

1 INVESTIGATING THE IMPACT OF THE CAPITAL MARKET OPERATIONS 2 ON A DEVELOPING ECONOMY: THE NIGERIAN EXPERIENCE (1983 – 3 2016)

7 **Abstract**

8 *This work is undertaken to investigate the impact of the capital market operation on a*
9 *developing the economy with the Nigeria experience over the period 1983 to 2016. The*
10 *study employed the parametric test of Pearson regression to describe and analyze the*
11 *various indices of the study such as market capitalization, all share index, number of listed*
12 *securities, number of listed companies and gross domestic product (GDP). The study found*
13 *that the most significant component of the Nigerian Capital Market is the Market*
14 *Capitalization and demonstrates significant correlation with the Nigeria economy. The other*
15 *variables tested show less than 0.05 correlations implying that individually they also have*
16 *significant impact on the GDP meaning that these components have no significant effect on*
17 *Nigeria economy. Reasons for this are the relatively small size of the few companies listed*
18 *on the market while most big companies are still owned and funded by government. The*
19 *study recommends comprehensive review of capital market regulations and fresh*
20 *government policies to encourage listing of companies in order to enlarge the market size.*
21 *This study is beneficial for exposing the relatively small size of the capital market and this*
22 *tend foster their inability to contribute meaningfully to economic development during the*
23 *period.*

24 **Keywords: Capital Market; All Share Index; Economic Growth;**
25 **Nigeria; Regression Model.**

28 **1. Introduction**

29 The capital market is a common feature of every modern economy reputed, amongst other
30 things, to perform critical capital resource allocation functions aimed at promoting economic
31 development. In many advanced countries where capital markets are highly efficient, it is viewed
32 as the primary gauge for the economic performance. It is remarkable that a capital market with
33 adequate depth play an essential role in economic development since they provide the principal
34 platforms for mobilization and to access low cost funds to finance medium to long term projects
35 on infrastructure and others vital to transform economies. Such markets are characterized by high

36 investors' confidence, market integrity, efficient processes, adequate product offering, sound
37 regulatory framework, strong and transparent disclosures and accountability regime and good
38 corporate governance. Market with this attributes are classified as world class capital market
39 (Securities and Exchange Commission, 2012).

40 Nwazeaku (2006) sees the capital market as a network of specialized institutions which perform
41 long-term financial intermediation functions, culminating in the trading of medium and long-
42 term securities. He further stated that the capital market is a section of the financial system that is
43 responsible for mobilization and allocation of funds from surplus units to deficit units on a long-
44 term basis.

45 Anyanwaokoro (2008) identifies capital market as network of institutions that contributes to the
46 economic development of emerging and developed economies. This is made possible through
47 some of the vital roles they play such as channeling resources into efficient sectors of the
48 economy, promoting reforms to modernize the financial sector, financial intermediation capacity
49 to link deficit to the surplus sector of the economy and a veritable tool in the modernization and
50 allocation of savings among competitive uses which are critical to the growth and efficiency of
51 the economy (Alile1984).

52 With the introduction of financial liberalization in the developing countries, the flow of private
53 foreign capital from the developed to the developing countries has increased significantly and as
54 such inflows of foreign capital have been mainly in foreign direct investment and portfolio
55 investment (World Bank 1996, Agarwal).

56 It helps to channel capital or long term resources to firms with relatively high and increasing
57 productivity thus enhancing economic expansion and growth (Alile1997).

58 Ekundayo (2002) argues that a nation requires a lot of local and foreign investment to attain
59 sustainable economic growth and development. The capital market provides a means through
60 which this is made possible. However, the paucity of long term capital has posed the greatest
61 predicament to economic development in most African countries.

62 Osaze (2000) sees the capital market as the driver of any economy to growth and development
63 because it is essential for the long term growth and enhanced capital formation. It is crucial in the
64 mobilization of saving and channeling of such savings to profitable and self-liquidating
65 investment.

66 The Nigerian capital market provides the necessary lubricant that turns the wheel of the
67 economy. It does not just provide the funds required for investment but also efficiently allocates
68 these funds to project with the best returns to fund owners.

69 This allocation function is critical in determining the overall growth of the economy. The
70 effective functioning of the capital market impacts on liquidity, provision of information about
71 firms, risk diversification, mobilization of savings and corporate governance (Anyanwu 1998).
72 Therefore by altering the quality of these services in the stock market can alter the pace of
73 economic growth.

74 Okereke-Onyiuke (2000) posits that the cheap source of funds from the capital market remains a
75 critical element in the sustainable development of the economy. She enumerates the advantages
76 of capital market financing to include long term repayment period as funds are held for medium
77 and long term period to perpetuity, providing funds to state and local government without
78 pressures by granting them ample time to repay loans.

79 Odife (1992) stated that as far as innovational development are concerned the Nigerian capital
80 market is a landmark that cannot be forgotten easily because as far back as 1958, the foundation
81 for a capital market had been laid in Nigerian. Other supporting statutes include: the Pioneer
82 Industries Ordinance 1951, the National Provident Fund Act 1961, Income Tax Management Act
83 1961, and the Insurance, Miscellaneous Provision Act 1964 et cetera were passed thus allowing
84 the corporations to access the capital market for loans.

