IMPACT OF NIGERIAN CAPITAL MARKET ON ECONOMIC GROWTH AND DEVELOPMENT

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Abstract
This study examined the impact of Nigerian capital market on economic growth and development between 1990 and 2011. Data were collected from Security Exchange Commission reports, Nigerian Stock Exchange Review Reports, Central Bank of Nigeria Statistical Bulletin respectively and ordinary least square method of regression was used with aid of STATA version 10 software packages to analyze the data. The result showed that capital market indices have impact significantly on the GDP. The study recommends among others that government should put up measures to build up investors' confidence in the capital market by fair transactions, increase investments instruments in the market, provide basic infrastructures and disabuse the mind of investors from buying and hold securities syndrome.

Key Words: Capital Market, Capital Capitalization, Gross Domestic Product, Value of Issues

INTRODUCTION

Capital market is an engine of economic growth and development globally, Nigeria inclusive. Capital market is made up of markets and institutions which facilitate the issuance and secondary trading of long-term financial instrument. The history of Nigeria Capital Market could be traced to 1946 when the British colonial administration floated a N600,000 local loan stock bearing interest at 3¼% for the financing of developmental projects under the Ten-Years Plan Local Ordinance. The loan stock, which had a maturity of 10-15 years, was oversubscribed by more than N1 million, yet local participation of the issued was terribly poor. An as result of poor local participation federal government established several economic programmes with hope to foster economic and financial development, such Structural Adjustment Programme (SAP) 1986, Vision 2010, Vision 2020, Millennium Development Goal (MDGs), National Economic Empowerment Development Strategy (NEEDS), State Economic Empowerment Development Strategy (SEEDS), and other development plans.

Recently, capital market has experienced unprecedented growth which was attributed to the banking sector reform of 2004-2005. (Nwankwo, 1991) says that capital market has helped government and corporate entities to raise long term capital for financing new projects, and expanding and modernizing industrial and commercial concerns. Pedro and Erwan (2004) assert that financial market development raises output by increasing the capital used in production and by ensuring that capital is put into best uses.

Beckaert et al (2005) analyze that capital market development would lead to financial liberalization, which will lead to a 1% increase in annual real economic growth. Studying the link between domestic stock market development and internationalization, laessens et al (2006) using a panel data technique concluded that domestic stock market development as well as stock market internationalization are positively influenced by the log of GDP per capita, the stock market liberalization, the capital account liberalization and the country growth opportunities and negatively influenced by the government deficit/GDP ratio. Ekundayo (2002) argues that a nation requires a lot of local and foreign investments to attain sustainable economic growth and development. The capital market provides a means through which this is made possible. It is on the premises that this research paper wishes to examine the impact of the Nigeria Capital Market on Economic Growth and Development from 1990 to 2011.

LITERATURE REVIEW

Capital market provides for buying and selling of long term debt or equity backed securities (Wikipedia, 2012). Capital market offers a variety of financial instruments that enable economic agents to pool, price and exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages saving in financial form. This is very essential for government and other institutions in need of long term funds (Nwanko, 1990). The capital market can affect economic development through the mobilization of long-term resources, the provision of liquidity, risk diversification, privatization, securitization or risk transfers and determination of the cost of capital for project valuation (Chiwuba and Amos, 2011) . Ariyo and Adelegan (2005) contend that, the liberalization of capital market contributes to the growth of the Nigeria capital market, yet its impact at the macro-economy is quite negligible. Osamwonyi, (2005) sees capital market as an exchange system set up to deal in long-term credit instrument of high quality. The dealing in this high quality instrument facilitates the execution of some desirable and profitable project bearing direct relationship with economic development.

Cleassens, et al (2006) cited in Flavia and Petru-ovidiu (2010) using a panel data technique concluded that domestic stock market development as well as stock market internationalization are positively influenced by the log of GDP per capita, the stock market liberalization, the capital account liberalization and the country growth opportunities and negatively influenced by the government deficit/GDP ratio.

