system plays this role through the activities of the financial market. The capital market is a subset of the financial market. In the capital market, the suppliers of fund otherwise known as the surplus unit, are mainly individuals and corporate bodies, as government rarely supply funds to the market. The users of the hind otherwise called the deficit units of the economy comprises only the corporate bodies and government, since conventionally individuals cannot access the capital market for funds (Ewah, Essang & Bassey 2009).

The institutional framework through which the capital market functions in Nigeria includes the Security and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE), Stock brokers, Issuing houses and Investors. Bwah et al, (2009) noted that the main objectives of establishing the Nigerian Capital market are; to mobilize savings from various economic units for economic growth and development, provide adequate liquidity to investors, widening the ownership base of assets as well as creation of buoyant private sector and provide alternative source of fund for government, among others. However Adebiyi (2005), posits that equity markets in developing countries such as Nigeria, until the mid 1980s, generally suffered from the classical defects of bank dominated economies that is, shortage of equity capital, lack of liquidity, absence of foreign institutional investors and lack of investors’ confidence. Adebiyi (2005) also observed that since 1986, the capital market of developing countries have witnessed appreciable development, with financial liberalization and the easing of legislative and administrative barriers, coupled with the adoption of tougher regulations to boost investors’ confidence.

The importance of the capital market lies in its capacity to link the deficit sector to the surplus sectors of the economy (that is the users and suppliers of fund for investment). The absence of such capacity robs the economy of investment and production of goods and services for societal advancement (Adewayi & Olowokere 2011). Akingbounagbe (1996) observes that funds could thereby lie idle at one end while being sought for at the other end, in pursuit of socio-economic growth. Josiah, Adedinran and Akpeti (2012) describe the capital market as the prime motor that drives any economy on its path to growth and development because it is responsible for long term growth of capital formation. The money mar-
Market only complements the capital by providing the necessary working capital to support gross fixed capital formation. Unfortunately, Josiah et al (2012) has observed that Nigerian capital market has not adequately performed its natural function of funding investment. One of the major indicators of capital market development is the proportion of long term fixed capital raised in relation to the Gross Domestic Product (GDP). But in Nigeria, for instance, between 1994 and 2004, capital formation in terms of long term funds raised from the market through new issues of securities to GDP, averaged only 1.36%, while new issues to gross fixed capital formation averages 16%, market capitalization to GDP ratio also averaged only 14%. They therefore attributed the low average growth of Nigerian economy at 3.2%, during this period, to the poor functioning of the Nigeria capital market. Therefore, Josiah et al (2012) are of the opinion that in Nigeria capital market has not been a popular source of long-term funds for investment. Therefore, it is the aim of this study to further analyze the impact of the capital market on economic growth and development in Nigeria for the period under review to justify this claim.

Statement of the Problem
In recognition of the acclaimed catalytic impact of stock market development on economic growth, a plethora of studies now focuses on the relationship between stock market development and economic growth. Some of these previous studies exhibited serious empirical limitations on the robustness of their results. Previous studies such as those of Zervos (1998), Ogun and Iyoha (2005), used a single composite measure of stock market development as opposed to a variety of measures, and document a positive and significant correlation between stock market development and long-term growth. The use of a variety and disaggregated measures of stock market development could have provided a richer and clearer picture of the potential links between stock market and economic growth, thus showing clearly the particular aspect of stock market development that is the main driver of growth. Therefore, it is important for policy direction, to determine the appropriate channel through which the stock market influences economic growth. This study therefore, addresses the observed limitations created by some extant studies by adopting disaggregated measures of stock market development.

THE OBJECTIVE OF THE STUDY
The objective of the study therefore, is to investigate and determine the effects of the following capital market variables on economic growth in Nigeria: Market capitalization (MACR), Turnover Ratio (TUOR), Total Value of Shares Traded Ratio (TVSR) - Total value of transactions, Total New Issues (TNISS), Total Listed Equities and Government Stock (TLEGs), and Financial Deepening (Financial depth of the stock market-Broad Money M2 /GDP Nominal. Financial Deepening exerts some influence on economic growth. The use of control variables in regression analysis is to avoid the problem of simultaneity bias (Chang et al, 2005, Gujarati 2005).

