Research Journal of Finance and Accounting www.iiste.org
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.6, No.9, 2015

Capital Market and Economic Growth of Nigeria

Briggs, Atebu Patricia
Department of Business Education, Isaac Jasper Boro College of Education, Sagbama, Bayelsa State

Abstract
This paper examines the impact of the capital market on the Nigerian economy from 1981-2011. For this study, the Nigerian economy was viewed in terms of economic growth, while the performance of the stock market is an impetus for the growth and development of the Nigerian economy. The economic growth was proxy by Gross Domestic Product (GDP), while the capital market variables considered were; Market capitalization (MCAP), Total New issues (TNI), Value of Transactions (VLT), and Total Listed Equities and Government Stocks (LEGS). Johansen co-integration and Granger causality tests were applied. The result shows that the Nigerian capital market and economic growth are co-integrated. This indicates that a long run relationship exist between capital market and the growth of the Nigerian economy. The result shows the clear relative positive impact the capital market plays the economic growth and invariably on the economy. It is recommended that all the tiers of government should be encouraged to fund realistic developmental programs through the capital market for it t serve as a leeway to freeing resources, of the economy and there is need for availability of more investment instruments such as: derivatives, convertibles, future and swaps options in the market, the regulatory authority should be more proactive.
Keywords: Capital Market, Economy, Economic Growth, Cointegration, Causality, Nigeria.

INTRODUCTION

There is a fair agreement in the literature that economic reforms, especially what came to be tagged Structural Adjustment Programme (SAP), have almost always been mounted in response to national financial distress whose foundation could be traced to macroeconomic distortions (World Bank 1986). While such distress manifest mainly as deep economic deterioration (stagflation and huge external debts), distortions are often evident in the pursuit of unsustainable fiscal, monetary and exchange rates policies in addition to widespread government intervention in enterprises that can best be handled by the private sector. In general, several analysts believe that economic mal-adjustment is associated with policy pursuits which depart from free market pricing policies (Chiber, et al 1986; Ray 1986). Economic reforms are therefore seen as pursuits of fiscal reforms and market liberalisations, which focus on extensive privatization of state owned enterprises as well as liberalizations of financial and foreign exchange markets, with the government limited to provision of the right enabling environment for a private sector led growth.

There is a consensus in the literature that at the heart of economic reforms is the need to address a two-fold task: restructure or get policy incentives right as well as restructure key implementation institutions. Financial sector reforms is that aspect of economic reforms which focus mainly on restructuring financial sector institutions (regulators and operators) via institutional and policy reforms. There have been other economic reforms since the commencement of SAP. The first is the financial systems reforms of 1986 to 1993 which led to deregulation of the banking industry that was hitherto dominated by indigenized banks that led to over 60 per cent Federal and State governments' stakes. During this period, government at both federal and state levels invested heavily in industry especially in agro- and allied sectors, electricity and petroleum refining. This period saw in addition to credit, interest rate and foreign exchange policy reforms. The second phase began in the late 1993 to 1998, with the re-introduction of regulations. During this period, there was a lot of distress in the financial sector which necessitated another round of reforms, designed to manage the distress. The third phase began with the advent of civilian democracy in 1999 which saw the return to liberalization of the financial sectors, accompanied with the adoption of distress resolution programmes. The fourth phase began in 2004 to date and it is informed by the Nigerian monetary authorities who asserted that the financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could further be enhanced through a more pragmatic reform.

The Nigerian capital market is an important component of the Nigerian financial system. According to Anyanwu (1993), the financial market is a complex mechanism made up of procedures, instruments and institutions through which efficient economic units (the users of funds, e.g. government, corporate bodies) and the surplus economic units (i.e. suppliers of funds/savings) are brought together to transact business with each other. Nzotta (2004) stated that the capital market is a mechanism for lenders to provide long term funds in exchange for financial assets issued by borrowers or traded by holders of outstanding negotiable debt instruments. Despite the existence of studies on capital market (Arestis, Demetriades and Luintel, 2001; Fase and Abma, 2003; Iimi, 2003; Khan, Qayyum and Sheikh, 2003), little exist on financial reforms and capital market development in Nigeria. The objective of this paper is to examine the impact of financial reforms on the development of the Nigerian Capital Market from 1986 to 2010. The paper is subdivided into five sections. Section 1 is the introduction, section 2 is reviews related literature, section 3 explains the methodology, section 4 is analyses and interprets the data, and finally, section five is on summary and concluding remarks.

LITERATURE REVIEW

Omoruyi (1991), CBN (2004) and several financial sector analysis summarized objectives of financial sector reforms to include: market liberalization for the promotion of a more efficient resource allocation; expansion of savings mobilization base, promotion of investment and growth through market-based interest rates. It also means the improvement of the regulatory and surveillance framework; fostering healthy competition in the provision of services and above all laying a basis for inflation control and economic growth.

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. It must, however, be noted that although all the surplus economic units have access to the capital market, not all the deficit economic units have the same easy access to it. Companies can finance their operations by raising funds through issuing equity (ownership) or debenture/bond borrowed as securities. Equities have perpetual life while bond/debenture issues are structured to mature in periods of years varying from the medium to the long-term of usually between five and twenty-five years.

Capital market offers access to a variety of financial instruments that enable economic agents to pool, price, and exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages savings in financial form. This is very essential for government and other institutions in need of long-term funds and for suppliers of long-term funds (Nwankwo, 1991).