85 However, with the attainment of independence the capital market witnessed the enactment of
86 some draconian laws that impacted negatively on the market. This was precisely the case of the
87 Exchange Control Act of 1962 and the Nigerian Export Promotion Decree of 1989. Strictly
88 speaking, these laws rather than promote the investment climate, retarded its growth. The stock
89 market was restricted largely to local investors apart from the original investors in foreign
90 companies who were already in the market before the Indigenization Decree of 1972. Thus they
91 were repealed in 1993 and replaced with two progressive enactments namely; the Nigerian
92 Investment Promotion Commission Decree No.16 of 1995 and the Foreign Exchange
93 (Monitoring and Miscellaneous Provision) Decree No. 17 of 1995. The repeal of those two
94 repressive laws and their replacement with two progressive ones, things began to look up in the
95 Nigerian capital market. The economy became relatively accessible to the international
96 community and foreign investors freely began to participate once more in the capital market.

97 Another important landmark here was that removal of the barrier placed on foreigners'
98 investment interest in indigenous companies further opened up the economy for foreign
99 participation.

100 Another affirmative recent development was the introduction of Nigerian Stock Exchange
101 (NSE), e-business portals which enables shares to be listed on-line. This greatly improved the
102 performance of the Nigerian capital market we especially in the area of the foreign direct
103 investment. The capital market in the early 1980's expanded the range of thrift depository
104 service and has led to widespread abuse by savings and loans schemes that applied insured
105 deposits to engage in speculative real estate lending.

106 The Nigerian capital market is expected to play significant role as a source of funds for economic
107 recovery, growth and development in a market based economy is widely accepted and
108 appreciated. The market was virtually comatose between the period of independence and 1972.
109 According to Odife (1972), at this time the number of securities in the market was so limited that
110 large firms did not find avenues for profitable investment of their liquid resources. He identified
111 reasons why innovation was lacking at that time in the capital market as follows:

- 112 a. Exchange Control Act 1962: it was a restriction on capital importation and repatriation.
113 This severed the country's relationship with the rest of the world capital market system.
114 Hence the stock market was restricted to local inventors apart from the original inventors
115 in foreign companies who were already in the market before the indigenization decree of
116 (1972).
- 117 b. Securities pricing by Securities and Exchange Commission (SEC): the pricing of stock on
118 the market are left in the hands of stockbrokers and issuing houses rather than to SEC as
119 the regulatory body.
- 120 c. Regulated dealership commission: The numbers of market makers or brokerage firms are
121 too few as a result of criteria set by NSE for firms to be enlisted as dealers.
- 122 d. Interest rate regulation: A bid-offer spread of only two percent are allowed for market
123 makers and all market makers must carry inventories pending the introduction of stock
124 lending and borrowing was difficult to bear.

125 The effects of the above the retarded development of the Nigerian capital market and as such its
126 ability to contribute meaningfully to economic development has been reduced. Most of these
127 regulations have become counterproductive to the growth of the market thereby acting as a clog

128 in the wheel of progress of the market. It is on this basis that reform became a necessary *sine qua*
129 *non*. The reforms will enable various operators and institutions in the market stand to make
130 meaningful contribution to the economy of Nigerian by addressing the issues militating against
131 the continued stagnation or presumed slow growth of the capital market in its entire ramification.
132

133 **1.2 STATEMENT OF THE PROBLEM**

134 There is abundant evidence that most business lack long-term capital. The business sector has
135 depended mainly on short-term financing such as overdraft to finance even long-term capital
136 projects. Based on the matching concept, such a financing approach is extremely risky. All firms
137 need to raise an appropriate mix of short-term and long-term capital funds.
138

139 Most recent literatures on the capital market recognize the tremendous performance the market
140 has recorded in recent times. However, the vital role of the capital market in economic
141 development has not been empirically investigated thereby creating a research gap in this area.
142 Thus this study is undertaken to examine the impact of the capital market on the Nigerian
143 economy with GDP as proxy. Despite the operational and institutional framework inhibiting the
144 process of economy development in Nigeria, the bottleneck created by the dearth of finance to
145 the economy constitutes a major setback to its development and evaluation the capital market
146 become very necessary.
147

148 **1.3 OBJECTIVES OF THE STUDY:**

149 Given the role the capital market played during the privatization of public enterprises, recent
150 recapitalization in banking sector and as avenue for long-term funds to various governments and
151 corporations in Nigeria.

152 The objective is as follows:

- 153 i. To analyze the impact of the Nigerian capital market on her economic development
154 from 1983-2016. The economic development was proxy by the gross domestic
155 product (GDP) while the capital market variable considered include market
156 capitalization, total new issues, volume of transaction and total listed equities and
157 government stock.

- 158 ii. To investigate the individual contributions of the Nigerian capital market variables on
159 the economic development from 1983 -2016.
- 160 iii. To appraise the Nigerian Capital Market since the liberalization policy was
161 introduced.
- 162

163 **1.4 RESEARCH QUESTIONS:**

164 The answers to following questions will be relevant in this study:

- 165 a) By how much does the capital market influence the performance in the Nigeria economy?
166 b) To what extent do all capital market variables impact on the economy?
- 167

168 **1.5 THE STATEMENT OF HYPOTHESES:**

169 For the purpose of this study, the working hypotheses will be as follows:

170 **HYPOTHESIS 1:**

171 Ho: There is no significant relationship between variations in gross domestic production and
172 capital market operations in Nigeria.

173

174 **HYPOTHESIS 2:**

175 Ho: All the capital market variables do not make significant impact on the economic
176 development of Nigeria.

177

178 **Decision Rule:** We shall reject the null hypothesis (H_0) if the p-value is less than the alpha
179 (0.05), otherwise we will not.

