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Relationship between capital market indices and growth of Nigeria economy

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Abstract
There are elements upon which a nations' economic development are dependent. The importance of Capital Market as one of the vehicles upon which most under-developed economies could grow cannot be overemphasized. The extent to which these economies experience the said growth is quite relative to the level of awareness and management of the market. Nigeria is not left out in the desire to maximize the gains of the capital market to boost its economy. This paper empirically examines the impact of the Nigerian Capital Market on the Nigerian economy looking at 18 years period from 2000 to 2018. The Nigerian Capital Market was proxy as Market Capitalization against some variables of the economy such as Gross Domestic Product (GDP), Total New Issues, Value of Transaction and Total Listed Securities. Using the multiple regression analysis, we find that Capital Market has an insignificant impact on the Economy within the period under review. The study therefore 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.

Keywords: Capital market, GDP total new issues, value of transaction, and total listed securities

Introduction
1.1 Background to the Study
The major engine of economic growth and development of a nation is its capital. It impacts positively on the economy by providing financial resources through its intermediation process for the financing of long term projects. The projects could be promoted by government or private sector institutions. They are usually in such areas as infrastructure, agriculture, solid minerals, manufacturing, banking and other financial services and other real sector areas. Hence without an efficient capital market, the economy may be starved of the required long-term fund for sustainable growth.
Many profitable investments require a long-term commitment of capital, and investors are reluctant to relinquish control of their savings for long periods. If economic growth partly and importantly rests on capital market activities, then, capital market development should precede economic growth.
The capital market is a highly specialized and organized financial market and indeed essential agent of economic growth because of its ability to facilitate and mobilize saving and investment. To a great extent, the positive relationship between capital accumulation real economic growths has long affirmed in economic theories.
The capital market effectively started operations in Nigeria on 5th June, 1961 under the provision of the Lagos Stock Exchange Act 1961, which transformed into the Nigerian Stock Exchange in December 1977 as a result of the review of the Nigerian financial system. The Securities and Exchange Commission (SEC) was established in 1979 through the SEC Act 1979, to regulate the capital market, but it commenced actual operation in 1980. It took over regulatory functions from Capital Issues Commission, which was established in 1973. Since then, various forms of financial instruments have been issued in the capital market by new and existing business to finance product development, new projects or general business expansion. The capital market, no doubt, is pivotal to the level of growth and development of the economy.
Moreover, businesses rise and collapse so easily in the history of Nigeria for many other reasons including non-availability of long term finance. Using short term finances to pursue

long term capital projects can cripple any business and or project considering the match maturity concept that most financial institutions operate wherein they ensures that loans given and debts incurred mature at the same time. Various studies have looked at the role of Capital market in economic growth. This research is aimed at establishing that Capital Market actually impacts on the general economy of a nation. Also the impact of the capital market is determined by a number of elements, which include how financial assets are priced, such as the size of the stock market, market capitalization, number of listed equities, transactions in buying and selling of securities (liquidity) which in this case refers to the volume of transactions and new issues of securities. This study therefore poses to examine the impact of capital market performance on economic growth in Nigeria.

1.2 Statement of the problem

The Nigeria capital market which is supposed to be an avenue for sourcing long-term funds to finance long-term projects is not as developed as her foreign counterpart. It has therefore not been able to judiciously perform its primary obligation of meeting long-term capital needs of the deficit sectors, through efficient accumulation of capital or mobilization of funds from the surplus unit of the economy, and effectively channel mobilized funds for more economic use.

Institutional frameworks of the capital market to effectively carry out its core purpose of its establishment have to be put in place to ensure that the expectations of both the lenders and users of funds are adequately met to induce savings and optimal investment necessary to economic growth and development. Emenuga (1998) [12] for instance believed that the stock market is illiquid and blamed the ownership structure in the Nigeria stock market. He concluded that the stock market is small and has few listed companies, low capitalization and low volume of transactions. Ariyo and Adelegan (2005) [7] contend that the liberalization of the capital market has contributed to the growth of the market, but that it impact has not been felt at the macroeconomic level of the nation.