The vital role of the capital market to the growth and development of the economy of a nation has been widely recognized the world over. It is through the capital market that long-term funds are mobilized and channeled for productive investments (Alabede, 2005). The development of the financial sector also closely tracks economic transformation. A well developed financial system mobilizes and pools savings, facilitates the exchange of goods and services, and allows the diversification and management of risk. These functions influence savings and investment decisions as well as technological innovations, and hence economic growth.

Based on its importance in accelerating economic growth and development, government of most nations tends to have keen interest in the performance of its capital market. The concern is for sustained confidence in the market and for a strong investors' protection arrangement. Nigeria Securities and Exchange Commission (NSEC) is the government agency responsible for developing and regulating the Nigeria capital market. It was created by Act No. 71 of 1979 and re-acted as Securities and Exchange Commission Decree No. 29 of 1988. The NSEC purses its objectives by registering all market operators based on capital adequacy, competence and solvency as criteria.

Augusto and Sergio (2007) observed that besides efforts to attract foreign capital, developing countries also tried to emulate the performance of capital markets in developed economies by undertaking a series of reforms thought to foster development of domestic securities markets. They added that these reforms had their own logic and are easy to understand in the context of logic.

McKinnon (1973) and Shaw (1973) pioneered the view that financial liberalization and financial sector development are essential for growth. They argued that the deregulation of the capital markets increases economic growth through higher savings rates and improved resource allocation. King and Levine (1993a) later redefined the financial sector growth nexus by arguing that capital markets play a crucial role in the processing of information. The ability of financial institutions to select profitable innovations and projects that increase productivity and, hence, growth was seen as the key contribution to capital markets to economic development.

In line with the above arguments on the relevance of the stock markets to economic growth and development, Augusto and Sergio (2007), noted that a barrage of reforms have been implemented in emerging economies to foster the development of local capital markets. They, Augusto and Sergio (2007), grouped these reforms in four categories, namely:- (a) reforms aimed at creating the enabling environment for capital markets – such as the strengthening of macroeconomic stability and the enforcement of property rights; (b) reforms aimed at enhancing the efficiency and market discipline in the entire financial system through greater competition – such as capital account liberalization; (c) reforms indirectly supportive of capital market development – such as pension reforms and privatization programmes; and (d) capital market-specific reforms – such as the development of regulatory framework and improvements in securities clearance and settlement systems.

Furthermore, Augusto and Sergio (2007) identified six types of reforms including stock market liberalization, enforcement of insider trading laws, introduction of fully automated trading systems, privatization programmes, structural pension reforms (that is, shifting from a public, defined-benefit, pay-as-you-go system to a privately managed funded, defined-contribution system), and institutional reform. They, however, noted that although these reforms were a significant part of the capital market reform programmes implemented by most countries, this list is not exhaustive and does not attempt to cover all the policy initiatives oriented towards fostering stock market development that were implemented in the past decade.

2.1 THE NIGERIAN STOCK MARKET IN PERSPECTIVE

The development of the Nigeria Capital Market dates back to the late 1950s when the Federal Government through its ministry of industries set up the Barback committee to advise it on ways and mean of setting up a stock market. Prior to independence, financial operators in Nigeria comprised mainly of foreign owned commercial banks that provided short-term commercial trade credits for the overseas companies with offices in Nigeria (Nwankwo, 1991). Their capital balances were invested abroad in the London stock Exchange. Thus, the Nigeria Government in an attempt to accelerate economic growth embarked on the development of the capital market. This is to provide local opportunities for borrowing and lending of long-term capital by the public and private sectors as well as an opportunity for foreign-based companies to offer their shares to the local investors and provide avenues for the expatriate companies to invest surplus funds.

Based on the report of the Barback Committee the Lagos Stock Exchange was set up in 1959. With the enactment of the Lagos Stock Exchange Act 1961, it commenced business in June, 1961 and assumed the major activities of the stock market by providing facilities for the public to trade in shares and stocks, maintaining fair prices through stock-jobbing and restricting the business to its members. The Lagos stock exchange was renamed the Nigeria Stock Exchange in 1977, with the following objectives;

1) To provide facilities to the public in Nigeria for the purchase and sale of funds, stocks and shares of any kind and for the investment of money.
2) To regulate the dealings of members interest and those of their clients.
3) To control the granting of a quotation on the stock exchange in respect of funds, stocks and shares or any company, government, municipality local authority or other corporate body.
4) To promote, support, or propose legislative or other measures affecting the aforementioned objectives.

Initially trading activities commenced with two Federal Government Development Stocks, one preference share and three domestic equities. The market grew slowly during the period with only six equities at the end of 1966 compared with three in 1961. Government stocks comprised the bulk of the listing with 19 of such securities quoted on the Exchange in 1966 compared with six at the end of 1961. (Nnanna, Englama and Odoko, 2004). Prior to 1972 when the indigenization exercise took off, activities on the Nigeria stock exchange were low. That was true both in terms of the value and volume of transactions.

The NSE comprises 3 tiers. The first tier is the official list comprising of 198 securities. Most of the activity on the NSE is on the first tier. The second tier list comprises 15 securities and the third-tier securities market is designed for Small and Medium Scale Enterprises (SMEs). The rules and regulations differ between the tiers.

The major instruments/products available in the Nigerian capital market to date include; the industrial equities otherwise referred to as ordinary shares; industrial loans such as debentures, unsecured zero coupons, preference bonds/stocks, specialized project loans/infrastructural loans, government stocks/ bonds, unit trust schemes, unlisted corporate/industrial loans stock, among others. The market is currently divided in to two broad categories, namely equities and debt markets. The former are instruments or products that confer ownership rights on the investor, while the later are interest-bearing obligations with fixed or floating interest-rates.