180

181

182

183

184 **2. REVIEW OF LITERATURE:**

185 **2.1 THE CAPITAL MARKET IN NIGERIA:**

186 According to Nzotta (2004), the capital market is a “network of specialized financial institutions,
187 series of mechanisms, process in infrastructure that in various ways, facilitate the bringing
188 together of supplies and use of medium to long term capital for investment in social-economic

189 development project". The capital market is divided into the primary and secondary market. The
190 primary market or the new issues market provides the avenue through which the government and
191 corporate bodies raise fresh funds through the issuance of securities which is subscribed to by the
192 general public or a selected group of investor. The secondary market provides an avenue for sale
193 and purchase of existing securities. Sule and Momoh (2000) found that the secondary market
194 activities have impacted more on Nigerian per capita income by tending to grow stock market
195 earnings through wealth than the primary market.

196 According to Nzotta (1999) posits that the capital market is the market for long term funds which
197 provides a mechanism for lenders to provide a long term funds in exchange for financial assets
198 issued by borrowers or traded by holders of outstanding negotiable debit instruments.

199 Okereke-Onyuike (2000) argued that the capital market is not a single entity defined by space
200 but rather a network of financial institutions which bring together suppliers and users of capital
201 by facilitating the issuance of primary market securities and secondary trading for a long term
202 financing instruments.

203 Nwankwo (1980) posits that the capital market is established to:

- 204 a. Provide structures for borrowing and lending for long-term purpose.
- 205 b. Enable the authorities to mobilize long term capital for the economic development of
206 the country.
- 207 c. Provide foreign business with the facility to offer their shares to the public and the
208 Nigerian public an opportunity to invest and participate in the share ownership of
209 foreign business
- 210 d. Provide facilities for the quotation and readily marketability of share and stock and
211 opportunities and facilities to raise capital in the market
- 212 e. Introduce a code of conduct, check abuses and regulate the activities of operators in
213 the market.
- 214 f. Enhance, through participation and ownership, a healthy and mutually conducive
215 environment for participation and cooperation of indigenous and expatriate capital in
216 the joint effort to develop the Nigerian economic to the mutual advantage of both
217 parties.

218

219 Generally, the capital market acts as a vehicle for broadening the ownership base of companies.
220 It is a measure of confidence in the economy and provides a performance indicator of the whole
221 level of economic activities. Also, it provides corporate management with an idea of the cost of
222 capital in determining the rate of return for new Investments. The two broad categories of
223 instruments traded in the capital market are equities and bonds. Equities allow ownership right in
224 a company whereas bonds on the other hand are promissory notes issued by a company or
225 government as long term debt instruments.

226
227 The capital market is very vital to the growth, development and strength of any country because
228 it supports government and corporate initiatives, finances the exploration of new ideas and
229 facilitates the management of financial risk. The rate of economic growth has been linked to the
230 sophistication of the financial market and capital market efficient. Both markets facilitates the
231 mobilization and channeling funds into productive constituents and ensuring that the funds are
232 used for the pursuit of socioeconomic growth and development without being idle
233 (Akinbogunbe 1996, and Adebisi 2005).

234
235 From 1961, the Nigerian capital market has grown tremendously, particularly during the period
236 of Indigenization decree of 1972. The securities increased from 8 in 1961 to about 301 in 2008.
237 Over the years, the Nigerian capital market has witness relative stability and recorded impressive
238 growth which has positive impact the economy. There is clear evidence that the capital market
239 remained important source of capital for the nation economic development in the government
240 financing infrastructural projects, the recapitalization in Nigerian. Sule and Momoh (2009)
241 conclude that the recent consolidation exercise of major financial institutions and privatization
242 exercise of most public owned enterprises are key indications of government faith in the capital
243 market to drive growth in the Nigerian economy.

244
245 According to Sansui (2002), the financial market play a pivotal role in mobilizing financial
246 resources from the surplus units and channeling them to the deficit units for productive
247 investment, thereby facilitating the growth and development of an economy. The widespread
248 programme of financial liberalization and advance technology investment, particularly in the
249 fields of data processing and telecommunication have broken down barriers of nationalities and

250 facilitate massive international capital flows. These developments aided by the adoption of
251 flexible interest rates and exchange rate regimes are providing market participants with incentive
252 to develop new financial instrument and techniques in order to remain competitive. The Nigerian
253 capital market constitutes an integral part of this process.

254

255 According to Ogunbanjo (1981), capital is needed in the productive process to increase
256 productivity and also the tempo of industrialization in the economy. Thus, this generates interest
257 in the capital marker as an important segment of the financial market that sustains real
258 development in the economy.

259

260 Nwazeaku N.C (2008) posits that the capital markets are the market for intermediate or long term
261 debt and corporate stocks and securities. The Nigerian stock exchange where the stocks of major
262 Nigerian firms are traded is a primary example of capital market. He wants further to say that the
263 capital market is a section of financial system that is a long term basis. This there fund providers,
264 fund users, intermediaries and regulatory agencies.

