The Impact of Capital Market on Economic Growth in Nigeria

Edame, Greg Ekpung & Okoro, Uchenna.
Department of Economics, University of Calabar, PMB.1115, Calabar, Nigeria.
Email:gemedame@yahoo.com

Abstract.
The Nigerian capital market has witnessed obvious transformation over the years, evident by the increased level of participation of the private and public investors at the floor of the stock exchange and in various public offers of quoted companies. The emerging market has also attracted and embraced the attention and the interest of international investors, thus increasing capital inflow. The overall market capitalisation had risen from 1,698.1 million naira in 1980 to 7030.8 billion naira in 2009, thus signifying an increase within the period. Transaction at the floor of NSE has risen to a total of 685716.2 million naira in 2009 from a previous value of 16.6m recorded in 1970. From the result obtained, capital market has positive and significant impact on economic growth in Nigeria. The capital market variables captured in the model such as market capitalization, number of deals and value of transactions were all positive and significant in promoting economic growth in Nigeria. It is important that the government should implement policies that will make the market more efficient and re-position it for growth within the Nigerian economy.
Keywords: Capital Market, Economic Growth, Stock Exchange, Market Capitalisation.

Introduction
1.1   Background to the Study
The importance of the capital market as an efficient channel of financial intermediation has been well recognized by the researchers, academicians, and policy makers as a primary determinant of the economic growth of a country, both developed and developing. Economic growth in a modern economy hinges on an efficient financial sector that pools domestic savings and mobilizes foreign capital for productive investments. Underdeveloped or poorly functioning capital markets typically are illiquid and expensive which deters foreign investors. Furthermore, illiquid and high transactions costs also hinder the capital raising efforts of lager domestic enterprises and may push them to foreign markets (Mishra, et al., 2010).

Theoretical literature on financial development and growth identifies three fundamental channels through which capital markets and economic growth may be linked (Pagano, 1993). First, capital market development increases the proportion of savings that is funnelled to investments. Second, capital market development may change the savings rate and hence, affect investments. Third, capital market development increases the efficiency of capital allocation.

According to Riman, et al., (2008), the Nigerian capital market has witnessed obvious transformation over the years, evident by the increased level of participation of the private and public investors at the floor of the stock exchange and in various public offers of quoted companies. The emerging market has also attracted and embraced the attention and the interest of international investors, thus increasing capital inflow. For example, the overall market capitalisation had risen from 1,698.1 million naira in 1980 to 7030.8 billion naira in 2009, thus signifying an increase within the period. Transaction at the floor of NSE has risen to a total of 685716.2 million naira in 2009 from a previous value of 16.6m recorded in 1970. The number of deals from all market participants at the floor which recorded a mere 634 deals in 1970 had also witnessed a remarkable increase to 1739365 million naira in 2009. The total number of listed companies had also increased from 91 as was listed in 1980 to 213 listed in 2008 (CBN, 2009).

Following from this therefore, efficiently functioning capital market affects liquidity, acquisition of information about firms, risk diversification, savings mobilization and corporate control (Anyanwu, 1998). Hence, by altering the quality of these services, the functioning of stock markets can alter the rate of economic growth (Equakun, 2005).It is with this backdrop that this research study is undertaken to examine the impact of capital market on economic growth in Nigeria.

2. Conceptual Issues
According to Al-Faki (2006), the capital market is a network of specialized financial institutions, series of mechanisms, processes and infrastructure that, in various ways, facilitate the bringing together of suppliers and users of medium to long term capital for investment in socio-economic developmental projects". The capital market is divided into the primary and the secondary market. The primary market or the new issues market provides the avenue through which government and corporate bodies raise fresh funds through the issuance of securities which is subscribed to by the general public or a selected group of investors. According to Soyede (2005: 8) Primary market is a market for new securities. It is a platform where the company or government can raise money for investment or where already quoted companies can raise fresh funds for expansion. Both the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) are involved in primary

market activities.

The secondary market provides an avenue for sale and purchase of existing securities. According to Pandey (2006), it is a type of market where existing securities of a market are traded on daily and continuous basis. It is the market for existing securities. This consists of exchanges and over-the counter markets where securities are bought and sold after their issuance in the primary market.

According to Oba (1999) money market is a forum where short term capital is sourced. Therefore the corporate body that requires such fund creates instruments with which to source such funds. The life span of such funds usually ranges from few hours to about twenty-four months or two years. According to Olowe (1997), money market is the market where money is invested for periods of up to one year maturity. The instrument or securities traded in the market are called money market instruments. Thus money market is the market for trading in short –term financial instruments with maturities less than one year. The major participants in the money markets include individuals, companies, banks, discount houses and governments. Dennis (1984) stated that money market is the market for financial claims of less than one year to perhaps five years or less for maturity. According to him, money market is thus essentially a framework for trading short-term financial instruments.