According to Ekoko (2007), the institutions that make up the capital market include:

- Insurance companies
- Other financial institutions dealing in long-term funds; and
- The stock market

The NSE is the primary operator in the Nigerian capital market. Mayo (1997) describes the stock exchange as a "primary capital market in which companies and other institutions can raise funds by issuing shares or loan stock but it is more important as a secondary market for buying and selling existing securities.

Alile (1997) said that the stock exchange is made up of the following elements:

- Place – this represents the forum, physical or otherwise, for conducting transactions in stocks;
- Mechanism – this includes the operative issue and transfer procedure;
- Institutions – these include regulatory agencies, issuing houses, the stock broking firms, etc.
- This stock market is made up of two segments which are the primary and the secondary market. Ekiran (1999) describes the primary market as the market for the issuance of new funds or securities. The secondary market is the market in which the holders of financial instruments can sell them to other investors. Alile (1997) says that "the secondary market is the vehicle for providing liquidity to investors."

2.1.1 Instruments traded on the Nigerian Stock Exchange

The instruments traded on the Nigerian Stock Exchange were described by Dada (2003) and Alabede (2005) as follows:

- **Ordinary Shares** - the holders of ordinary shares are real owners of the company, because they bear the greatest risk in the company and also benefit from its success. Ordinary shares represent the permanent capital of a company.
- **Preference shares** – the holders of preference shares are entitled to a fixed percentage of dividends before ordinary shareholders are paid any dividend. A preference share's dividend can only be paid if there are sufficient distributable profits available.
- **Federal Government Development Stocks** – the federal government issues these instruments, usually annually, and it is a long-term loan, with maturity varying between 6 and 25 years.
- **Bonds** – state and local governments go to raise funds on the floor of the NSE using bonds.
- **Debenture/Loans Stocks** – these are instruments used to raise corporate funds for financing long-term capital needs. The holders of such instruments are entitled to a fixed rate of interest, which must be paid whether profit is earned or not by the company.

2.2 Nigerian Stock Exchange Specific Reforms

The Nigerian Capital Market has evolved having undergone several reforms over the years. Before 1959, almost all formal savings and deposits in Nigeria were in the banking system. The country's major capital balances were invested on the London Stock Exchange usually via London-based stockbrokers. The Nigerian capital market effectively came into being with the establishment of the Lagos Stock Exchange in 1960, which began actual trading in 1961.

The NSE was incorporated under the Companies' Ordinance as an association, limited by shares initially, but became a company limited by guarantee in 1990. It received initial financial support from the CBN through an annual subvention. The Lagos Stock Exchange's name was changed to The NSE in 1977 following recommendations by the Government Financial System Review Committee of 1976. In addition to the Lagos bourse (by far the preponderant stage for trading activity) the NSE opened trading floors in Port Harcourt and Kaduna in 1980 and has since added Kano, Yola, Calabar, Ilorin, Uyo, the latest being the Abeokuta branch commissioned in November 2008

Some specific reforms have been carried out on the NSE over the years to make the exchange more efficient. Some of the developments in the NSE are identified in Store (2004), Alabede (2005) and SEC (2005) as follows:

- **Automated Trading System (ATS)** – this is one of the most outstanding innovations in the securities market in Nigeria. The ATS is a system of security trading arrangement whereby transactions are conducted through a network of computers. Before ATS was introduced, the call over system was used and this system made the settlement cycle on the NSE to be 21 days. ATS was launched on the 27th of April, 1999.
- **Central Securities Clearing System (CSCS)** – The NSE commissioned the CSCS in 1997 as a subsidiary but it came into operation on the 14th of April, 1999. According to the Securities and Exchange Commission (SEC, 2005), the CSCS was conceived as primarily a settlement arena for the achievement of the T-3 settlement cycle. The CSCS serves as an interface with the ATS and automatically receives data relating to trade as they take place for settlement.
- **On-line Trading** - The NSE has been able to link some of its branches that have large daily transactions to the central server at the Customs House, Lagos, Abuja, Kano, Yola, and Port Harcourt. Branches are now fully integrated to the main trading platform. Stockbrokers residing in these areas do not have to be in the Lagos trading floor to trade anymore.
- **Remote Trading** – As part of the reform in the NSE, in order to make it efficient, in 2004, the exchange introduced remote trading. Remote trading is a system where brokers trade from the comfort of their offices. The computers of the stockbrokers are connected to the main trading machines through one of the safest connection devices. This system guarantees safe delivery of data from the mainframe of the trading machine to the computers in the office of stockbrokers. The objective of this system is to eliminate the formal trading floor.
- **The Trade Alert** – This was introduced in 2005 and generated a lot of controversy. This system was introduced as a means of protecting the securities market against ever increasing threats from fraudsters. The trade alert is a device which, when subscribed to by a security holder, will send a notice to the security holder's mobile phone indicating elaborately all transactions taking place in his accounts in the CSCS. The aim of this device is o stop any unauthorized trade, before it takes place thereby protecting the investment.