According to the study, the Nigerian Stock Market was unable to make significant contribution to rapid economic growth because of the existence of certain policies that distort the effectiveness of the channel through which stock market activities influence economic growth.

For the purpose of this study we seek to examine the effect of the capital market on economic growth on the Nigerian economy. Specifically, it examines the effect of the key capital market indicators like market capitalization, total new issues, values of transactions and the total listed securities.

Majority of earlier studies have either approached this issue through regression analysis or causality analysis. Both methods are employed to enhance the robustness of this study.

1.3 Research Questions

Based on the broad statement of the problem the following research questions were raised:

i. To what extent does market capitalization impact on gross domestic product?
ii. To what extend does all share index affect gross domestic product in Nigeria?
iii. To what extent does the total value of stock influence Gross Domestic Product in Nigeria?

1.4 Objectives of the study

The main objective of the study is to examine the impact of capital market performance on economic growth in Nigeria. However the specific objectives are to determine the impact of market capitalization, Total new issues, values of transaction, and Total listed securities on the Gross Domestic Product (GDP).

1.5 Hypothesis of the Study

In line with the objectives of the study the following hypotheses have been formulated in null form:

H_{01}: Capital Market has no significant impact on Nigeria's gross domestic product.

1.6 Significance of the Study

It is a noted fact that for any meaningful economic transformation of a country to take place, the capital market must be effectively active. The study will be of immense significance to regulatory authorities such as the CBN, NSE and SEC in coming up with sound financial policies and reforms that will boost the performance of the capital market.

1.7 Scope and Limitations of the Study

This empirical study employed data sourced from the Statistical Bulletin of the Central Bank of Nigeria (CBN), 2019 for the period 2000 to 2018. The data relates solely to the Nigerian economy and so are the study findings. However, the results of the study have important implications for global economies, the reason being that capital market development and gross domestic product utilized in the study constitute vital components of the final coal system.

1.8 Organization of the Study

The study is divided into five (5) sections and organized as follows:

Chapter one form the introduction part, this is where the main theme of the research is given. It comprises of the statement of the problem, objectives of the study, research questions and hypotheses, significance of the study, scope and delimitation of the study and organization of the study. Chapter two is the literature review of the impact of capital market on the economic growth of Nigeria. Chapter three forms the research methodology which includes sources of data, method of data analysis and model specification. Chapter four is the data analysis while chapter five includes the summary, conclusion and recommendations.

Review of Related Literature

2.1 Concept of Capital Market

The capital market is a market which deals in long term loans. It supplies industries with fixed and working capital and finance medium term and long term borrowings of the central, states and local governments. Thus the capital market comprises the complex of institutions and mechanisms through which medium term funds and long term funds are pooled and made available to individual business and governments.

The capital market has been identified as an institution that contributes to the socio-economic growth and development of emerging and developed economies. This is made possible through some vital roles played, such as channeling resources, promoting reforms to modernize the financial sectors, financial intermediation capacity to link deficit to surplus sector of the economy, and a veritable tool in the mobilization and allocation of savings among competitive uses which are critical to the growth and efficiency of the economy (Pat & James, 2010) [17].