Osaze (2000) sees the capital market as the driver of any economy to growth and development because it is essential for the long-term growth capital formation. It is crucial in the mobilization of savings and channelling of such savings to profitable self-liquidating investment.
Capital market is defined as the market where medium to long-term finance can be raised (Akingbohungbe, 1996). In another exposition, Ekezie (2002) noted that capital market is the market for dealings (i.e. lending and borrowing) in longer-term loanable funds. Mbat (2001) described it as a forum through which long-term funds are made available by the surplus to the deficit economic units.Nyong (1997) viewed the stock market as a complex institution imbued with inherent mechanism through which long-term funds of the major sectors of the economy comprising households, firms, and government are mobilized, harnessed and made available to various sectors of the economy.

2.1. The Role of capital market

Sule and Momoh (2009) found that the secondary market activities have impacted more on Nigeria per capita income by tending to grow stock market earnings through wealth than the primary market.
The roles of the capital market in the development of the economy as observed by Aremu et al. (2011) include:

(1)   It provides opportunities for companies to borrow funds needed for long-term investment purposes.
(2)   It provides avenue for the marketing of shares and other securities in order to raise fresh funds for expansion of operations leading to increase in output/production.
(3)   It provides a means of allocating the nations real and financial resources between various industries and companies. Through the capital formation and allocation mechanism the capital market ensures an efficient and effective distribution of the scarce resources for the optimal benefit to the economy.
(4)   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 local investors.
(5)   The capital market can aid the government in its privatization programme by offering her shares in the public enterprises to members of the public through the stock exchange.
(6)   The capital market also encourages the inflow of foreign capital when foreign companies or investors invest in domestic securities, provides needed seed money for creative capital development and acts as a reliable medium for broadening the ownership base of family-owned and dominated firms.

2.2 Capital Market and Economic Growth

Osaze (2000) sees the capital market as the driver of any economy to growth and development because it is essential for the long term growth capital formation. It is crucial in the mobilization of savings and channeling of such savings to profitable self-liquidating investment. The Nigerian capital market provides the necessary lubricant that keeps 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 fund owners. This allocative function is critical

in determining the overall growth of the economy. The functioning of the capital market affects liquidity, acquisition of information about firms, risk diversification, savings mobilization and corporate control (Anyanwu 1998). Therefore, by altering the quality of these services, the functioning of stock markets can alter the rate of economic growth (Equakun 2005).

Okereke- Onyiuke (2000) posits that the cheap source of funds from the capital market remain a critical element in the sustainable development of the economy. She enumerated the advantages of capital market financing to include no short repayment period as funds are held for medium and long term period or in perpetuity, funds to state and local government without pressures and ample time to repay loans.

Nyong (1997) developed an aggregate index of capital market development and use it to determine its relationship with long-run economic growth in Nigeria. The study employed a time series data from 1970 to

1994. For measures of capital market development the ratio of market capitalization to GDP (in percentage), the ratio of total value of transactions on the main stock exchange to GDP (in percentage), the value of equities transaction relative to GDP and listings were used. The four measures were combined into one overall composite index of capital market development using principal component analysis. A measure of financial market depth (which is the ratio of broad money to stock of money to GDP) was also included as control. The result of the study was that capital market development is negatively and significantly correlated with long-run growth in Nigeria. The result also showed that there exists bi-directional causality between capital market development and economic growth.

Obreja Brasoveanu et al (2008) examined the correlation between capital market development and economic growth in Romania using a regression function and VAR. It was shown that capital market is positively correlated with economic growth, with feedback effect. Moreover, they revealed that the strongest link is from economic growth to capital market. Ewah et al. (2009) appraise the impact of the capital market efficiency on the economic growth of Nigeria using time series data from 1961 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. The study concluded that, the capital market remain one of the mainstream in every economy that has the power to influence economic growth, hence the organize private sector is encouraged to invest in it. Donwa and Odia (2010) empirically analyze the impact of the Nigerian capital market on her socio-economic development from 1981 to 2008. Using the ordinary least square it was found that the capital market indices have not impact significantly on the GDP. To position the market for growth, the study recommends that the government is therefore advised to put up measures to stem up investors' confidence and activities in the market so that it could contribute significantly to the Nigerian socio-economic development.

Mishra et al. (2010) examine the impact of capital market efficiency on economic growth in 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. The application of multiple regression model shows that the capital market in India has the potential of contributing to the economic growth of the country. Specifically, the study reveals that there is a linkage between capital market efficiency and economic growth in India. This linkage according to the study is established through high rate of market capitalization and total market turnover. Thus, the study suggests that the market organizations and regulations should be such that large number of domestic as well as foreign investors enters the market with huge listings, investments, and trading so that the very objective of optimal allocation of economic resources for the sustainable growth of the country can be ensured.