- **E-bonus** – The e-Bonus was put in place to ensure bonuses issued to an investor by companies are instantly credited to the investors' accounts at the CSCS.
- **E-IPO** – This system ensures that the Initial Public Offer of listed companies are electronically captured on the accounts of the CSCS. After the closure of the offer and allotment by the company, lists of the successful investors would be forwarded to the CSCS for retention in the depository. This system will eliminate the long waiting period which the registrar hitherto took to print and distributes certificates. A summary of the reforms are show in figure 1 below:

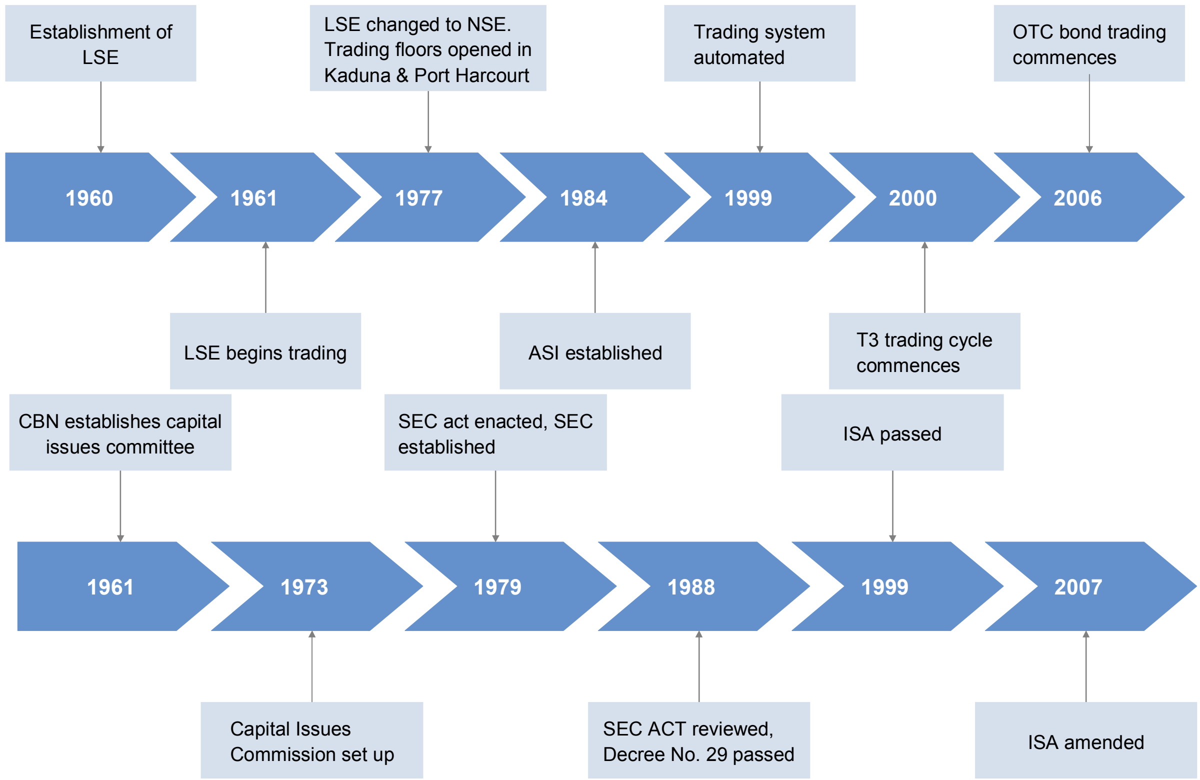

Figure 1: Development/Evolution of the Nigerian Stock Exchange

2.3 Other Financial Sector Reforms

The Securities and Exchange Commission (2005) identified three aspects of reforms in the Nigerian economy which impacted positively on the performance of the NSE. These include:

- **Privatisation of Government Corporations –** The privatization of government-owned companies started at the time of the Structural Adjustment Programme (SAP), in 1986. However, the process was given the desired attention under NEEDS. A number of government-owned companies have been privatized by the Bureau of Public Enterprises (BPE). Some in the list for privatization include NITEL, Refineries, NAFCON, Nigerian Ports, NEPA, etc. The privatization of the government-owned parastatals helped to boost trading on the NSE as long-term funds are mobilized to pay for the privatized corporations. The privatization process was motivated by the desire to increase government revenues, promote economic efficiency, and reduce government interference in the economy. Domestic capital market development was also an implicit objective of privatization. Although governments usually adopt privatization programmes primarily to raise revenue, and in order to improve the economic efficiency of former state-owned enterprises (SOEs), most governments, including Nigerian government, also believed that privatizations implemented through public share offerings will develop their national capital markets. Recent economic research (Levine (1997), Levine and Zervos (1998) and Henry (2000)) has given added impetus to this objective by conclusively documenting a direct link between capital market development and economic growth.
  Privatisations had a direct impact on domestic stock market capitalization, as many governments carried out privatization sales through share offerings in local exchanges. In Nigeria, the privatization programme has yielded substantial revenue to government. Recent figures reveal that in 2000 and 2001, privatization proceeds to the Federation Account yielded N18, 103.6 million and N77, 958.1 million respectively (CBN, 2001). Much of the proceeds were raised through public offer of the privatized

companies on the capital market. In addition, the privatization programme has enjoyed credibility and transparency from the capital market.
Boutchkova and Megginson (2000) show that privatized firms are generally among the largest firms in local stock markets, even in many developed countries, and that they account for a large share of total market capitalization. Because of the positive externalities generated by listing decision, these share issues were expected to foster stock market development by increasing diversification opportunities available to investors and therefore encouraging trading activity and new listings in private firms. Share issue privatizations could also increase the participation of uninformed retail investors in local stock exchanges, reducing adverse selection in the market and increasing liquidity. (Chiesa and Nicodano, 2003; Bortolotti et al, 2003). Privatization programmes, even without share offerings on local stock exchanges (as in the case of Nigeria), may also foster stock market development by reducing political risk and signaling commitment to market-oriented policies. (Augusto and Sergio, 2007).