265

266 **2.2 STRUCTURE AND GROWTH OF THE NIGERIAN CAPITAL MARKET**

267 There are two markets within the Nigerian capital market which can be broadly classified into:

- 268 a. The primary market
- 269 b. The secondary market

270 **Primary market:** this is a market where new securities traded in this market includes offer for
271 subscription, right issues, offer for sales and private placement. The right issues and open offers
272 is basically a situation where the company invites its existing shareholders to subscribe further
273 capital required. Secondly, by placing or selective marketing, which result when a company
274 agrees to allot the whole issue of the securities at an agreed price to intermediary merchant banks
275 of corporate finance subsidiary of a commercial bank. Thirdly by public offers which is an
276 invitation made to the public generally to subscribe for or purchase securities of a company.

277 Nzotta (1999) explained that the primary market or new issue market as it is often called
278 provides structures of the placement of new issues of securities in the market. Participants in the
279 primary market include government, corporate concerns, issuing houses, investment advisers,
280 marketing agents, registrars, underwriters, reporting accountants and the Nigerian Securities and

281 Exchange Commission which is a regulatory body. The government and corporate concerns are
282 in the markets to raise funds for their developmental needs while the general public is the major
283 investors. The issuing houses as the financial intermediaries facilitate the fund raising activities.
284 The investments advisers are brokers who engage in the business of advising others directly or
285 through publication of writing, as to the value of securities or as to the advisability of investing
286 in purchasing or selling securities. The underwriters engage in risk reduction of undertaking to
287 take up the unsubscribed portion of the issue while the registrars are the official keeper of the
288 records of a quoted company with regards to:

- 289 • Particulars of shareholders
- 290 • Payment of dividends
- 291 • Transfer of shares
- 292 • Registration of legal documents

293 Finally the Securities and Exchange Commission regulation the pricing timing and issue of new
294 securities in the market

295 **Secondary market:** this is the market in which registered companies and operator trade
296 securities previously issued on the primary markets. It is a market where invested capital in form
297 of debentures and shares are bought and sold. It is therefore a market for old securities and not
298 primary a source of new supply to the capital market basically, the secondary market provides
299 the avenue for investors to liquidate their investment or adjust their portfolio whenever they
300 desire.

301 Nzotta (1999), the secondary market is a formal market for trading in stocks and shares, bonds
302 or debentures and other long term securities. The market is generally referred to as the stock
303 market and provides the fulcrum for the market. The market essentially measures changes in
304 general economic activities through a stock market index. Examples of secondary market are:

- 305 • The Stock Exchange Nigerian Stock Exchange
- 306 • National Association of Securities Dealers (NASD) still on its formation stage
- 307 • Over the counter (OTC) market it is on this market that securities of public companies
308 not quoted on the exchange are marketed.

309
310 Elumelu (2005) opined that the opportunities which the secondary market offers for
311 subsequent trading in issued stocks is a major factor to capital mobilization and that the

312 marketability of the issue stocks help to annihilate any inhibition that an inventor might have
313 a parting with his excess funds secondary market transaction are carried out by licensed stock
314 brokers on the seven trading floors of the Nigerian stocks exchange located in Lagos, Kaduna,
315 Kano, Onitsha, Ibadan, Port Harcourt and Abuja. Stockbrokers buy and sell shares on behalf
316 of their clients individuals and dealing members who are stock broking firms incorporated
317 in the Nigerian stock exchange as a company limited by guarantee in 1960 the Nigerian
318 stocks exchange commenced operation in 1961 with 13 listed securities.

319 According to Tanko (2004) government patronage legislation and policy have influenced the
320 growth of the Nigerian capital market in the 1960s and 1990s, government raised funds from
321 the market usually by floating stocks also government enacted legislation such as tax
322 management act of 1961 required both the person and provident funds to invest a substantial
323 proportion of their funds in government stock. The trustee investment act of 1962 and the
324 insurance (miscellaneous) provision act of 1964 require trustees to invest in government
325 stock and quoted industrial security and insurers to invest a stipulated percentage of their
326 risk premium in government securities.

327 According to Asalu (1996) seven securities of British companies operating in Nigeria whose
328 shares were already quoted on the London stock exchange to a large extent, influenced
329 activities at the capital Lagos stock exchange later metamorphosed into the Nigerian
330 stock exchange following the Okigbo Financial System Review Committee Report of 1976.
331 The committee recommended the establishment of two independent stock exchanges in
332 addition to the Lagos stock exchange. The Nigerian stock exchange operated as the only stock
333 exchange in Nigeria until 1988 when the government approved the establishment of Abuja
334 stock exchange as an independent stock exchange.

335 Nwankwo (1980) summarized some functions of the Nigerian stock exchange as follows:

- 336 i. To provide a central meeting place for members to buy and sell existing stock and
337 share.
- 338 ii. To provide opportunities for raising fresh capital
- 339 iii. To provide machinery for mobilizing private and public savings
- 340 iv. By facilitating the purchase and sales of securities
- 341 v. To facilitate dealings in government securities.

342 vi. To act as a channel for implementers the indigenization decree by providing facilities
343 for foreign business.

344 Nzotta (1999) argued that the Nigerian capital market has been remarkable and has recorded
345 significant growth in the following indicator:

346 a) Capital market capitalization – this is the most widely used indicator in accessing the
347 size of the capital market to an economy. In a bearish market the market capitalization
348 falls and vice versa for a bullish market. Before 1988 the total market capitalization
349 was less than N10 billion from 1988 to 1994, N65.5 trillion and N1587.00 trillion in
350 2006. The market capitalization recorded the highest value of N9560.04 trillion in
351 2007. But this fell to N6957.02 trillion in 2008 due to the global financial meltdown.
352 The observed growth was driven by factors such as new listing, bonus issues and
353 increased in company stock price during the period.