According to Levine and Zervos (1998) [14] the capital market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Better savings mobilization may increase the savings rate. Capital markets also provide an avenue for growing companies to raise capital at lower cost. In addition, companies in countries with developed stock markets are less dependent on bank financing, which can reduce the risk of a credit crunch. Stock markets therefore are able to positively influence economic growth through encouraging savings amongst individuals and providing avenues for firm financing. The challenge of economic growth is the availability of long term funding, far longer than the duration for which most savers are willing to commit their funds and this constitutes a barrier to economic growth. In this regards, the capital market provides an avenue for the mobilization and utilization of long-term funds for development and hence it is referred to as the long term end of the financial system. Over the past few decades, globally there has been an upsurge in capital market activity and this suggests the growing recognition of the capital market as a tool for fast-tracking economic progress. Capital market and economic growth According to Levine and Zervos (1998) [14] the capital market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Better savings mobilization may increase the savings rate. Capital markets also provide an avenue for growing companies to raise capital at lower cost. In addition, companies in countries with developed stock markets are less dependent on bank financing, which can reduce the risk of a credit crunch. Stock markets therefore are able to positively influence economic growth through encouraging savings amongst individuals and providing avenues for firm financing. That the capital market contributes to economic growth through the specific services it perform either directly or indirectly. Notable among the functions of the stock market are mobilization of savings, creation of liquidity, risk diversification, improved dissemination and acquisition of information, and enhanced incentive for corporate control. Improving the efficiency and effectiveness of these functions, through prompt delivery of their services can augment the rate of economic growth. At any stage of a nation's development, both the government and the private sectors would require long-term capital which is provided by a well-functioning stock market.

2.2 Economic Growth

Okpara (2006) [16] opined that 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, 1996) [6]. According to Robert Solow, cited in Adebiyi (2005) [4] economic growth is a positive change in the level of production of goods and services by a country over a certain period of time. Overall, 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. This study strongly supports the belief that greater stock market liquidity boosts economic growth.

2.3 Capital Market and Economic Growth

In principle, the capital (stock) market is expected to accelerate economic growth, by providing a boost to domestic savings and increasing the quantity and the quality of investment. The market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Better savings mobilization may increase the saving rate. The capital market also provides an avenue for growing companies to raise capital at lower cost. In addition, companies in countries with developed stock market are less dependent on bank financing, which can reduce the risk of a credit crunch. The capital market therefore is able to positively influence economic growth through encouraging savings among individuals and providing avenues for firm financing. According to Filler *et al*. (1999) [13] the nature and economic significance of the relationship between capital market development and growth vary according to country's level of economic development with a larger impact in less developed economies. The proponents of positive relationships between stock market development and economic growth base their argument on the fact that the stock market aids economic growth and development through the mobilization and allocation of savings, risk diversification, liquidity creating ability and corporate governance improvement among others. Using the liquidity argument, Bencivenga *et al*. (1996) [8] reasoned that the level of economic activities is affected by the capital market through its liquidity creating ability. The logic of this reasoning is that profitable investment requires long-term capital commitment; often investors are not willing or are reluctant to trade their savings for a long gestation period. With liquid equity markets, risks associated with investment are reduced, making it more attractive to investors.

2.4 Impact of Capital Market on Economic Growth of Nigeria

The Nigeria capital market provides the necessary lubricant that keep turning the wheel of the economy. It not only provides the funds required for investment but also efficiently allocates these funds to projects of best returns to funds owners.

The market is very vital to the growth and development of any country because it support government and corporate initiative finances the exploitation of new ideas and facilitates the management of financial risk.

The capital market has impacted on economic growth and development of Nigeria through the following.

i. The capital market encouraged the inflow of foreign capital when foreign companies or investors invest in domestic securities.

ii. It reduces the over reliance of the corporate sector on short term financing for long term projects and also provides opportunities for government to finance projects aimed at providing essential amenities for socio-economic development.
iii. The capital market aid the government in privatization programme by offering her shares in the public enterprises to members of the public through the stock exchange.
iv. It has impacted positively by providing avenue for the marketing of shares and other securities in order to raise fresh fund for expansion of operations leading to increase production/output.
v. The market provides means of allocating the nation real and financial resources between various sectors, industries and companies. Through the capital formation and allocation mechanism the market efficiently distributes the scarce resources for the optimal benefit to the economy. From 1961, the Nigerian capital market has grown tremendously, particularly during the periods of the indigenization decrees of 1972 and 1977. The securities increased from 8 in 1961 to about 301 in 2010. Over the years, the Nigerian capital market has witnessed relative stability and also recorded impressive growth. This has positioned it to positively impact the economy (Abdullahi, 2005) [1].