- **Reforms in the Banking Sector –** In 2004, the Central Bank of Nigeria (CBN) embarked on reforms in the banking sector with a 13-point agenda which include the recapitalization of banks from N2 billion to N25 billion. This is a singular reform which has significantly impacted on the activities of the NSE. The CBN (2005) shows that in the process of complying with the minimum capital requirement, N406.4 billion was raised by banks from the capital market and that N350.2 billion (about $3 billion) was attracted as new investment from outside Nigeria.
- **Pension Reforms –** In 2004, the Pension Reforms Act was passed into law, replacing the old system of non-contributory pension with contributory pension whereby both employer and employee are expected to contribute equal percentage to the funds. With the establishment of the National Pension Commission, the pension reforms have fully commenced. This reform has generated large funds which have been channeled for productive investment through Pension Fund Custodians (PFC). This helped to boost investments in the Nigerian economy, impacting positively on the NSE. As cited supra, (Augusto and Sergio, 2007), this is a significant reform which aimed to shift from publicly administered pay-as-you-go pension system to privately managed funds systems of individual pension accounts. Among other benefits, structural pension reforms were expected to improve macroeconomic stability, by reducing the demographic pressures of pay-as-you-go systems by inducing fiscal reform to absorb the costs of transition, reduce labour market distortions, increase aggregate savings, and reduce political interference in the system. (Feldstein, 1998; Feldstein and Liebman, 2002; Orszag and Stiglitz, 2001; and World Bank, 1994). Capital market reform is seen as conducive to domestic capital market development through three main channels (Walker and Lefort, 2002); by inducing authorities to improve the regulatory framework (accumulating "institutional capital"), increasing specialization in the investment decision-making process, and improving incentives for financial innovation. Walker and Lefort (2002) find evidence of a reduction in the cost of capital and higher trading volumes as a result of pension reforms. Catalan, Impavido, and Musalem (2001) analyse the Granger causality between contractual savings (assets in pension funds and life insurance companies) and stock market development and find evidence that the growth in contractual savings causes increases in market capitalization and trading.
- **Corporate Governance and Financial Reporting**
  Over the decades, various governments have passed laws and approved regulations aimed at creating proper legal and regulatory framework for the Nigerian Capital Market to flourish. These have especially tended towards the direction of improved corporate governance practices by introducing new standards in a number of different areas, including voting rights, audit committees, procurement and tender procedures, and structure of the board of directors. There are also enactments of new insider trading regulations and improved accounting (financial reporting) and disclosure requirements. This is particularly with the adoption by Nigeria of the International Financial Reporting Standards, and the passing into law of the Financial Reporting Act, 2010. Another significant reform in this area is the review of listing requirements from time to time.
- **Automation**
  Advances in information technology have enhanced the efficiency and transparency of capital markets. Technology has eased and quickened assessment of default possibilities and various risks that are associated with financial products. Technology has made it easier now, than ever before, for investors and market professionals to spot opportunities. Although technology is quite expensive to acquire and maintain, it is never the less essential if capital markets are to be developed and remain competitive.

2.4 Prior Empirical Studies

The financial sector provides basic services necessary for sustainable economic growth; hence many financial economists argue that financial reform has a particularly important role in economies in the developed and developing economies (World Bank 1996; Hermes and Lensink 2000). This branch of literature grew rapidly during the past two decades (Trew 2006). Recent increase in frequency of financial crises also prompted strong research interest in this area. Several empirical studies have been conducted on financial reforms and financial system development in developed and developing economies. This section reviews prior research to establish the gaps in the literature and also to serve as a basis for validation of the findings.

Arestis, Demetriades and Luintel (2001) using time series data from five developed countries and using VAR framework, examine the association between stock market development and economic growth, controlling the effects of banking system and stock volatility. They measure output by the logarithm of real GDP and stock market development by the stock capitalization to GDP, banking system development by the logarithm of the ratio of domestic credit to nominal GDP, stock market volatility by the eight quarter moving standard deviation of the end of quarter change of stock market prices. Their results suggest that although both banking and stock market promote economic growth, the effects of the former are more powerful. They support the view that bank based financial system may be more to promote growth than capital market based system. Limi ((2003) study of reforms in the banking sector over the period 1997-2001 of five major state banks to examine the efficiency changes during and after the banking sector reform. The authors used production function model using labour and capital, banks were supposed to produce output. The author finds that two of the banks improved the technical efficiency over the reform period, while the technical efficiency of the other tends to be fluctuating. Fase and Abma (2003) investigate the association between financial development and economic growth for more developing countries in Asia, using data of varying length, and error correction framework. Their result shows that financial development matters for economic growth and that causality runs from the level of financial intermediation and sophistication to economic growth. They conclude that improvement of financial structure in developing countries may benefit economic development and that the policy of financial reform in the selected countries is likely to improve economic growth. Khan, Qayyum and Sheikh (2005) examine the relationship between financial development and economic growth for Pakistan over the period 1971-2004 using autoregressive distributed lag (ARDL) technique. The results of the study suggest that in the long run, financial depth and real deposit rate are important factor contributing to economic growth in Pakistan. Using time series data for Malaysia, Ang and McKibbin (2007) also discovered that financial liberalization, through removal of repressive policies, had a favorable effect on stimulating financial development.

Abu N. (2009), examined whether stock market development raises economic growth in Nigeria, by employing the error correction approach. The econometric results indicate that stock market development (market capitalization GDP ratio) increases economic growth. He however, recommended the removal of impediment to stock market development which include tax, legal and regulatory barriers, development of he nation's infrastructure to create enabling environment where business can strive, employment policies that will increase the productivity and efficiency of firms as well as encouraging of the Nigerian Securities and Exchange Commission to facilitate the growth of the market, restore the confidence of stock market participants and safeguard the interest of shareholders by checking sharp practices of market operators. Osinubi and Amaghionyeodiwe (2003) also examined the relationship between Nigeria stock market and economic growth during the period 1980-2000 using ordinary last squares regression (OLS). The result indicated that there is a positive relationship between the stock market and economic growth and suggest the pursuit of policies geared towards rapid development of thee stock market.