354 b) The number of listed securities in Nigerian capital market increased from 8 in 1961 to
355 178 in 1983 and 217 in 1990, 288 in 2005 and 301 in 2008 but declined to 250 in 2011
356 and recently to 247 in 2016. It would be observed that the total listed securities are still
357 low despite over 50 years of the existence of the Nigerian stock exchange.

358 Jerome (2003) asserts that the Nigerian economy has benefited from the capital market in several
359 ways and could be said to be the most influencing factor on listing in recent times.

360 Agarwal (1996) stated that the development of the capital market have altered the financing
361 behaviour of the corporate sector changing their dependence from the bank dominated loans to
362 capital market based equity capital. Below are regulatory bodies of Nigerian Capital Market:

- 363 a. Federal Ministry of Finance;
364 b. Central Bank of Nigerian;
365 c. Securities and Exchange Commission; and
366 d. Nigerian Stock Exchange.

367

368 **2.3 EMPIRICAL REVIEW OF CAPITAL MARKET AND ECONOMIC** 369 **DEVELOPMENT IN NIGERIA:**

370 Capital is one of the factors of production which plays very important role in industrial
371 development. A country industrialization objective and economic development cannot be

372 achieved availability of adequate financial resources. Nzotta (2004) posit that capital is needed in
373 productive process to embrace productivity and to increase the tempo of industrialization.

374 Okereke-Onyuike (1986) stressed that the growing importance of the capital market as a means
375 of capital mobilization by arguing that the event of recent years principally represented by the
376 worldwide recession and the unending schemes of debt restructuring and rescheduling have
377 altogether highlighted the disadvantages and dependence of foreign capital flow and have
378 reinforced the importance of developing a strong base of domestic long term savings especially
379 in developing economies of African, Asia, and Latin American. The capital market in each of
380 these countries forms the corner stone of the savings mobilization process.

381 Alile (1993) acknowledge that for many less developed countries (LDCS) running programmes
382 of self-reliance, the development of local raw material and production of agriculture and
383 industrial goods frequently requires huge investment outlays of varying size and timing. He also
384 pointed out that the paucity of long term capital for economic development and growth has been
385 the bane of many African countries including Nigerian and to move away from this depressed
386 state, funds must be affectively mobilized to harness material and management resources for
387 optimal output in the productive sector.

388 Levine (1996) argued that well developed stock market may be able to offer financial services of
389 different kinds than what the banking system may offer. Their establishment therefore provides a
390 wind of impetus to investment and growth than development of just the banking system. They
391 further demonstrate that after various economic and political factors, the measure of banking and
392 stock markets development indicators robustly correlated with current and future rates of
393 economic growth and efficiency through increase liquidity and lower risk.

394 Singh (1997) argues that pressures may emanate from transactions induced by the euphoria
395 created by financial liberalization and an undesirable implication of economic pressures may
396 exert an upward pressure on interest rate and reduce the total volume of real sectors investment
397 and growth. If the primary role of the capital market is the mobilization and allocation of a
398 nation's limited capital market resources among numerous competing alternative uses, then it
399 must be accepted that this allocation function can often be critical in determining the overall
400 growth of the economy.

401 Shaw (1997) recognized the allocation function of financial institution most of which
402 participants in capital activities when they wrote that the development process requires an

403 efficient allocation of available domestic resource. An efficient allocation of available domestic
404 resources can be mobilized and directed from less essential uses, to more productive investment
405 is offered by financial institution.

406 SEC (1987) emphasized the role of the capital market under the Structural Adjustment
407 Programme (SAP) as that of providing the most crucial support to the government especially with
408 its privatization programme aimed at the transformation of the affected companies to public
409 limited liability companies with quotations on the Nigerian stock exchange. It also noted in
410 consonance with the egalitarian philosophy enshrined in the Federal constitution that the capital
411 market through the allotment committee of securities and exchange of commission ensure a wide
412 spread of share ownership thereby enhancing the opportunity for the Nigerian populace,
413 regardless of their levels of income to invest their savings in a wide range of financial
414 instruments with attendant risk and rewards.

415 Hassan (2000) explained that stock market tend to be very efficient in the allocation of capital to
416 the highest value users. These market also help increasing savings and investment which are
417 essential for economic development an equity market by allowing diversification across a variety
418 of assets, helps reduce the risk the inventors must bear thus reducing the cost of capital which in
419 turn spurs investment and economic growth.

420 Onyuike (1986) economic growth and capital market development to hand in glove and the
421 growth phenomena on the two associated areas are not mutually exclusive at any stage in the
422 development process. The reformed of the Nigerian capital market have generated some interest
423 especially in view of the limited level of efficiency of the market in the intermediation process
424 and in resource mobilization generally.

425 According to Alile (1993) the tremendous imputes which the capital market introduced to the
426 capital formation and investment processes of an economy could be summarized as:

- 427 i. It can act as a reliable medium for broadening the ownership base from the erstwhile
428 family dominated firms.
- 429 ii. An efficient mechanism for the allocation of savings among competing productive
430 investment project.
- 431 iii. A leading indicator of economic activity in the aggregate economy and a measure of
432 confidence.
- 433 iv. Machinery for mobilizing long term financial resources for industrial development.

- 434 v. The necessary liquidity mechanism for investors through a formal market for debt and
- 435 equity shares.
- 436 vi. It provides an idea of the current cost of capital and this can be important in determining
- 437 the level an rate of investment through its pricing mechanism.