2.3 The Impact of Stock Market on Economic Growth

Levine and Zervos (1996) examines whether there is a strong empirical association between stock market development and long-run economic growth. The study used pooled cross-country time-series regression of forty-one countries from 1976 to 1993 to evaluate this association. The study tow the line of Demirguç-Kunt and Levine (1996) by conglomerating measures such as stock market size, liquidity, and integration with world markets, into index of stock market development. The growth rate of Gross Domestic Product (GDP) per capita was regressed on a variety of variables designed to control for initial conditions, political stability, investment in human capital, and macroeconomic conditions; and then include the conglomerated index of stock market development. The finding was that a strong correlation between overall stock market development and long-run economic growth exist. This means that the result is consistent with the theories that imply a positive relationship between stock market development and economic growth.

Demiurguc-Kunt and Levine (1996) using data from 44 countries for the period 1986 to 1993 found that different measures of stock exchange size are strongly correlated to other indicators of activity levels of financial, banking, non-banking institutions as well as to insurance companies and pension funds. They concluded that countries with well-developed stock markets tend to also have well-developed financial intermediaries.

Amadi, Oneyema and Odubo (2000) employed multiple regression to estimate the functional relationship between money supply, inflation, interest rate, exchange rate and stock prices. Their study revealed that the relationship between stock prices and the macroeconomic variables are consistent with theoretical postulation and empirical findings in some countries. Though, they found that the relationship between stock prices and inflation does not agree with some other works done outside Nigeria.

Barlett (2000), states that rising stock prices have two main effects on the economy; first, it raises wealth in the economy. This increase in wealth raises the amount of consumer spending and thereby increases the wealth of the nation. Secondly, rising stock prices can increase investment spending. We see that one way a firm can finance investment spending is to issue stock. If stock prices rise, it can raise more money per share of the stock issued. He further added that the main mechanism through which the stock market affects the economy is the so-called wealth effect. A standard ''rule of thumb'' is that every $1 increase in stock market wealth boosts consumer spending by 3 to 7 cents per year, with a common point estimate being 4 cents. According to him, this

happens because a rise in stock market wealth encourages consumers to cut back on savings or increase their debt, and increase their spending on consumption goods. Conversely, a fall in the market causes them to cut back on consumption by a similar magnitude".

Arestis et al. (2001) examine the relationship between stock market development and economic growth through quarterly time-series data for five developed economies while controlling for the effect of banking system and market volatility. These countries are: the USA, the UK, France, Germany, and Japan. The period covered 1968-1998 although the data span is different for different countries in the sample. The results reveal that in Germany, there is evidence of bidirectional causality between banking system development and economic growth. The stock market on the other hand is weakly exogenous to the level of output. In the USA, financial development does not cause real GDP in the long-run. Japan exhibits bidirectional causality between both banking and stock market variables and the real GDP, while in the UK the results indicate evidence of unidirectional causality from banking system to stock market development in the long-run, but the causality between financial development and economic growth in the long-run is very weak. The evidence in France suggests that in the long-run both the stock market and banking system contribute to real GDP but the contribution of the banking system is much stronger.

Nwokoma (2002), attempts to establish a long-run relationship between the stock market and some of macroeconomic indicators. His result shows that only industrial production and level of interest rates, as represented by the 3-month commercial bank deposit rate have a long-run relationship with the stock market. He also found that the Nigeria market responds more to its past prices than changes in the macroeconomic variables in the short run.

Ibrahim and Aziz (2003) investigate the relationship between stock prices and industrial production, money supply, consumer price index, and exchange rate in Malaysia. Stock prices are found to share positive long-term relationships with industrial production and CPI. On the contrary, he found that stock prices have a negative association with money supply and (Ringgist) exchange rate. Irving (2004) considered the links between stock exchanges and overall socio-economic development to be tenuous, nonexistent or even harmful. He advised African countries not to devote further scarce resources and efforts to promoting stock exchange, since there are many weightier problems to address in Africa: high poverty levels, inadequate social services and undeveloped infrastructure. Even if the resources were available, stock markets could expose already fragile developing economies to the stabilizing effects of short-term, speculative capital inflows.

Carporale et al. (2004) examine the causal relationship between stock market and economic growth. Through vector auto-regression (VAR) methodology, the paper uses a sample of seven countries, Argentina, Chile, Greece, Korea, Malaysia, the Philippines and Portugal. The overall results indicate that a well developed stock market can foster long-run economic growth. In another study, Carporale et al. (2005) use the vector auto-regression (VAR) framework to test the endogenous growth hypothesis for four countries: Chile, South Korea, Malaysia and the Philippines. The overall findings indicate that the causality between stock market components, investment and economic growth is significant and is in line with the endogenous growth model. It shows also that the level of investment is the channel through which stock markets enhance economic growth in the long-run.