Obamiro (2005) investigated the role of the Nigeria stock market in the light of economic growth. The authors reported that a significant positive effect of stock market on economic growth. He suggested that government should create more enabling environment so as to increase the efficiency of the stock market to attain higher economic growth. 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 market development has not been able to encourage the flow of foreign private investment in Nigeria.

Osinubi and Amaghionyeodiwe (2003) examined the relationship between the Nigerian stock market and economic growth during the period 1980-2000. Unfortunately, their results did not support the claim that stock market development promotes economic growth.

Adam and Sanni (2005) examined the role of stock market in Nigeria's economic growth using Granger-Causality test and regression analysis. The study 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 study advised that government should encourage the development of the capital market since it has a positive relationship with economic growth.

Olawoye,2011 used the multiple regression analysis to test whether the Capital Market indices impacted on the economic growth of Nigeria proxy by Gross Domestic product (GDP) and discovered that the Capital Market and Economic Growth have strong and significant impact and that the total listing of equity and government stock are spent on productive sector which enhance economic growth

Several attempts have been made by previous writers to link the growth of the capital market with the economy. Levine (1991) argued that developed stock market reduces both liquidity shock and productivity shock of businessmen to investment funds as well as enhancing the production capacity of the economy, thereby leading to higher economic growth,. Moreover, Bensivenga et al (1996) concluded that well developed financial market (stock market) induces long run 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 toed the line of Demirgue-Kunt and Levine (1996) by conglomerating measures such as stock 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.

Pedro and Erwan (2004) asserted that financial market development raises output by increasing the capital used in production and by ensuring that capital is put into best uses. Ogwumike and Omole (1996), Ojo (1998), Abdullahi (2005); Adam and Sanni (005) also stressed the importance of capital market in economic development in Nigeria. Agarwal (2001) argued that financial sector development facilitates capital market development, and in turn raises real growth of the economy. Thornton (1995), Rousseau and Sylla (2001); Calderon and Liu (2002) supported that financial system development promotes economic growth, in the same vein. Beckaert et al (2005) demonstrated that capital market development increases economic growth. Similarly, Bolbo et al (2005) indicated that capital market development has contributed to the economic growth of Egypt.

METHODOLOGY

This section provides information about the research design, source of data, population and sample selection, research variables, and model specification.

1. ***Research Design:*** The study used ex post facto research design. The study used a time series data for the period 1981 to 2011.
2. **Sources of Data:** The data used in this study were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and Stock Market and Nigeria Stock Exchange.
3. **Population and Sample Selection:** The population of this study is from 1960 to 2012 and the sample of secondary data drawn from the Central Bank of Nigeria Bulletin, Securities and Exchange Commission (SEC) and Nigerian Stock Exchange were employed in the research from 1981 to 2013.
4. **Model Specification:** Koutsoyianis (2003) Greene, (2002), Wooldridge, (2006); Asterious and Hall, (2007); Brooks (2008); Gujarati and Porter, (2009); Kozhan, (2010) report that model specification is the determination of the endogenous and exogenous variables to be included in the model as well as the a priori expectation about the sign and the size of the parameters of the function. Excel software helped us to transform the variables into format suitable for analysis, after which the econometric view (E-view) was used for data analysis. The dependent variable is gross domestic product and independent variable is capital market. The ordinary least square was adopted for the purpose of hypothesis testing. The ordinary least square was guided by the following linear model:

   $$Y = f(X1, X2, X3, X4, X5\ X6) \quad \ldots\ldots 1$$
   $$GDP = f(MCAP, TNI, VLS, LEGS, INF, EXC) \quad \ldots\ldots 2$$
   $$GDP = \alpha + \beta_1 MCAP_1 + \beta_2 TNI_2 + \beta_3 VLS_3 + \beta_4 LEGS_4 + \beta 5INF5 + \varepsilon \quad \ldots\ldots 3$$

   Where:
   GDP = Gross Domestic Product
   MCAP = Market Capitalisation
   TNI = Total Number of New Issue
   VLS = Value of transactions
   LEGS = Listed Equities and Government Securities
   INF = Inflation using consumer price index as a control variable.
   ε = Error term
   The model is consistent with that of Levine (1996), Levine and Zervos (1996), Ewah et al (2009), Donwa and Odia (2010).
   The variables were tested for stationarity and conintegration, where co-integration indicates a long run

equilibrium relationship between the dependent and independent variables. The unit root test was used to test for stationarity and because it was a higher order serial correlation, the Augmented Dickey-Fuller approach was employed. The granger causality test was also employed to test for the impact of the independent variable to the dependent variable.

RESULT AND DISCUSSION

This section of the paper presents the results and discussion of secondary data obtained from the Central Bank of Nigeria and the Nigerian Stock Exchange.

Table 1: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	6.929189	Probability	0.121336
Obs*R-squared	13.34731	Probability	0.101264

Source: e-view output

Table one above shows the Breusch – Godfrey Serial Correlation LM test for the presence of auto correlation. The result reveals that the probability values of 0.12 (12%) and 0.10 (10%) is greater than the critical value of 0.05 (5%). This implies that there is no evidence for the presence of serial correlation.