2.5 Theoretical Framework

Harrod-Domar Growth Model

Growth depends on the quantity of labour capital and that more investment leads to capital accumulation, which generates economics growth, in economically less developed countries. Labour is in plentiful supply in these countries but physical capital is not, thereby slowing the economic growth process. This theory is an early post Keynesian economic growth. It is used in explaining an economy’s growth rate in terms of the level of saving and productivity of capital. The theory also suggests that there is no natural reason for an economy to have a balanced growth. The theory was developed independently by Roy F. Harrod in 1939, the theory was the precursor to the exogenous growth theory.

2.6 Empirical Review

Financial Markets according to Amadeo (2013) [5] is simply the markets 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. The financial market is the avenue through which funds are generated, mobilized and availed effectively and efficiently from the all-savers camps to the users of funds. These activities involve the interplay of individuals, institutions and instruments. Financial instruments owned by individuals in different institutions to provide the needed finance for the provision of essential goods and services to bring about economic growth and development. The Financial market according to Abiola and Okoduwa (2008) [2] 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. Odita and Oghoghomeh studied resource mobilization for long term economic development, an insight into the role of the Nigerian capital market. The authors modeled the effect and importance of the Nigerian capital market, as a veritable source of medium and long term development. The data collected were from the Central Bank of Nigeria statistical bulletin and the Security and Exchange Commission from the period of 2001 to 2010 The SPSS statistical tool was used to analyze the data. The economic development was proxy by gross domestic product (GDP), while the capital market variables considered included the annual market capitalization (AME) and the total. Volume of transactions (TVT). Findings revealed that there was a positive relationship between the capital market activities and gross domestic product, although the relationship was not statistically significant. The study recommended that the more fundamental issue of building investor confidence must be addressed through transparency, fair trading transactions, political stability and social security; stringent requirements for entry into the market should be relaxed and adequate publicity should be given to the activity of the capital market action.

Emeh and Chigbu examined the impact of capital market on economic growth in Nigeria. The study adopts a time-series research design relying extensively on secondary data covering 1985-2012. The study utilizes regression analysis as data analysis method incorporating multivariate co-integration and error correction to examine characteristics of time series data adopting disaggregate the capital market indices approach. Observation across studies on this subject is the heterogeneity in empirical findings over what may be termed a considerably uniform theoretical framework at least with regards to causality. The finding suggests that two exhibit positive while two exhibit inverse and statistically significant relationship with economic growth. This could stimulate dialogue on the implication for policy simulation. Recommendation is that relevant regulatory agencies should focus on enhancing efficiency and transparency of market to improve investor's confidence. Therefore the need for effective and favourable macroeconomic environment to facilitate economic growth and ensure that channels of capital market induced growth are built around effective systems; and that policy institution are active in making systemic checks and gas. However, Donwa and Odia (2010) [10] empirically analyzed the impact of the Nigeria’s capital market on her socio-economic development from the period of 1981 to 2008 and it was discover that capital market indices (market capitalization, total new issues, volume of transactions, total listed equities and government stock) have no significant impact on socio-economic growth.

Research Methodology

This research work seeks to covers the methodology adopted for the study, which includes research design, source of data, variables of the study, data analysis technique and the regression model specified to facilitate data analysis. This study also examined the effect of capital market and explanatory variables on economic growth in Nigeria for the period of 2000-2018.

3.1 Research Design

Descriptive research design has been adopted for the purposes of this study. According to Best and Kahn (1989) [9], descriptive research is the type of enquiring that deals with the collection and analysis of data for the purposes of describing and interpreting existing conditions and also to make discovery and explanation of past events. Descriptive research is utilized because it enables exploring relationships between two or more variables. Also, it is appropriate for testing the hypotheses of the study and help to answer the research questions concerning the capital market and the economy which are crucial concern of this study.

3.2 Sources of Data Collection
The data used in this study has been collected from secondary sources. The instrument utilized for the collection of secondary data is documentation. Documentary data has been collected via the Nigerian Stock Exchange bulletin (NSE), Security and Exchange Commission (SEC) bulletin and Central Bank of Nigeria (CBN) Statistical bulletin. The study utilizes the secondary source because it provides a basis for purposeful research work and also gives a direction for the research work.