438 **3.0 Methodology**

439 **3.1 RESEARCH DESIGN:**

440 The design is a desk research approach to collect data through the documentary method which
 441 involves several issues of corporate report from both government and non-governmental
 442 agencies.

443 **3.2 NATURE AND SOURCES OF DATA:**

- 444 a) The Central Bank Of Nigerian (CBN);
- 445 b) Nigerian Stock Exchange (NSE) fact books the research design adopted two
- 446 approach; and
- 447 c) The descriptive desk research while applying e-view statistical tool for evaluation.

448 **3.3 MODEL DEFINITION**

449 The research adopted the following regression model for the analysis

450
$$Y = b_0 + b_1x_1 + b_2x_2 + \dots + b_nx_n + e_1$$

451
$$R^2 = b_1 \sum x_1 y + b_0 \sum x_2 y$$

452 Where $b_0, b_1 =$ represent the parameters to be estimated

453 $Y =$ is the dependent variable

454 $X_1, x_2, x_3, \dots, x_n =$ are the independent variables

455 $e_1 =$ is the error term

456

457 The multiple regression models used as follows;

458
$$Y = b_0 + b_1x_1 + b_2x_2 + \dots + b_nx_n + e_1$$

459

460 The equation for the computations of these estimate are as follows:

461
$$B_1 = \frac{\sum x_1 y \sum x_2^2 - \sum x_2 y \sum x_1 x_2}{\sum x_1^2 \sum x_2^2 - (\sum x_1 x_2)^2} \dots \dots \dots (1)$$

462

463
$$B_2 = \frac{\sum x_2 y \sum x_1^2 - \sum x_1 y \sum x_1 x_2}{\sum x_1^2 \sum x_2^2 - (\sum x_1 x_2)^2} \dots \dots \dots (2)$$

464

465
$$B_0 = y - (b_1x_1 + b_2x_2) \dots \dots \dots (3)$$

466

467 Where x_1, x_2 and y are deviation such that

468 $y = y - \bar{y},$

469 $x_1 = x_1 - \bar{x}_1, \text{ and}$

470 $x_2 = x_2 - \bar{x}_2, \text{ etc.}$

471

473 3.4 METHOD OF DATA ANALYSIS

474 The data obtained from the various sources were further analyzed using the following:

- 475 a. Percentage and ratios to describe and interpret various of the variable of the study such as
476 market capitalization and gross domestic product (GDP). Equally to determine the
477 contribution of the Nigerian capital market to the gross domestic product (GDP), simple
478 ratio/percentage were used to show the ratio of the market capitalization to the gross
479 domestic product (GDP).
- 480 b. Test of significance and measure of association the parametric test analysis is done on the
481 e-view platform. In order to test the hypothesis, multiple regression analysis was
482 employed because we want to examine the significance of the relationship between a
483 given dependent variable and two or more independent variables in a regression function.
484 The calculated p-value was obtained and compared with the tabulated alpha-value (0.05)
485 and used to the explain power of significance in their relationship.

486

487

488 4.0 Results

489 The data used is compiled from various issues of the Central Bank of Nigerian Annual
490 Statement of Account, Nigerian Stock Exchange Fact Book and Federal Bureau of Statistics
491 Bulletin.

492

493 The data covered thirty-six years period from 1983 -2016 as depicted in table 1.

494 Data for these years (1983 -2016):

495 X_1 – all share indexes;

496 X_2 – market capitalization;

497 X_3 – numbers of listed securities;

498 X_4 – numbers of listed companies; and

499 Y – gross domestic product (GDP).

500

501 **TABLE: 1 RELEVANT NIGERIAN ECONOMIC VARIABLES FOR THE STUDY**
502 **FROM 1981-2016**

| YEAR | GDP at Basic prices (billions) Y | All share index (millions) X_1 | Market capitalization (billion) X_2 | Number of listed securities X_3 | Number of listed companies X_4 |
|------|----------------------------------|----------------------------------|---------------------------------------|-----------------------------------|----------------------------------|
| 1983 | 163.00 | 102.20 | 4200.00 | 178.00 | 92.00 |
| 1984 | 170.38 | 105.50 | 5500.00 | 175.00 | 92.00 |
| 1985 | 192.27 | 128.40 | 6400.00 | 181.00 | 96.00 |
| 1986 | 202.44 | 163.80 | 7700.00 | 186.00 | 99.00 |
| 1987 | 249.44 | 190.00 | 8900.00 | 185.00 | 100.00 |
| 1988 | 320.33 | 233.60 | 9700.00 | 188.00 | 102.00 |
| 1989 | 419.20 | 325.30 | 12000.00 | 198.00 | 111.00 |
| 1990 | 499.68 | 513.80 | 15900.00 | 217.00 | 131.00 |