EMPIRICAL REVIEW ON NIGERIA

Some researchers in Nigeria studied the relationship between capital market development and economic growth. For instance, Adam and Sanni (2005) cited in Kolapo and Adaramola, (2012) examine the roles of stock market on Nigeria's economic growth using Granger-causality test and regression analysis. The authors discovered a one-way causality between GDP growth and market capitalization and a two-way causality between GDP growth and market turnover. They also observe a positive and significant relationship between GDP growth turnover ratios. The authors advised that government should encourage the development of the capital market since it has a positive effect on economic growth. Chinwuba and Amos (2011) also conclude that capital market development is a key to economic growth. Afees and Kazeem (2010) critically and empirically examined the causal linkage between stock market and economic growth in Nigeria between 1970 and 2004 and the result showed that capital market development drive economic growth.

Pedro and Erwan (2004) assert that financial market development leads to economic growth and Abdullahi (2005) also agrees with the assertion that capital market development in Nigeria is an engine to her economic growth. Moreover, Agarwal (2001) argues that financial sector development facilitates capital market development, and in turn raises real growth of the economy. In the same vein, Kolapo and Adaramola, (2012) find that Nigerian capital market development has significant relationship with economic growth. Obamiro (2005) cited in Kolapo and Adaramola, (2012) investigate the role of the Nigeria stock market in the light of economic growth. The authors reported that a significant positive effect of stock market on economic growth. He suggested that government should create more enabling environment so as to increase the efficiency of the stock market to attain higher economic growth. Osinubi and Amaghionyeodiwe (2003) also examine the relationship between Nigeria stock market and economic growth during the period 1980-2000 using ordinary least squares regression (OLS). The result showed that there is a positive relationship between the stock market development and economic growth and suggest the pursuit of policies geared towards rapid development of the stock market.

However, Ewah et al; (2009) appraise the impact of the capital market efficiency on economic growth of Nigeria using time series data from 1963 to 2004. They found that the capital market in Nigeria has the potential of growth inducing but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others. Harris (1997) did not find hard evidence that stock market activity affects the level of economic growth. And also Osinubi and Amaghionyeodiwe (2003) examine the relationship between the Nigerian stock market and economic growth during the period 1980- 2000. There are findings did not support the claim that stock market development promotes economic growth.

EMPIRICAL REVIEW ON OTHER COUNTRIES

Studies of relationship between capital market development and economic growth in other countries were performed. Hondroyiannis, Lolos and Papapetrou (2005) study the case of Greece between 1986 and 1999 they found out that the relationship between economic growth and capital market development is bi-directional. Bolbol, Fatheldin, and Omran (2005) also analyze the effect of financial markets on total factor productivity and growth in Egypt between 1974 and 2002 it was discovered that capital market development had a positive influence on factor productivity and growth. Mishra, et al (2010) examine the impact of capital market efficiency on economic growth of India using the time series data on market capitalization, total market turnover and stock price index over the period spanning from the first quarter of 1991 to the first quarter of 2010. Their study reveals that there is a linkage between capital market efficiency and economic growth in India. This linkage is established through high rate of market capitalization and total market turnover. The large size of capital market as measured by greater market capitalization is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis. The increasing trend of market capitalization in India would certainly bring capital market efficiency and thereby contribute to the economic growth of the country.

Ben Naceur and Ghazouani (2007) carry out research on the influence of stock markets and bank system development on economic growth with a sample of 11 Arab countries, and it was discovered that financial development could negatively influence the economic growth in countries with underdeveloped financial systems and they stress the role of building a sound financial system. Chee et al (2003) discover that stock market development has a significant positive impact on economic growth in Malaysia and they reported that stock market development Granger-causes economic growth. In the same vein, Liu and Hsu (2006) indicate that the capital market development has a positive impact on economic growth in Taiwan, Korea and Japan. These results were supported by Muhammed et al (2008) finding that there is a long-run relationship between stock market development and economic growth.