3.3 Variables of the Study
The study seek investigate the relationship between market capitalization (MCAP), total new issues (TNI), values of transactions (VTRAN), total listed security (TLS) and gross domestic products (GDP) in Nigeria, using secondary data for the period 2000-2018. Gross domestic products was used as proxy for economic growth, (the dependable variables).

3.4 Data Analysis Technique
Descriptive statistics were used to show the means, frequency distribution, variances and standard deviations which were used as a form of summarizing data tabulation. In other words, it shows a summary statistics for the series. Since this study is interested in establishing relationships between variables and possible projections, the study employed multiple regression and correlation analysis test collected for the study covering the period of 2000-2018. The aim of the technique and the analysis employed was to provide robustness of in data analysis and hypothesis testing.

3.5 Model Specification
In order to be able to facilitate the analysis of the data, statistical technique of Multiple Regression analysis was used to obtain the estimates; employing.
The mathematical expression of the regression model is given as:

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

The stated above regression model is translated into a regression equation as below:

GDP = α + β1MACAP + β2TNI + β3VTRAN+β4TLS+e..............equation (1)

Where;
GDP = Gross domestic product (proxy for economic growth), the dependent variable
MCAP =Market capitalization, one of the independent variables
TNI = Total new issues, the second independent variable
VTRAN = Values of transactions, the third independent variable
TLS = Total listed securities
α = is the constant term
β1, β2, β3, β4 = are the coefficients of the independent variables, and each, as expected ≠ 0
e = is the error term of the equation
Equation 1 above can further be expressed in terms of logarithm as follows: Log GDP = α + β1LogMCAP + β2LogTNI + β3LogVALTRAN + β4TLS + e...equation (2)

Table 1: Data presentation and analysis of empirical results

Years	GDP in (millions)	MCAP	TNI	V Tran	TLS
2000	67824	472.3	172.08	28.15	508302.2
2001	73128	662.5	371.98	57.68	796164.9
2002	93983	764.9	612.84	58.90	954628.8
2003	102935	1359.3	180.10	113.80	1210033
2004	130345	2112.5	195.40	223.90	1519243
2005	169645	2900.1	552.80	254.70	1976711
2006	222791	5121	707.40	468.60	2524298
2007	262215	13294.6	1935.08	2083.42	4813489
2008	330260	9563	1509.23	2375.61	7799400
2009	297458	7030.8	700.34	684.04	8912143
2010	369062	9918.2	1428.25	787.58	7706431
2011	414095	10275.3	2079.43	634.90	7400028
2012	460952	14800.9	1119.12	734.51	7800899
2013	514965	19077.4	1739.19	547.43	9122200
2014	568496	19091.59	1489.24	832.73	8461550
2015	493841	49973.9	2035.46	911.83	9345240
2016	405442	29793.4	1635.23	784.360	1926760
2017	376361	37217.6	1246.22	685.44	8923430
2018	397270	31520.6	1943.51	893.90	9535628

The data on table 1 below shows values for gross domestic product (GDP), Market capitalization (MCAP), total new issues (TNI), values of transactions (VTRAN), and total listed securities (TLS) for the period 2000 to 2018, are sourced from 2017 and 2018 editions of' Central Bank of Nigeria Statistical Bulletin.

Table 2: Shows Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
GDP	302687.7895	161000.50042	19
MCAP	13944.7311	14103.50159	19
TNI	1139.6263	677.54003	19
VTRAN	692.7095	621.89954	19
TLS	5328240.9947	3584586.06112	19

The table above displays the descriptive statistic for the data. As observed, gross domestic product (GDP) has a means value of # 3026887.7895 for the period examined i.e from 2000 -2018 and standard deviation of # 161000.50042 respectively. It also indicates the outliers in the data. For (MCAP), the means value for the period review was # 13944.7313 while the standard deviation stood at # 14103.50159. The mean value of the Total New Issue (TNI) for the period reviewed stood at # 1189.6263 while the standard deviation value also stood at # 677.54003, furthermore, the mean value of Value of Transaction (VTRAN) for the period under review stood at # 692.7095 with a standard deviation of # 621.89954 respectively. Hence the means value for Total Listed Securities (TLS) for the period review i.e. from 2000-2018 stood at #5328240.9947, with a standard deviation of # 3584586.06112 respectively.