Research Hypothesis
The hypotheses of this study, which derives from the aforementioned objectives, assume that the selected stock market variables do not have positive significant effect on economic growth in Nigeria.

Theoretical Framework
Stock market is expected to accelerate economic growth, by providing a boost to domestic savings and increasing the quality of investment (Singh, 1997). Stock market encourages savings by providing individuals with an additional financial instrument that may increase the savings rate (Levine & Zervos, 1996). Capasso, (2003) argues that companies in developed capital market are less dependent on bank financing, which can reduce the risk of credit crunch. Stock market therefore, are able to positively influence economic growth through savings amongst individuals, and providing avenues for firm financing. According to Kolapo and Adaramola (2012), several attempts have been made by previous writers to link growth of the capital market with the economy. Traditional growth theorists believed that there is no correlation between stock market development and economic growth because of the presence of level effect not the rate effect. Similarly, Singh (1997) contended that stock markets are not necessary institutions for achieving high levels of economic development. According to Muhammadu et.al (2008), many viewed stock market as an agent that harm economic development due to susceptibility to market failure which often manifest in the volatile nature of stock markets in developing countries (Singh,1997). Earlier studies such as Bagehot (1873) and Schumpeter(1911) had focused on the role of financial sector to economic growth but the direction of causality between higher growth in financial sector and country’s economic growth was not clear (Robinson,1952 and Locus 1988). Recent literature has shifted attention to banking sectors reforms because of the belief and growing interest about stock market and economic growth nexus. According to Levine (1997) and Bencivenga (1991) more liquid markets can create long term investment and hence eco-
nomic growth through lower transaction cost. Also Levine and zervos (1998) remarked that stock market liquidity positively predicts aggregate economic growth. Levine (1991) posits that developed stock market reduce both liquidity shock and productivity shock of business men to investment funds, as well as enhancing the production capacity of the economy thereby, leading to higher economic growth. King and Levine, (1993), supported this view that financial development fosters economic growth. Summarily Levine and Zervos (1994) and Demirguc-kunt, has supported the view that stock markets promote economic growth. With well functional financial sector or banking sector, stock markets can give a big boost to economic development (Rousseau& Wachel, 2000, Beck and Levine, 2003). Literature has also emphasized the importance of capital in economic growth. For instance, Pedro and Erwan (2004) asserted that financial market development raises output by increasing the capital used in production and by ensuring that capital is put to the best uses. Ogwumike and Omole (1996), Ojo (1998), Abdullahi(2005), Adam and Sanni (2005)also stressed the importance of capital in economic development in Nigeria. Agarwal(2001)asserted that financial sector development in turn raises real growth of the economy. Bolbo et al (2005) has indicated that capital market development has contributed to the economic growth of Egypt.

REVIEW OF EMPIRICAL LITERATURE

The linkage between the stock market and economic growth has occupied a central position in the development literature (Osinubi, 1998). There have been controversies on economic growth. Recent studies have provided empirical evidence of strong relationships between stock market and economic growth. For instance, the world bank (1994) found that stock market development does not only follow economic growth, but provides the means to predict future rates of growth in capital GDP.

Furthermore, Levine and Zervos (1996) tried to find out whether there is any strong empirical association between stock market development and long-run economic growth. They used a pooled, cross-country time-series regression of forty(4) countries from 1976 to 1993 to evaluate the association. And just like the study by Demirguc-kunt, they conglomated measures of such as stock market size, liquidity and integration of world markets into Index of stock market development. The Gross domestic product was regressed on these variables. The study found a strong correlation between overall stock market development and economic growth. This means that the result is consistent with theories that there exists a positive relationship between stock market development and economic growth.

Also Hamid and Sumit (1998) examined the relationship between stock market and economic growth for 21 emerging markets using a dynamic panel method. Their results indicated a positive relationship between several indicators of stock market performance and economic growth both directly and indirectly, by boosting private investment behavior.

In Belgium, Niewer et al (2005) investigated the long-term relationship between economic growth and capital market development. The authors used a new set of stock market development indicators to argue that financial market development substantially affects economic growth. They found strong evidence that stock market development leads to economic growth in Belgium especially in the periods between 1973 and 1993.