However, Gabriel (2002) as enunciated by Nyong (2003) lay emphasis on the Romanian capital market and conclude that the market is inefficient and hence it has not contributed to economic growth in Romania and this result is in line with Flavia and Petru, (2010) finding, that capital markets hasn't reached a level of development that would enable it to fulfill its main function in the economy, the gap with the countries of Europe being still quite high.

METHODOLOGY

SOURCES OF DATA

The data for this study was obtained mainly from secondary sources particularly from Central Bank of Nigeria (CBN) statistical Bulletins, Nigerian Stock Exchange (NSE) review books, Security and Exchange Commission (SEC) market Bulletins and relevant journals.

METHOD OF DATA ANALYSIS

The procedure for analyzing the data was econometric procedure. Here the technique used were the multiple regression analysis to test whether the capital market indices have impacted on the economic growth of Nigeria proxy by Gross Domestic Product (GDP).

MODEL SPECIFICATION

Model which specifies that economic growth [proxy by Gross Domestic Product (GDP)] is significantly influenced by the capital market indices (market capitalization, new issues, value of transaction and total listing) is formulated as follows,

GDP= f (MCAP, TNI, VLT, TLS)

$LnGDP= \beta_0 + \beta_1 LnMCAP + \beta_2 LnTNI + \beta_3 LnVTS + \beta_4 LnTLS + U$

Where;

The a priori expectation is $\beta_1, \beta_2, \beta_3, \beta_4 > 0$

LnGDP= Gross Domestic Product

LnMCAP= Market Capitalization

LnTNI= Total New Issues

LnVTS= Value of transactions

LnTLS = Total Listed Equity and Government Stock

U = Disturbance Term

β = Intercept

$\beta_1 - \beta_4 =$ Coefficient of the Independent Variables.

Note: All variables are in their natural logarithm form.

REGRESSION RESULT

Table 1: Multiple Regression Analysis Table Showing Market Capital, Total Number Of Issues, Value Of Transactions, And Total Listed Equity And Government Prediction Of Gross Domestic Product (GDP).

Variable	Coefficient	Standard error	t- statistics	Probability	R^2	F	P	DW-statistics
Lg MCAP	0.508792	.0243699	2.09	<.05				
Lg TNI	.1487377	.0228772	6.50	<.05				
Lg VTS	-.0173834	.017825	-0.98	ns	0.9729	152.62	<.05	1.8830
Lg TLS	-.8390762	.3375571	-2.49	<.05				
-Cons	15.50377	1.747597	8.87	0.000				

Source: Authors' data computation

The result obtained using the Ordinary Least Square (OLS) estimation technique.

GDP = 15.50377 + 0.508792MCAP + 0.0228772TNI – 0.0173834 VTS – 0.8390762 TLS

The result in table 1 shows that the predictor variables (i.e market capitalization, total number of issues, value of transactions and total listed equity and government) were significantly joint predictors of Gross Domestic Product ($F(4, 17) = 152.62$; $R^2 = 0.9729$; $P<.05$). The predictor variables jointly explained 97% of GDP, while the remaining 3% could be due to the effect of extraneous variables.

Furthermore, it can be deduced from the result obtained that the constant parameter in the long – run is positive. This implies that if all the explanatory variables are held constant, GDP will increase by 15.50 units. And also MCAP ($\beta = 0.50$; $t = 2.09$; $P <.05$) and TNI ($\beta = 0.02$; $t = 6.50$; $P <.05$) were significant independent predictors of GDP. This implies that a unit increase in MCAP and TNI will lead to an increase in GDP by 0.50 units and 0.02 units respectively. However, VTL ($\beta = -0.017$; $t = - 0.98$; P ns) has not made any significant impact on the economic growth, while TLS ($\beta = -0.83$; $t = -2.4$ $P <.05$) has a negative relationship with GDP in the long- run.