Table 3: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.913[a]	.833	.785	74644.50400	1.848

a. Predictors: (Constant), TLS, VTRAN, MCAP, TNI
b. Dependent Variable: GDP

Table 4.3 is a model summary of the prediction of CDP growth, where TLS, VTRAN, MCAP and TNS serves as a criterion variables or predictors. The table comes with a co-efficient of determination (R Square) of the relationship between GDP growth and the criterion variables. The R square value from the table is 0.833, which indicates that TLS, VTRAN, MCAP and TNS accounts for about 83.3% of variability (influence) in relationship between GDP growth. Since R square is close to 1.00, it can be said that the relationship between GDP growth and the criterion variables is strong. Even so the adjusted R square which has a value of 0.785 gives at least a more reliable indication of the relationship.

Table 4: ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	388575672765.249	4	97143918191.312	17.435	.000[b]
	Residual	78005227675.909	14	5571801976.851		
	Total	466580900441.158	18			

a. Dependent Variable: GDP
b. Predictors: (Constant), TLS, VTRAN, MCAP, TNI

This table 4.4 is the ANOVA test associated with the prediction of GDP given from TLS, VTRAN, MCAP and TNI. Fortunately, the F statistic of the ANOVA test is significant at 0.05 level of significance, F (4, 14) = 17.435, p=000. This means that GDP growth is linearly related to by TLS, VTRAN, MCAP, and TNI.

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	63368.088	35566.899		1.782	.097
	MCAP	1.308	1.897	.115	.690	.502
	TNI	110.914	50.490	.467	2.197	.045
	VTRAN	-41.979	38.630	-.162	-1.087	.296
	TLS	.023	.007	.517	3.129	.007

a. Dependent Variable: GDP

R-Square = 0.913
Adjusted R-Square = 0.785
Durbin Watson Stat = 1848
The table above shows that market capitalization (MCAP) is positively related to GDP. Also Total New Issues (TNI), Value of Transaction (VTRAN) and Total Listed Securities (TLS) are positively related. The R square which is the correlation of co-efficient measures how much dependent variable (GDP) that is explained by the independent variable (MCAP, TNI, VTRAN, and TLS) is 83.3%, that is, this is good fit, it shows that a total of 83.3% of GDP is explained by the explanatory variables (MCAP, TNI, VTRAN, TLS).Hence the calculated Darbin Watson (DW) value is 1.848 which is less than 2.0 indicate that there was no auto correlation between the dependent variable.
MCAP and VTRAN have no positive statistical significant relationship with GDP, this is given the fact that MCAP have 0.502 level of significance and VTRAN also have 0.296 which is less than the critical value of 0.05. While TNI and TLS have statistically positive significant relationships with Gross domestic product (GDP) this is given the fact that TNI have 0.045 and TLS level of significance also stood at 0.007 which both value are less than 0.05 critical value. This means that only TNI and TLS have positive effect on GDP. The results of the study analysis have shown that Total New Issues and Total Listed Securities are the only variables that have positive effect on the economic growth.

Conclusion
The study examine the impact of capital market development on economic growth in Nigeria.
The study adopted gross domestic product as proxy for economic growth and the dependent variables, while market capitalization (MCAP) and values of transaction (VTRAN) have no significant impact on the growth of Nigerian economy.

Recommendation
There should be an improvement in the declining market capitalization by encouraging more foreign investors to participate in the market. Finally, to boast the values of transactions in the Nigerian capital market, there is a need for availability of more investment instruments such as derivatives, convertibles features and swaps option in the market.

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