Table 2: White Heteroskedasticity Test:

F-statistic	0.942165	Probability	0.496821
Obs*R-squared	9.519861	Probability	0.483577

Source: e-view output

Table two above shows the White Heteroskedasticity test for the presence of heteroskedasticity. The econometric result reveals that the probability values of 0.496 (50%) and 0.483 (48%) are considerably in excess of 0.05 (5%). Therefore, there is no evidence for the presence of heteroskedasticity in the model.

Table 3: Ramsey RESET Test:

F-statistic	0.067894	Probability	0.794795
Log likelihood ratio	0.071133	Probability	0.789695

Source: e-view output

Table three above shows the Ramsey RESET test for misspecification. The econometric result suggests that the probability values of 0.794 (79%) and 0.789 (79%) are in excess of the critical value of 0.05 (5%). Therefore, it can be seen that there is no apparent non-linearity in the regression equation and so it would be concluded that the linear model for the accounting services is appropriate.

Table 4: Augmented Dickey-Fuller Unit Root Test

Variable	ADF	1%	5%	Test for Unit root
GDP	-3.816986	-3.4755	-2.8810	I(0)
MCAP	-3.759500	-3.4755	-2.8810	I(0)
TNI	-4.792773	-3.4755	-2.8810	I(0)
VLS	-3.105035	-3.4755	-2.8810	I(0)
LEGS	-4.355909	-3.4755	-2.8810	I(0)
INF	-3.531538	-3.4755	-2.8810	I(0)

Source: e-view output

Table four above shows the Augmented Dickey-Fuller unit root test for stationarity of the variables. The result suggests that GDP, MCAP, TNI, VLS, LEGS and INF with ADF of -3.816986, -3.759500, -4.792773, -3.105035, -4.355909 and -3.531538 is less than 1% of -3.4755 and 5% of -2.8810. The result reveals that the variables are stationary at I(0). Therefore, ordinary least square can be applied in the analysis of data when data is stationary at I(0) (Greene, 2002; Wooldridge, 2006; Asterious and Hall, 2007; Brooks 2008; Gujarati and Porter, 2009; Kozhan, 2010).

Table 5: Multiple Regression Analysis
Dependent Variable: GDP
Method: Least Squares
Date: 03/20/14 Time: 15:58
Sample(adjusted): 1981-2011
Included observations: 153 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.275444	2.256856	1.451330	0.1488
MCAP	0.285935	0.095662	2.989017	0.0033
TNI	0.249495	0.106627	2.339885	0.0206
VLS	0.216547	0.102573	2.111150	0.0363
LEGS	0.273341	0.123184	2.218965	0.0400
INF	0.220526	0.104976	2.100727	0.0327
R-squared	0.318414	Mean dependent var		12.99346
Adjusted R-squared	0.261218	S.D. dependent var		3.098167
S.E. of regression	2.888766	Akaike info criterion		4.997962
Sum squared resid	1226.711	Schwarz criterion		5.116803
Log likelihood	-376.3441	F-statistic		5.567008
Durbin-Watson stat	2.16401	Prob(F-statistic)		0.000100

Source: e-view output

Table five above shows the multiple regression analysis for capital market and economic growth of Nigeria. The result suggests that market capitalization, total number of issue, listed equities and government securities, value of transactions and inflation with p-values of 0.0033, 0.0206, 0.0363, 0.0400 and 0.0327 is less than the critical value of 0.05.Hence, we deduce that there is a significant relationship between capital market and economic growth. The R^2 (coefficient of determination) of 0.318414 and adjusted R^2 of 0.285935 shows that the variables combined determines about 32% and 29% of capital market development. The F-statistics and its probability shows that the regression equation is well formulated explaining that the relationship between capital market development and economic growth (F-stat = 5.567008; F-pro. = 0.000100).

CONCLUSION AND RECOMMENDATIONS

The study examined the impact of capital market and the Nigerian economy between 1981 to 2011. The findings of the study reveal the following:

- Regression result confirms that there exists positive relationship between the capital market and economic growth. The relationship is statistically significance. This is in essence means that the impact of the capital market on economic growth is strong and significant.
- Another major outcome of the study is that a unit increase in total listing of equity and government stock (TLS) result in an increase in GDP. The implication of this is that the economy responds favourable to measures taken to increase TLS in Nigeria Stock Exchange.
- The positive result of the total listing of equity and government stock implies that funds raised by the industries and governments in the capital market are spent on productive sector which enhance economic growth.
- The result of the value of transaction in the capital market means that the simplicity in buying and selling of securities has potential to influence economic growth positively

These findings agree with Ewah, et al (2009) who found that capital market in Nigeria has potentials for growth inducing but has not contributed meaningfully to the economic growth of Nigeria due to low market capitalization etc.

The study reveals that the capital market impact on economic growth via market capitalization, value of transaction and total listing of equity and government stock. As it was observed market capitalization, government stock and value of transaction are important capital market variables that we capable of influencing economic growth. Hence the capital market remain one of the mainstream in every economy that has the power to influence or impact economic growth therefore the organized private sector is to invest in it. The market capitalization have not impact significantly on the GDP while volume of transaction and total listed equities and Government stock have significant impact on the GDP. The government is therefore advised to put up measures to stem up investors confidence and activities in the market and more foreign investors should be encouraged to participate in the market for improvement in the declining market capitalization so that it could contribute significantly to the Nigerian economic growth.

In order for the Nigeria capital market to be pivotal force in Nigeria economic growth and development, the following suggestion or recommendation are put forward.