Adam and Sanni (2005) examined the role of stock market in 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 observed 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 relationship with economic growth.

Ted Arzarmi et al (2005) examined the empirical association between stock market development and economic growth in India. The authors found no evidence of association between the Indian stock market development and economic growth in the entire period they studied. Whereas the authors found support for the relevance of stock market development in economic development during pre-liberalization, they discovered a negative relationship between stock market development and economic development for the post liberalization period.

Dritsaki and Dritsaki-Bargiota (2005) use a trivariate VAR model to examine the causal relationship between stock, credit market and economic growth for Greece. Through monthly data covering the period 1988:1-2002:12, their results reveal unidirectional causality from economic development to stock market and bidirectional causality between economic developments and the banking sector. The paper establishes no causal relationship between stock market function and banking sector.

Elumilade and Asaolu (2006) examine the relationships between stock market capitalization rate and interest rate. Time series data obtained for the period 1981-2000from Central Bank of Nigeria (CBN) and Nigeria Stock Exchange (NSE) were analyzed using regression. The data obtained were fitted to the equation by ordinary least-square (OLS) regression method. Results showed that the prevailing interest rate exerts positive influence on stock market capitalization rate. Government development stock rate exerts negative influence on

stock market capitalization rate and prevailing interest rate exerts negative influence on government development stock rate. The study further revealed information as very important to capital market development. It was therefore recommended that the operators of the Nigeria capital market should raise the level of awareness so that investors will be abreast with the happenings in the market.

Capasso (2006) uses a sample of 24 advanced OECD and some emerging economies to investigate the link between stock market development and economic growth covering the period 1988-2002. The findings show a strong and positive correlation between stock market development and economic growth and he later concludes that stock markets tend to emerge and develop only when economies reach a reasonable size and with high level of capital accumulation.

Adam and Tweneboah (2008) examined the impact of macroeconomic variables on stock prices in Ghana using quarterly data from 1991 to 2007. They examined both the long-run and short-run dynamic relationships between the stock market index and the economic variables-inward foreign direct investment, treasury bill rate, consumer price index, average oil prices and exchange rates using cointegration test, Vector Error Correction Model (VECM). They found that there is cointegration between macroeconomic variable and stock prices in Ghana indicating long-run relationship. The VECM analysis shows that the lagged values of interest rate and inflation have a significant influence on the stock market. Also, the inward foreign direct investments, oil prices, and the exchange rate demonstrate weak influence on price changes.

Serkan (2008) investigates the role of macroeconomic factors in explaining Turkish stock returns. He employed macroeconomic factor model from the period of July 1997 to June 2005. The macroeconomic variables consider are growth rate of industrial production index, change in consumer price index, growth rate of narrowly defined money supply, change in exchange rate, interest rate, growth rate of international crude oil prices and return on the MSCI World Equity Index. He found that exchange rate, interest rate and world market return seem to affect all of the portfolio returns, while inflation rate is significant for only three of the twelve portfolios. Also, industrial production, money supply and oil prices do not appear to have significant effect on stock returns in Turkey.

Ezeoha et al (2009) investigated the nature of the relationship that exists between stock market development and the level of investment (domestic private investment and foreign private investment) flows in Nigeria. The authors discovered that stock market development promotes domestic private investment flows, thus suggesting the enhancement of the economy's production capacity as well as promotion of the growth of national output. However, the results show that stock development has not been able to encourage the flow of foreign private investment in Nigeria.

Oluwatoyin and Ocheja (2009) examine the impact of stock market earnings on income of the average Nigerian using time series data covering the period 1980-2007. Applying co-integration and error correction modelling to stock market performance and per capital income time series data, the findings indicated the separate roles played by the primary capital market and the secondary capital in market in the growth of stock market earnings that has impacted positively on Nigerian per capita income. By and large, the evidence from this study revealed that while activities in the secondary capital market tend to grow the stock market earnings through its wealth effect that of the primary market ironically did not.

Enisan and Olufisayo (2009) through autoregressive distributed lag (ARDL), evaluate the long-run relationship between stock market development and economic growth in seven of the Sub-Saharan African countries. The results indicate that stock market has a positive and significant impact on growth. Causality results indicate unidirectional causality from stock market development to economic growth for both South Africa and Egypt. While Cote D'Ivoire, Kenya, Morocco and Zimbabwe indicate bidirectional causality, Nigeria on the other hand shows weak evidence that growth causes finance.

Osinubi (1998) examines whether stock market promotes economic growth in Nigeria between the period 1980 and 2000. The study employed the Ordinary Least Squares (OLS) regression technique as the method of data estimation. The regression results, confirms that there exist positive relationship between the economic growth and the measures of stock market development used. However, these relationships are statistically insignificant. This in essence means that the effect of stock market on economic growth is weak and insignificant.