| | | | | | |
|------|-----------|----------|-------------|--------|--------|
| 1991 | 596.04 | 784.00 | 22600.00 | 239.00 | 142.00 |
| 1992 | 909.80 | 1107.60 | 32500.00 | 251.00 | 153.00 |
| 1993 | 1259.07 | 1548.80 | 46900.00 | 272.00 | 174.00 |
| 1994 | 1762.81 | 2205.00 | 65500.00 | 286.00 | 177.00 |
| 1995 | 2895.20 | 5092.15 | 171100.00 | 276.00 | 181.00 |
| 1996 | 3779.13 | 6992.10 | 285600.00 | 276.00 | 183.00 |
| 1997 | 4111.64 | 6440.51 | 292000.00 | 264.00 | 182.00 |
| 1998 | 4588.99 | 5672.76 | 263000.00 | 264.00 | 186.00 |
| 1999 | 5307.36 | 5266.45 | 299900.00 | 269.00 | 196.00 |
| 2000 | 6897.48 | 8111.01 | 478600.00 | 260.00 | 195.00 |
| 2001 | 8134.14 | 10963.00 | 662600.00 | 261.00 | 194.00 |
| 2002 | 11332.25 | 12137.72 | 763900.00 | 258.00 | 195.00 |
| 2003 | 13301.56 | 20128.94 | 1356000.00 | 265.00 | 200.00 |
| 2004 | 17321.30 | 24254.09 | 1287300.00 | 277.00 | 207.00 |
| 2005 | 22269.98 | 26357.40 | 1426100.00 | 288.00 | 214.00 |
| 2006 | 28662.47 | 29355.81 | 1587000.00 | 294.00 | 201.00 |
| 2007 | 32995.38 | 57990.22 | 9560000.00 | 310.00 | 212.00 |
| 2008 | 39157.88 | 31450.78 | 6957000.00 | 301.00 | 213.00 |
| 2009 | 44285.56 | 23091.55 | 7030800.00 | 265.00 | 200.00 |
| 2010 | 54612.26 | 24770.52 | 9918820.00 | 264.00 | 201.00 |
| 2011 | 62980.40 | 26632.14 | 10275308.00 | 250.00 | 183.00 |
| 2012 | 71713.94 | 29853.02 | 14800090.00 | 246.00 | 181.00 |
| 2013 | 80092.56 | 41329.19 | 19078000.00 | 255.00 | 190.00 |
| 2014 | 89043.62 | 34657.15 | 16875000.00 | 253.00 | 189.00 |
| 2015 | 94144.96 | 28642.25 | 17003000.00 | 257.00 | 190.00 |
| 2016 | 101489.49 | 26874.62 | 16186000.00 | 247.00 | 170.00 |

503 Source: Central Bank of Nigerian (CBN), NSE Statistical Bulletin and Securities and Exchange
504 Commission (SEC) Various Issues.

505 **4.2 TEST OF HYPOTHESES:**

506 **HYPOTHESIS 1:**

507 H_0 : There is no significant relationship between gross domestic product (GDP) and capital
508 market.

509 H_1 : There is a significant relationship between gross domestic product (GDP) and capital
510 market.

511

512 **Decision Rule:**

513 We shall reject the null hypothesis (H_0) if the p-value is less than the alpha
514 (0.05), otherwise we will not.

515 **Table 2: Multiple Regression Output**

| Variable | Coefficient | Std. Error | t-Statistic | P-value |
|--------------------|-------------|-----------------------|-------------|---------|
| C | 4324.814 | 12995.14 | 0.332802 | 0.7417 |
| X ₁ | -0.134545 | 0.174733 | -0.770008 | 0.4475 |
| X ₂ | 0.004916 | 0.000362 | 13.59554 | 0.0000 |
| X ₃ | -134.1552 | 112.8722 | -1.188558 | 0.2443 |
| X ₄ | 207.1159 | 109.4861 | 1.891708 | 0.0686 |
| R-squared | 0.955170 | Mean dependent var | 23701.82 | |
| Adjusted R-squared | 0.948987 | S.D. dependent var | 31725.02 | |
| S.E. of regression | 7165.449 | Akaike info criterion | 20.72698 | |
| Sum squared resid | 1.49E+09 | Schwarz criterion | 20.95145 | |
| Log likelihood | -347.3587 | Hannan-Quinn criter. | 20.80353 | |
| F-statistic | 154.4727 | Durbin-Watson stat | 1.538243 | |
| P-Value | 0.000 | | | |

516

517 **Regression Model** $Y = 4324.814 - 0.134545X_1 + 0.004916X_2 - 134.1552X_3 + 207.1159X_4$

518 Where: Y = GDP
519 X₁ = All Share Index
520 X₂ = Market Capitalization
521 X₃ = Number of listed Securities
522 X₄ = Number of listed Companies

523

524 **Decision:** Since the p-value (0.000) is less than the alpha (0.05), we reject the null hypothesis
525 (H₀) and conclude that there is a significant relationship between gross domestic product (GDP)
526 and capital market.

527 **HYPOTHESIS 2:**

528 H₀: Not all the capital market variables made significant impact on the economic
529 development of Nigeria.

530 H₁: All the capital market variables made significant impact on the economic development of
531 Nigeria.

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Decision Rule:

We shall reject the null hypothesis (H_0) if the p-value is less than the alpha (0.05), otherwise we will accept.

Decision: From Table 2, the p-values of the variables show that only X_2 (Market Capitalization) with a p-value (0.000) less than alpha (0.05), made significant contribution to the economic development of Nigeria. The other variables had p-values above alpha, therefore their impact (contributions) were not significant. This generally means that we will not reject the null hypothesis; therefore we conclude that not all the capital market variables made significant impact on the economic development of Nigeria

4.4 RESULT DISSCUSION RESULT:

In order to present and discuss the finding of the research, it will be important to note that the following deductions could be made:

- a. The analyses were run using E-View version 10. E-View is Statistical and Econometrics software for advanced data analysis and visualization.
- b. Using the package to rank the most significant component of the capital market, it can be seen that x_2 - that is, the market capitalization ranked first and demonstrates effective correlation with Nigerian GDP 1983 to 2016.
- c. Considering the table, it is also seen that the p-value of x_1, x_3 and x_4 are greater than 0.05, while that of x_2 is less than 0.05. Thus, implying that only market capitalization (x_2) has significant impact on GDP while other variables individually, do not have significant impact. This literarily means that each of the components of Nigeria Capital Market has significant effect on the Nigerian economy.