1. First improvement in the declining market capitalization by encouraging more foreign investors to participate in the market, maintain state of the art technology like automated trading and settlement practice, electronic fund clearance and eliminate physical transfer of shares.
2. There is also need to restore confidence to the market by regulatory authorities through ensuring transparency and fair trading transaction and dealing in the stock exchange. It must also address the reported case of abuse and sharp practices by some companies in the market.
3. Since the total listing is significant but still far cry compare to other exchange like South African and Egypt. Therefore, these should be increase in the total member listed companies to ensure stable macroeconomic environment in order to encourage foreign multinational companies (MNCs) or their subsidiaries to be listed on the Nigerian stock exchange, relax the listing requirements to the first tier market and ensure tax rationalization in the capital market to encourage quotation and public interest in shareholdings.
4. To boost the value of transaction in the Nigerian capital market, these is need for availability of more investment instruments such as derivatives, convertibles, future and swaps options in the market.
5. Given the present political dispensation, all the tiers of government should be encourage to fund realistic developmental programme through the capital market. This will served as leeway to freeing the resources that may be used in other sphere of the economy.
6. Encouraging more private limited liability companies and informal sector operations to access the market for fresh capital.
7. Trading impediments such as high transaction cost should be reviewed to encourage more active trading in stocks.
8. SEC should be more proactive in its surveillance role in order to check sharp practices which undermine the capital market integrity and erode investors' confidence.

Recommendation for further study: Contrary to our apriori expectation, GDP and the volume of transactions (LVLT) are not only inversely related, but also have a bi-directional causal relationship. Thus, deserves further investigation.

REFERENCES

Adelegan, O.J. (2001), "The Role of Operators in Securities Development in Nigeria". *The Nigerian Accountant*, 34 (4): 56.

Alabede, J.O. (2004), "Stock Market Theory and Practice", unpublished material, ABTU, Bauchi.

Alabede, J.O. (2005) "An Evaluation of the Performances of the Nigerian Stock Exchange between 2000-2003". *The Gubi Journal, 1, 73*, ASUP, Bauchi.

Alile, H.C. (1997) "The Stock Exchange and Capital Formation in Nigeria", *Paper presented at a seminar organized by the Nigerian Stock Exchange*.

Ang, J. B. and W.J. McKibbin. (2007). 'Financial Liberalization, Financial Sector Development and Growth: Evidence from Malaysia'. Journal of Development Economics, 84: 215-233.

Anyanwu, J.C. (1999) "Stock Market Development and Nigeria's Economic Growth". *Nigerian Financial Review*, Infodata Ltd., Lagos.

Arestis, P., Demetriades, P.O. and Luintel, K.B. (2001). "Financial Development and Economics Growth: The Role of the Stock Markets". Journal of Money, Credit and Banking, 33(1): 16-41.

Augusto T. and Sergio S. (2006) "Emerging Capital Markets and Globalisation. The Latin American Experience". Stanford University Press. Washington D.C.

CBN (2005) "Annual Report and Statement of Accounts", CBN, Abuja.

Dada, I.O. (2003) "The Nigerian Capital Market Development: Issues and Policies", Spectrum Books Ltd., Ibadan.

Ekiran, O. (1999) "Basic Understanding of Capital Market Operations". Ekiran, Lagos

Ekoko, O.J. (2007) "Developments in the Nigerian Capital Market: Opportunities for the Accounting Technicians", *ICAN Students' Journal*, 12(1):.31.

Fase, M.M.G. and Abma, R.C.N. (2003). "Financial Environment and Economic Growth in Selected Asian Countries". Journal of Asian Economies, 14: 11-21.

Hermes, N. and R. Lensink (2000), 'Financial System Development in Transition Economies', Journal of Banking and Finance, 24 (4): 507–524.

Iimi, A. (2003). "Efficiency in the Pakistan Banking Industry: Empirical Evidence after the Structural Reforms in the Late 1990's". Pakistan Development Review, 42(1): 41-57.

Khan, M.A., Qayyum, A. and Sheikh, S.A. (2003). "Financial Development and Economic Growth: The Case of

Pakistan". Pakistan Development Review, 44(4): 819-837.

King, R.G. and R. Levine (1993a): "Finance, entrepreneurship and growth: Theory and evidence", *Journal of Monetary Economics*; 32(3):513 – 542.

King, R.G. and R. Levine (1993b): "Finance and growth; Schumpeter Might be Right", *Quarterly Journal of Economics*, 108 (3):717-738.

Nzotta, S.M. (2004). Money, Banking and Finance, Owerri: Hudson-Jude Nigeria Publishers.

Ogbulu, O.M (2009), "Capital Market Development and Economic Growth in Nigeria: Application of Co-integration and causality tests." *Journal of Finance, Banking and Investment.* 3(1):1-19.

Ojo, O.O. (1984): "Financial intermediation and growth", *Inaugural lecture series,* 68, University of Ife press.

Oyebanji, J.O. (2006) "The Role of Capital Market in Economic Growth and Development in Nigeria". *Journal of Business and Management*, *4(1), Ede, FPTE.*

Securities and Exchange Commission (2005) *SEC Quarterly, Vol. 2*, SEC, Abuja

Shaw, E. (1973): "Financial development in economic development", New York, Oxford University Press.

Stern, N. (1989): "The economics of development: A survey". *Economics Journal*, 99:3, pp 685.

Store, L.C. (2004) "The Nigerian Stock: How It Works", being paper presented at a workshop organized by SEC in Abuja.

Trew, A. W. (2006), "Finance and Growth: A critical Survey," Economic Record, 82(259): 481-490.

Yartey, C. (2008) 'The determinants of stock market development in emerging economies: Is South Africa different?' *IMF working paper, African department. WP/08/32, February*.