Maku and Atanda (2010) examines critically the long-run macroeconomic determinants of stock market performance in Nigeria between 1984 and 2007. The Augmented Engle-Granger (AEG) cointegration test results indicates that the macroeconomic variables have long-run simultaneous significant effect on the stock market performance in Nigeria. Generally, the empirical analysis showed that the NSE all share index is more responsive to changes in exchange rate,

inflation rate, money supply, and real output. While, the entire incorporated macroeconomic variables were found to have simultaneous and significant impact on the Nigerian capital market performance in the long-run.

2.4 Problems of the Nigerian Capital Market

The Nigerian capital market, like the national economy, has been faced with many problems. These problems are both endogenous and exogenous. The exogenous problems are those outside the direct control of

the market but which are regulation-induced. The endogenous problems are those that are internal to the market but which are amenable to changes with improved operational procedures including the adoption of information technology. Some of these problems are discussed below:

(i) Small Size of the Market:

Among the major problems facing the Nigerian capital market is the size of the market. At about 200 quoted companies and a market capitalization of 294.1 billion at the end-December, 1999 the size of the market can be considered to be small when compared with stock market in other emerging markets. For example, the South African stock market has about 650 listed companies while South Korea has about 700 listed companies. The small size of the Nigerian Stock market has been traced to apathy of Nigerian entrepreneurs to go public due to the fear of losing control of their businesses. Another factor is the weak private sector which is a serious constraint militating against healthy growth of the stock market.

(ii) Problem of Illiquidity of the Market:

The liquidity of a stock market relates to the degree of access, which investors have in buying, and selling of stocks in such a market. The more liquid a stock market is, the more investors will be interested in trading in the market. The lack *of* adequate number of investors in the Nigerian stock market is a reflection of problem of illiquidity in the market. At an average ratio of 2 per cent per year, the turnover ratio, a measure 'of the value of shares traded relative to local market capitalization is very low in Nigeria, compared with 10.0 per cent, 9.0 per cent and 4.6 per cent in Botswana, Zimbabwe and Mauritius, respectively. The low trading activities are also a result of the ownership structure. Until 1995, when the Nigerian Investment Promotion Commission Decree 16 and the Foreign Exchange (Monitoring and Miscellaneous) provisions Decree 17 were promulgated to replace the Nigerian Enterprises Promotion Decree of 1984 and Exchange Control Act of 1962, the Nigerian stock market was restricted largely to local investors apart from the original investors in foreign companies who were already in the market before the indigenisation Decree of 1972.

New foreign capital had little or no access to the market. The good performance of Botswana, Zimbabwe and Mauritius has been traced to the open door investment policy of these countries. In addition," the buy and hold" attitude of Nigerian investors contributed to the problem of illiquidity. The holdings of original investors and the public sector are normally not traded' except for terminal divestment. This often leaves only the proportion of shares held by few individuals and institutional investors for trading on the market, thus, limiting the liquidity of the market.

(iii) Slow growth of Securities Market:

Lack of cooperation between the-Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) has been responsible for slow growth of the securities market. For example, one of the major criticisms of SEC was that it did not allow the issuing houses and stockbrokers to undertake the pricing of equities. With the transfer in 1993 of pricing and allotment of initial public offer to market operators, positive movement was observed in share prices. The issue of cost of raising funds in the market is also important. The cost of transaction could be said to be a measure of efficiency in the market. Transaction cost in the Nigerian capital market is enormous. The costs which an average investor would have to meet in the course of raising funds include; brokerage fees; stamp duties, and other charges that may be imposed by the SEC, apart from other fees payable to stockbrokers.

Therefore, the cost of going public, raising additional equity or obtaining loan facility from the capital market is high. It has been estimated that the cost of raising US$ 1 million equity capital in Nigeria is about 4 per cent of the value, whereas, the cost of raising the same amount in Kenya, Zimbabwe and Ghana is 2.35 and 2.3 per cent, respectively.

(iv)   Delay in Delivery of Share Certificates:

Prior to April, 1997 when the Central Securities Clearing System (CSCS) started operation, the delay in delivery of share certificates to investors and intra-firm settlements used was a problem in the market. Many of the unclaimed certificates and dividend warrants that are being published regularly are as a result of the delay in delivery of certificates. With the introduction of CSCS, shareholders are now able to take advantage of capital appreciation while transaction period-has been reduced to T+5. The objective of the CSCS system is to achieve real-time transaction reporting, through automated order routing and executing system, which allows post-trade comparison and analysis, and ensures audit trail of all the market transactions.