Furthermore, In Malaysia, Chee et al (2003) indicated that stock market development has a positive significant impact on economic growth. The authors further reported that stock market development Granger-causes economic growth. Equally, Liu and Hsu (2006) reported a positive impact on economic growth in Taiwan, Korea and Japan.

In Nigeria, some authors have also attempted to examine the relationship between stock market development and economic growth. For instance, Osinubi (1998) conducted a study in which he employed the neo-classical growth model with a time-series data on all variables used. He regressed the gross domestic product (GDP) against the variables used, from 1980 to 2000. The study found a positive relationship existing between economic growth and measures of stock market development.

Nyong, (1997) attempted to determine the long run relationship between the economic growth and aggregate index of capital market development which he developed. The study employed a time series data from 1970 to 1994. He used four (4) measures of stock market development: the ratio of market capitalization to GDP (in %), the ratio of total value of transactions on the main stock exchange GDP (in %), the value of equities transaction relative to GDP (in %) and listings, and combined them into one composite using principal composite index of capital market of development and using principal component analysis. The measure of financial market depth (ratio of broad money stock to GDP) was used as a control variable. The study found that capital market development was negatively and significantly correlated with long run economic growth in Nigeria.

Ewah et al (2009) appraised the impact of capital market efficiency on economic growth in Nigeria, using time series data on market capitalization, money supply, interest rate, total market transaction and government development stock be-
between 1961-2004. The study used multiple regressions and ordinary least squares estimation techniques. The result of the study shows that capital market in Nigeria has the potential to induce growth, but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, low absorptive capacity, illiquidity, misappropriation of funds among others.

Okey (2012) investigated the role played by stock markets in driving economic growth in Nigeria. The study utilizes the Granger—causality frame work in analyzing the casual relationship between stock market development on economic growth. The Gross domestic Product (GDP) was regressed against three measures of stock market development market capitalization, Turnover ratio and Total value of shares traded ratio. The result of the study indicates.

(i) Bi-directional Causality between value of shares traded ratio and economic growth
(ii) Causality between Turnover ratio and economic growth
(iii) A Uni-directional Causality between financial Deepening and economic growth. This result shows or implies that stock market development contributes significantly to economic growth through market liquidity-based indicators, creating a feedback effect, as growth in economic activity stimulates liquidity in the stock market. Market capitalization ratio (stock market size), does not have a significant effect on economic growth in Nigeria. The findings therefore, suggest that stock market liquidity indicators is a better measure of liquidity than market capitalization (market size).

Ozurumba and Chigbu (2013) investigated the impact of capital market performance and economic growth in Nigeria, to determine the direction of causality between the variables. Real Gross Domestic Product is Proxy for economic development. Four measures of stock market indicators are used: stock market capitalization ratio, all share index and value of shares traded. Inflation rate and interest rate were control variables. The result show that the variables are co-integrated, implying that there is a long run equilibrium relationship between economic growth and capital market. The result further indicates that capital market has a significant impact on economic growth.

There is also a unidirectional causality from economic development to capital market in Nigeria. Capital market affect economic development through the capital market indicators except market capitalization which has a negative and insignificant impact on economic growth. This is contrary to the prior expectation postulation that stock market capitalization will lead to increase in economic development.

Donwa and Odia (2010), also empirically analyzed the impact of Nigeria capital market on her socio-economic development from 1981 to 2008. The study adopted the Gross Domestic Product as the dependent variable and five (5) stock market variables as independent variables, Market capitalization, Total New issues volume of transitions, Total listed equities and government stock. The ordinary least squares and the multiple regression were used to analyze the data. The results shows that Total Listings (TLS) was positively signed and significant. Market capitalization and value of transactions had positive but insignificant impact on growth while Total/New issue has a negative influence.

The findings agree with Ariyo and Adelagan (2005) and Ewah et al (2009) who found that market capitalization in Nigeria has the potential for growth inducing but has not contributed meaningfully to the economic growth of Nigeria, due to low market capitalization, small market size, few listed companies low volume of transactions, low absorptive capitalization, illiquidity etc. This results supports Demergue-Kunt and Ash, (1996), and Harris (1997) who found no hard evidence and strong positive relationship between stock market development and economic growth. This is contrary to the literatures that there is positive relationship between stock market and economic growth.