IMPLICATION OF FINDINGS

All explanatory variables (MCAP,TNI, VTL and TLS) were significantly joint predictors of economic growth and development in Nigeria. For instance, MCAP and TNI are positively related and significant to GDP. This implies that an increase in market capitalization and stock will boost economic growth and development. The finding agrees with Oke and Adeusi, (2012), Pat and James, (2010), Ewah, etal (2009) and Ariyo and Adelegan (2005) who found that capital market had a positive impact on economic growth and development of Nigeria. But it has not contributed meaningfully to economic growth and development due to low market capitalization (MCAP), low volume of transaction, and few listed companies on the floor of Nigerian Stock Exchange.

Secondly, The negative sign of VLT and LTS indicates an inverse relationship. VLT is negatively related but not significant with GDP, while the LTS is also negatively related and significant with GDP. This finding is in line with Adetunji, (1997), cited in Chinwuba and Amos, (2011) who argues that "African markets basically lack depth and breadth with most of them trading only in traditional instruments. The level of awareness by the populace is low while not much is known about our markets by outsiders". Also, in the views of Ilaboya and Ibrahim, (2004) "The insignificant relationship reflects the fact that majority of key investors prefer to invest in other sectors of the economy other than the capital market". However, the DW-statistic of 1.883 approximately to 2 shows the absence of positive first-order serial correlation. This indicates that the model has a high explanatory and predictive power.

Lastly, this result revealed that increase in MCAP and TNI as a result of capital market reforms in Nigeria.

Conclusion

This study examined the impact of Nigerian capital market on economic growth and development. To achieve this, a model was formulated which we related stock market performance indicators to Gross Domestic Product. The result showed that market capitalization, stock issues, value of stocks and total listed of equity and government bond jointly have positive significant impact on economy's growth and development. The study conforms to the positions of Pat and James, (2010); Oke and Adewusi, (2012); Chinwuba and Amos (2011); Anyanwu, (1997); Uwubanmwen, (2001); and Osamwonyi, (2006) that capital market is a driving force for economy growth and development.

For Nigerian capital market to be an engine of economic growth and development, the following recommendations are put forward:

Recommendations

1. Government should improve dealing in the market capitalization by encouraging more foreign investors to participate in the market.
2. Government should restore confidence to the market through regulatory authorities which will portray transparency, fair trading transactions and dealing in the stock exchange.
3. There is also need to check and regulate the operators and all activities of the market through code of conduct of the market.
4. Government should improve basic infrastructures such as communication and information network. This will enhance transactions between parties of the market (issuing house, stock brokers, investors etc)
5. Government should also discourage Nigerian investors' attitude of buy and hold securities instead of trading in the capital market.
6. There is also need to increase investments instruments such as derivatives, convertibles, swap and option in the market.

Appendix 1: GDP and performance of Nigerian capital market from 1990 – 2011

Year	GDP	TNI	MC	VT	TL
1990	267660	9964.5	16358.4	265.5	295
1991	265379.1	1870	23125	136	239
1992	271365.5	3306.3	31272.6	313.5	251
1993	274833.3	2636.9	47436.1	402.3	272
1994	275450.6	2161.7	663680	569.7	276
1995	281407.4	4425.6	180305.1	1838.8	276
1996	293745.4	5858.2	281815.8	7062.7	276
1997	302022.5	10875.7	281887.2	11072.7	264
1998	310890.1	15018.	262517.3	13572.3	264
1999	312183.5	12038.5	300041.1	14027.4	268
2000	329978.7	17207.8	472290	28154.6	260
2001	356994.3	37198.8	662561.3	576372	261
2002	433203.5	61284	764975	60088	258

2003	477833	180079.9	1359274.2	120703	265
2004	527576	195418.4	2112549.6	225820.6	277
2005	561931.4	552782	2900062	262929	288
2006	595821.6	707400	5120000	470253	294
2007	634251	1935080	13294059	1076020.4	310
2008	674889	1509230	9562970	1679143.7	301
2009	716949.7	1724214	7030800	68572000	266
2010	801700	2440000	9920000	79755000	264
2011	901300	2030000	10280000	63492000	250

Source: SEC, NSE, CBN (statistical bulletin)

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