(v) Problem of Manual Call-over

The manual call-over whereby all stockbrokers have to be physically present on the floor of the Exchange for trading in securities had also contributed to the slow growth of the market. With the recent introduction of Automated Trading System (ATS), it is expected that stockbrokers will be able to do business more efficiently and thus contribute to the growth of the market.

(vi) Double Taxation

The Nigerian stock market is faced with the problem of double taxation. In a capital market, the operating tax policies have implications for the supply and demand for financial assets. Depending on its nature and structure, taxation could either enhance or retard capital market growth. Tax can be a source of hindrance to

development when it is high or levied at multiple stages. Currently in Nigeria, there is income tax, capital gain tax, withholding tax and company income tax. All these taxes together have the tendency of retarding investment because of their burden on investors. Most often, countries that have experienced growth in their stock market have come to realise the role which taxation plays in the promotion of investment in the stock market. For instance, countries like Botswana, Ghana, Kenya, Mauritius, Namibia and Swaziland have recognised the important role which taxation can play in the development of the market. Taxation of equities at both the corporate tax and dividend withholding levels is an important problem that needs to be examined. The practice in the U. K. may offer a useful example for Nigeria. In the UK, through the Advance Corporate Tax (ACT) System, individuals are given tax relief at the corporate level for distributed earnings. The ACT was introduced in Britain to correct the distortions which double taxation had on corporate investment. A number of developing countries like Columbia, Jamaica, Indonesia and Mexico, have one form of tax integration or the other. Presently, Nigeria has not taken any step to reduce the burden of double taxation as incentive for investment in the capital market. Apart from its use as a means of generating revenue, some countries have used tax policies as incentives for developing capital market. They have been used not only for the supply and demand for securities, but also as penalties for companies that were reluctant to go public. For example, Brazil used dividend tax exemption or reductions, stock acquisition tax incentives and provision of tax fund shares as incentives for developing the capital market.

(vii) Lack of Effective Underwriting

Lack of effective under-writing is one of the problems confronting the Nigerian capital market. Underwriting could be in the form of firm contract, or stand-by arrangement and when an issue is large, there would be need for an underwriting syndicate. An observed deficiency of the Nigerian securities market is the non-existence of effective underwriting. Though the issuing houses claim to undertake underwriting as part of their functions, and a consortium of underwriters often exist when shares are being offered, underwriting business has hardly taken place in the real sense of it. Underwriting entails effective placing of entire issues, and establishing or maintaining a stable trading market for the under-written securities for which there would always be a lead or managing underwriter. Only a few of the existing issuing houses can undertake such functions that guarantee the underwriting of the shares not absorbed by the investors up to a certain percentage. The .underwriters are in fact the 'market makers' who purchase the securities concerned on their own account to maintain a price when the market price of the offered security falls under the issue price. When such problem arises, the lead or managing underwriter would be expected to buy all such securities and distribute them to the other members of the underwriting syndicate or consortium according to predetermined ratio.

(viii) Problem of Macroeconomic Instability

Lastly, the problem of macroeconomic instability in the country has continued to be a hindrance in the development of the Nigerian capital market. Macroeconomic policies that would ensure long-term stability are essential in attracting a sustainable long term investments. Such policies should be conducive to both savings and investment to ensure confidence in the economy. Policies must ensure attractive long-term yields for equities in comparison with other domestic and foreign investment alternatives. Frequent fluctuations in exchange rates and negative real rates of return on investments often force investors to move to other investment outlets or out of the economy entirely.

RESEARCH METHODOLOGY

3.1 Model Specification

The linkage between capital market and economic growth has occupied a central position in the development literature. In examining this on Nigeria's data, the study use the neoclassical growth model, otherwise referred to as the growth accounting framework, to explain the source of growth in an economy. The Neo- Classical growth model specifies output as a linear function of Labour (L), Capital (K) and the index of technology (A), expressed as:

$$Y= F (K, L, T) .... (i)$$

Where: Y is output, K is capital, L is labour and A is an index of technology or efficiency.

The application of this method, however, has been extended and augmented to incorporate the capital market variables such as market capitalization, all share index, number of deals, value of transactions and interest rate. The model in its functional form is presented as follows:

$$GDP=f(MAKAP,NDEALS,VTRAN, INT)........................(2)$$

Where:

GDP=Gross Domestic Product, measuring economic growth.

MAKAP= Market Capitalization in Nigeria

NDEALS= Number of Deals

VTRAN= Value of Transaction

INT= Interest Rate

The model in its econometric linear form can be written as:

GDP = $b_0 + b_1$MAKAP + b_2NDEALS + b_3VTRAN + b_4INT +U........ (3)

The model in the log linear form can be expressed as:

LogGDP = $b_0 + b_1$LogMAKAP + b_2LogNDEALS + b_3LogVTRAN

$+ b_4$ LogINT + U(4)

The theoretical expectations about the signs of the coefficients of the parameters are as follow: $b_1>0$, $b_2>0$, $b_3>0$, $b_4<0$.