Thus, one can conclude the following the liberalization:

- i. The components x_1, x_2, x_3 and x_4 have combined effect on Y.
- ii. But only X_2 have impact on Y1 from 1983 to 2016
- iii. Nigerian economic growth depended on Capital Market operations and model fitted can be used for prediction and decision making since $R^2=95.5\%$

5.0 SUMMARY AND RECOMMENDATION:

5.1 SUMMARY OF FINDINGS:

The capital market has generated some interest especially in the view of the limited level of efficiency of the market in the intermediation process and in resource mobilization generally. The major reason for the regulations of any capital markets has always been the attempt to avoid stock market crash. As interest rates got liberalized and bank lending rate rose, many companies went to the capital market to raise funds. This created awareness about the importance of proper matching of the term of funds by their activities.

573 Following the Federal Government liberalization policy in 1995, the capital market was
574 internationalized with the abrogation to laws that constrained foreign participation in the
575 Nigerian capital market. Consequent upon the abrogation to the exchange control act of 1962 and
576 the Nigerian enterprises promotion decree of 1988, foreigners now participate in the Nigerian
577 capital market both as operators and investors. At the end of 2003, the numbers of listed
578 securities stood at 265.

579 Nigerian is undergoing several economic problems and indications shows that future at least on
580 the short run might not be too encouraging and this has led to various economic reforms to save
581 the situation. Prominent among these reforms has seen the deregulation of the capital market
582 according to the word bank GDP in sub-Saharan African has need down in the recent past and
583 while African government have given prominence to general economic reforms adequate focus
584 does not seem to have a given to capital market development.

585
586 However, in the course of the research I discovered from the data analysis that the relationships
587 between economic growth (GDP), market capitalization is significant.

588
589 **5.2 CONCLUSION:**

590 Nzotta (2004) agree that the deregulation and internationalization of the stock market have
591 greatly exposed it to participation by foreign investors. Moreover, the capital has become
592 necessary with increased demands for long term funds by investors due principally to the high
593 cost of funds at the money market and also the high level of distress afflicting financial
594 institutions (Banks) that provide investment funds at the money market.

595
596 The steady implementation of the privatization programmed for all outstanding public utilities
597 total liberalization of the economy, implementation of the anti-corruption crusade all represent
598 critical success factors that need proper attention in preparing the ground for globalization of the
599 Nigerian capital market in the immediate future.

600
601 The Securities and Exchange Commission on its part should continue to consult with and
602 encourage constructive inputs from markets operators and other participants in order to foster an
603 active, efficient and globally competitive capital market which would steer the industrialization
604 of the Nigerian economy in the 21st century

605
606 **5.3 RECOMMENDATION:**

- 607 The following are the recommendations:
- 608 1. **Review of cost of borrowing from the market:** There is need to encourage more
609 enterprises to come into the market so as to expand and deepen the market. This can be
610 achieved through the review of the cost of borrowing from the market. The high cost of
611 raising funds on the market has been recognized as on to the factors militating against the
612 growth of the Nigerian capital market
 - 613 2. **Appropriate saving/ investments inducing measures:** There is need to pursue
614 economic and financial policy reforms that encourage in the capital market. In this
615 respects, monetary policies should be designed in such a way that savings are encouraged
616 for investment.
 - 617 3. **Tax incentives and listing requirements:** Furthermore, small scale enterprises need to
618 be encouraged through various tax incentives and listing requirements to come to the

- 619 market such policy has been used in Brazil and some south East Asian countries .Though
620 government has repealed all laws restricting free flow of foreign investment into the
621 countries, there further need to ensure all infrastructures in the country are revamped so
622 as to provide the necessary basic support for the new enterprises.
- 623 4. **Enlightenment on need to patronize the capital market:** the problem of illiquidity
624 needs to be addressed to public enlightenment to the general public on the need to
625 patronize the capital market and also to discourage Nigerian investors from buy and hold
626 attitude.
 - 627 5. **Increased internationalization of the capital market:** given the low depth in of the
628 market, there is need for various polices denominated securities on the stock exchange in
629 Nigerian.
 - 630 6. **Economic stability and liberalism:** there is the need for the government to be up and
631 doing in policy implementations in order that so many promise make so far to investors
632 will materialize. Government should still effectively loosen its grip in the vital sectors
633 like petrochemical, power and energy and solid mineral sectors.
 - 634 7. **Political stability:** the stability of any economy is intricately connected to the stability of
635 it political environment since frequent political upheavals and changes could in turn
636 disrupt economic activities.
 - 637 8. **Formation of underwriters syndicate:** lack of effective under –writing has remained
638 one of the problems of the Nigerian stock market. There is need to re-examined this
639 problem and form an under writing syndicate.
 - 640 9. **Cooperation between SEC and the stock exchange:** the issue of cooperation and
641 understanding between SEC and the stock exchange should also be looked into so as
642 not bring class but efficiency, and effectiveness in the capital market.
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