Muhammad, Nadeem and Liaquat (2008) investigated whether there is a any relationship between stock market development and economic growth in Pakistan using time series data from 1971 to 2006. Two new tests were used, DF-GLS and Ng-Perron to find integrating order of the variables. JJ Co-integration and ARDL Bounds testing techniques are applied. For long run causality linkages and short run dynamics, Engle-Granger causality and ARDL tests are applied respectively. The result shows that there exist a very strong relationship between stock market development and economic growth. The tests confirm that there is bi-directional causality in the long run and unidirectional causality in the short run from stock market development to economic growth.

MODEL SPECIFICATION

The methodology adopted for this study is based on the improvement suggested by Demirgue-Kunt and Levine (1969), Levine and Zervos (1969) and Ewah et al (2009) which have investigated the linkage between stock market and economic growth. Their studies infer that economic growth (proxy by Gross Domestic Product GDP), is significantly influenced by capital market indices such as market capitalization, new issues, value of transaction and total listings.

The following are the a priori expectations of the coefficients of the model, 1, 2, 3, 4, > 0. The functional form on which the regression model is based is given as;
RESULTS AND DISCUSSION

The summary of the regression result is shown in the table 1. The coefficient of determination (R²) indicates that 23.4% of variations in economic growth are accounted for by capital market development. The F-statistic is (F = 9.969, P < 0.05). This means that there is overall significance in the model. This implies that capital market development indices included in the model significantly impacted on economic growth. The Durbin Watson (2.049) indicate that there is no autocorrelation in the model. This implies that the result from the model is robust.

From results of the coefficient, t-statistics and their significance levels, the study indicate that there are significant and positive relationship between market capitalization ratio (MACR),turnover ratio (TUOR), total value of shares traded (TVSR), total new issues (TNISS), total listed Equities and Government stock (TLEGs) and financial deepening (FDEEP) on economic growth (GDP). This implies that economic growth in Nigeria is positively affected by the activities in the capital market. This means that the period under study; 1986-201, the operations of the Nigerian capital market have had significant impact on the Nigerian economy.

DISCUSSION AND CONCLUSION

The study has shown that capital market development has significantly and positively impacted on economic growth of Nigeria. However, this result differs from the findings of Osinubi (1998). He concluded that the effect of stock market on economic growth is weak and insignificant since the relationships are statistically insignificant. Harris (1997) has a different view as well. He did not find hard evidence that stock market activity affects the level of economic growth. The findings also negates the conclusions of Ewah et al. (2009) who found out that the capital market in Nigeria has the potentials for growth inducing but has not contributed meaningfully to the economic growth of Nigeria.

RECOMMENDATIONS

Based on the findings, this study, proffer the following recommendations to enable Nigeria maintain a responsive capital market for the growth and development of the economy:

1. New listings should further be encouraged to further improve trading in the market through low cost transactions

2. Foreign Investors should equally be encouraged to participate in the market in order to improve market capitalization.

3. To restore confidence in the market, the regulatory authorities should ensure transparency, fair trading transactions
Table 1 Result of the regression of impact of capital market on economic growth. Coefficients

<table>
<thead>
<tr>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1. (constant)</td>
<td>49.796</td>
<td>26.752</td>
<td>1.861</td>
</tr>
<tr>
<td>MACR</td>
<td>830</td>
<td>1.349</td>
<td>446</td>
</tr>
<tr>
<td>TUOR</td>
<td>1.585</td>
<td>2.686</td>
<td>248</td>
</tr>
<tr>
<td>TVSR</td>
<td>514</td>
<td>11.117</td>
<td>034</td>
</tr>
<tr>
<td>TNSISS</td>
<td>5.057</td>
<td>5.192</td>
<td>493</td>
</tr>
<tr>
<td>TLEGS</td>
<td>138</td>
<td>144</td>
<td>324</td>
</tr>
<tr>
<td>FEDEEP</td>
<td>818</td>
<td>875</td>
<td>233</td>
</tr>
</tbody>
</table>

R² = 234 Durbin-Watson = 2.049 F=9.969 sig = 0.0472

and dealings in the market.

4. More investment instruments such as derivatives, convertibles, futures, swaps and options should be made available in the market in order to boost the value of transactions.

5. Retail investor educational awareness should be strengthened to help educate investors on the long term nature of investments in the capital market, and to benefit from it.

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