3.2 Estimation Technique

In examining the impact of capital market on economic growth in Nigeria, the researcher prefers to use the scientific method of Ordinary Least Square (OLS) regression technique. The reason for employing the classical Ordinary Least Squares (OLS) follows from the Gauss-Markov theorem which states that of all classes of estimators, the Ordinary Least Squares (OLS) is the Best Linear Unbiased Estimator (BLUE) and it has minimum error.

The OLS possesses some salient features such as unbiasedness, efficiency, Best Linear unbiasedness, Least or minimum variance, least mean square error and sufficiency when compared with other econometric estimators.

3.3 Data Sources

Secondary sources of data were used as the main methods of data collection. The relevant data for this study have been obtained from the Central Bank of Nigeria (CBN) Annual Report and Statement of Account and Central Bank of Nigeria (CBN) Statistical Bulletin. The study was based on time series data collected on annual basis from the period 1970 – 2010.

3.4 Limitation of the Study

One of the imitations of this research work was the inability of the researcher to capture many other variables or factors affecting economic growth into the model. The inclusion of such variables could have produced a different result. Another major limitation is the concentration of this study on the Nigeria economy only. The extension of this research beyond Nigeria could have produced a comparative study on the problem under investigation .Lastly, the short period of time required to complete this work, coupled with financial incapability, also restricted the researcher from carrying out a robust investigation.

4. Presentation of Results

The estimated results of the specified model are presented as follows:

GDP =	302515.0+	1025.419MAKAP	+17.377NDEALS	+27.693VTRAND
SE	(1813198.1)	(437.963)	(3.799)	(7.547)
t-value	(0.372)	2.341)	(4.574)	(3.669)

-1016.578 INT

(17535.43)

(-0.058)

R-Squared   =0.914; Adjusted R-Squared = 0.901

F-statistics   =69.173;Durbin-Watson   = 1.330

4.1 Analysis of Results

The results presented above will be analyzed using three criteria; economic a priori criteria, statistical criteria and econometric criteria.

Economic a priori criteria

The results obtained showed that all explanatory variables have their correct expected signs, as predicted by the relevant economic theories. The positive sign of the coefficient of market capitalization shows that there is a positive relationship between market capitalization and economic growth in Nigeria. This is consistent with the theoretical expectation, showing that a 1 billion naira increase in market capitalization will lead to an increase in economic growth by 1025.42 billion naira, other things being equal.

Similarly, the positive coefficient of number of deals shows that there is a positive relationship between number of deals and economic growth in Nigeria. This results is in line with theoretical expectation, showing that a unit increase in the number of deals will lead to an increase in economic growth by 17.38 billion naira, other things remaining the same.

The examinations of the results showed that there is a positive relationship between value of transaction and economic growth. This is also in relevant economic theory, indicating that a 1 billion naira increase in the value of transaction will lead to an increase in economic growth by 27.69 billion naira, ceteris paribus.

Meanwhile, the negative sign of the coefficient of interest rate shows that there is an inverse relationship between interest rate and economic growth. This is in line with theoretical expectation, showing that a 1% increase in interest rate will lead to a decrease in economic growth other things being equal.

Statistical criteria

The statistical test is conducted using the standard normal test. This is because the sample size, n is

greater than 30. In absence, the t-test approximately to the z-test is employed to test for the statistical significance of the parameters. The t-statistics at five percent level of significance as read from the table is 1.96.

The decision rule requires that if the calculated t-test value is greater than the tabulated value at five level of significance, then we conclude that the parameter estimate is statically significant and vice versa.

From the results obtained, three variables (market capitalization, number of deals and values of transaction) are statistically significant. This is because their t-statistics values calculated of 2.34, 4.57 and 3.67, respectively for market capitalization, number of deals and value of transaction, were all greater than the critical value of 1.96 at five percent level of significance. This result means that these three variables are significant in causing short-run changes in economic growth in Nigeria.

Interest rate was however not statistically significant. This is because its t-statistics value calculated of 0.06 is less than the critical value of 1.96 at five percent level of significance.

Adjusted R-Square of 0.901 shows that about 90% of the total variations in the dependent variables has been explained by variation in the independent variables. The remaining 10% left unexplained is attributed variations in other factors not captured in the model but represented by the disturbance turn U. The high value of the R-Squared shows that the estimated model has a good hit on the data.

The F-statistics value of 69.17 shows that the overall model is statistically significant at five percent level of significance. This means that the independent variables collectively have significant influence on economic growth in Nigeria. This result confirms the existence of a linear relationship between the dependent variables and the independent variables in the model.

5. This last section is the concluding section comprising policy recommendations and concluding remarks.

Policy Recommendations

From the result obtained, the following policy recommendations are made:

i. There is need for the government through the central bank to implement policy that will increase the level and size of market capitalization in the capital market. Such increase in capital market will provide the needed funds for investors for further investments and hence increased productivity in Nigeria.

ii. The positive impact of number of deals also calls for proper policies to be implemented so as to attract more investors to invest in the market. There is also need to relax some stringent registration and operating procedures to enable more people and organizations to participate in the market.

iii. There is also need to institute policies that will further increase the value of market transaction in the market. As stated earlier there is need to remove hindrances on the part of prospective investors so as to increase both the volume and value of transactions in the market. An increase in the value of transaction will in turn lead to economic growth in Nigeria.

iv. It is important that interest rate should be lowered so as to increase the level of investment. An increase in investment will lead to an increase in economic growth in Nigeria.

Conclusion

This study was an attempt to examine the impact of capital market on economic growth in Nigeria, utilizing capital market variables such as market capitalization, number of deals in the market, value of transaction and interest rate, for the period covering from 1980-2010.

Most empirical studies have held a consensus that the development of efficient capital market can promote growth of any given economy. However, due to several problems identified to have prevented capital markets in developing countries, it is doubted whether capital market can contribute positively to economic growth in these countries. Following from this debate, this study was undertaken to examine the impact of capital market on economic growth in Nigeria.

From the result obtained, capital market has positive and significant impact on economic growth in Nigeria. The capital market variables captured in the model such as market capitalization, number of deals and value of transactions were all positive and significant in promoting economic growth in Nigeria. It is important that the government should implement policies that will make the market more efficient and re-position it for growth in Nigeria.

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APPENDIX A

YEAR	GDP	INT	MCAP	NDEALS	VTRAN
1980	49,632.3	9.5	5	7,138	388.7
1981	47,619.7	10	5.0	10,199	304.8
1982	49,069.3	11.75	5.0	10,014	215.0
1983	53,107.4	11.5	5.7	11,925	397.9
1984	59,622.5	13	5.5	17,444	256.5
1985	67,908.6	11.75	6.6	23,571	316.6
1986	69,147.0	12	6.8	27,718	497.9
1987	105,222.8	19.2	8.2	20,525	382.4
1988	139,085.3	17,6	10.0	21,560	850.3
1989	216,797.5	24.6	12.8	33,444	610.3
1990	267,550.0	27.7	16.3	39,270	225.4
1991	312,139.7	20.8	23.1	41,770	242.1
1992	532,613.8	31.2	31.2	49,029	491.7
1993	683,869.8	18.32	47.5	40,398	804.4
1994	899,863.2	21	66.3	42,074	985.9
1995	1,933,211.6	20.79	180.4	49,564	1,838.8
1996	2,702,719.1	20.86	285.8	49,515	6,979.6
1997	2,801,972.6	20.92	281.9	78,089	10,330.5
1998	2,708,430.9	21.8	262.6	84,935	13,571.1
1999	3,194,015.0	27.2	300.0	123,509	14,072.0
2000	4,582,127.3	30	472.3	256,523	28,153.1
2001	4,725,086.0	24	662.5	426,163	57,683.8
2002	6,912,381.3	25.7	764.9	451,850	59,406.7
2003	8,487,031.6	21.6	1,359.3	621,717	120,402.6
2004	11,411,066.9	20.4	2,112.5	973,526	225,820.0
2005	14,572,239.1	19	2,900.1	1,021,967	262,935.8
2006	18,564,594.7	18.7	5,121.0	1,367,954	470,253.4
2007	20,657,317.7	18.8	13,294.6	2,615,020	1,076,020.4
2008	24,296,329.3	19.22	9,563.0	3,535,631	1,679,143.7
2009	24,712,669.9	22.90	7,030.8	1,739,365	685,716.2
2010	29,205,782.96	21.87	9,918.2	1,925,478.0	799,910.9

Source: Central Bank of Nigeria Statistical Bulletin, 2010.

APPENDIX B

Dependent Variable: GDP
Method: Least Squares
Date: 05/19/12   Time: 17:28
Sample: 1980 2010
Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	302515.0	813198.1	0.372007	0.7129
MAKAP	1025.419	437.9625	2.341340	0.0272
NDEALS	17.37708	3.799051	4.574060	0.0001
VTRAN	27.69301	7.547469	3.669178	0.0011
INT	-1016.578	17535.43	-0.057973	0.9542

R-squared	0.914104	Mean dependent var	5968394.
Adjusted R-squared	0.900889	S.D. dependent var	8689183.
S.E. of regression	2735516.	Akaike info criterion	32.62823
Sum squared resid	1.95E+14	Schwarz criterion	32.85952
Log likelihood	-500.7375	F-statistic	69.17293
Durbin-Watson stat	1.329613	Prob(F-statistic)	0.000000