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IMPACT OF THE NIGERIAN CAPITAL MARKET ON THE ECONOMY

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ABSTRACT: *There are elements upon which a nations' economic development are dependent. The importance of Capital Market as one of the vehicles upon which most under-developed economies could grow cannot be overemphasized. The extent to which these economies experience the said growth is quite relative to the level of awareness and management of the market. Nigeria is not left out in the desire to maximize the gains of the capital market to boost its economy. This paper empirically examines the impact of the Nigerian Capital Market on the Nigerian economy looking at a 20 years period from 1992 to 2011. The Nigerian Capital Market was proxy as Market Capitalization against some variables of the economy such as Gross Domestic Product (GDP), Foreign Direct Investment, Inflation Rates, Total New Issues, Value of Transaction and Total Listing. Using the multiple regression analysis, we find that Capital Market has an insignificant impact on the Economy within the period under review. The study therefore advised that policies and measures that would boost investors' confidence should be enshrined in the running of Nigerian Capital Market so that it could contribute significantly to the growth of Nigerian economy noting that all elements of the market are essential ingredients to the development of a nation.*

KEYWORDS: Capital Market, GDP, Foreign Direct Investment, Inflation rate, Total new issues, Value of Transaction, and Total listing

BACKGROUND OF THE STUDY

This paper focuses on the issues of capital market and how it has impacted on the Nigerian economy. Olawoye (2011) noted that the capital market is an essential agent of economic growth because of its ability to facilitate and mobilize savings and investment. The ability to mobilize and invest lies in the nation's strength in effective resource mobilization which enables internal wealth generation and domestic savings as well as inflows of foreign capital. Thus, the consideration of the capital market as the institution for financial management from surplus sectors of the economy to the sectors that are seeking to be financed.

Osaze (2011) posited that the origin of the Nigerian Capital Market dates back to the colonial era, in the bid to raise funds for running the local administration on the realization that the internally generated funds from marketing agricultural produce and solid mineral were deficient. This they did through reforming the revenue mobilization, taxation and other payments systems. Though the existence of the capital market was informal, Olawoye (2011) explained that it became prominent in 1959 after the visit of Mr. J. B. Lobynesion, who was invited by the Federal government to talk on the role the Central Bank, which was established

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in 1958, could play in the development of local money and capital market. The then Lagos Stock Exchange was established and incorporated in 1960 as a private limited liability Company, limited by guarantee under the provisions of the Lagos Stock Exchange Act 1960 (Osaze, 2011). The Lagos Stock Exchange Act 1960 conferred monopoly powers on it members to deal in securities granted quotation on the Exchange. It also allowed the Central Bank to Deal directly in securities. On June 5, 1961, the Lagos Stock Exchange opened for business with 19 listed securities made up of 3 equities, 6 Federal Government Bonds and 10 industrial loans.

Moreover, businesses rise and collapse so easily in the history of Nigeria for many other reasons including non-availability of long term finance. Using short term finances to pursue long term capital projects can cripple any business and or project considering the match maturity concept that most financial institutions operate wherein they ensures that loans given and debts incurred mature at the same time. Various studies have looked at the role of Capital market in economic growth. This research is aimed at establishing that Capital Market actually impacts on the general economy of a nation using Nigeria as a case study.

We are aware that the economy of a nation to what extent its production, utilization and exportation of goods and services affect the national income and the standard of living of its people. Good and strong economies require strong domestic infrastructure with a good foreign relationship (Smathers 2014). Strong domestic infrastructures are capital intensive projects including industries and corporate entities that require good capital financing to be able to survive. The research question is that to what extent can the Nigerian Capital Market impact on the economy of Nigeria? .The objective of the study are to examine the impact of the capital market on the economy of Nigeria, that is to evaluate the effect of Market Capitalization on the Inflation rate, Gross Domestic Product (GDP), Total number of New Issues, Transaction Value, Total listing and Foreign Direct Investment (FDI.

The next section of this paper is the literature review, section 3 the methodology of the study, section 4 illustrates the results of the analysis of the study, section 5 indicates as conclusion and recommendation.

LITERATURE REVIEW

Financial Markets according to Amadeo (2013) is simply the markets where stocks, bonds, commodities, foreign exchange and even derivatives are traded to raise cash for government or businesses, reducing companies' risks and increasing investors' wealth. The financial market is the avenue through which funds are generated, mobilized and availed effectively and efficiently from the all-savers camps to the users of funds. These activities involve the interplay of individuals, institutions and instruments. Financial instruments owned by individuals in different institutions to provide the needed finance for the provision of essential goods and services to bring about economic growth and development. The Financial market according to Abiola and Okoduwa (2008) consists of two major segments, the money market and the capital market. The money market provides finance on short-term basis to

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individuals while the capital market provides finance to businesses, enterprises, corporate bodies, government agencies etc.

Capital Market has been described by Akigbounde (1996) as a market where medium to long term finances are raised. Ekezie (2002) revealed that it is a market for dealings (ie lending and borrowing in long term loan able funds. The development of Capital market and apparently the stock market provides opportunities, for greater fund mobilization, improves efficiency in resource allocation and provision of relevant information for appraisal (Inanga and Chiedozie 1997). Al-faki (2006) argues that capital market is a network of specialized financial institutions with series of mechanism, processes and infrastructures that in various ways, facilitate the bringing together of suppliers and users of medium to long term capital for investment and economic development projects.

Previous writers have made several moves to link the growth of capital market with development in the economy bearing in mind the function that sees the capital market financing the financially deficit sectors of the economy from the financially surplus sectors of the economy. Levine (1991) revealed that developed stock market reduces both liquidity shock and productivity shock of the investors of investment funds as well as enhancing the production capability of the economy which therefore lead to higher economic growth.

Moreover, Tharavaniji (2007) claimed that countries with higher Capital Market faces less severe business cycle output, contraction and lower chances of an economic downturn compared to those with less developed capital market. It does not follow that the development of capital market guarantees economic growth, but it avails the means to forecast into the future growth rates for Capital, Per capita Income, Productivity and or the Gross Domestic Product (GDP). In addition, Ewah et al (2009) appraised the impact of capital market efficiency on economic growth in Nigeria, using time series data on market capitalization, money supply, interest rate, total market transaction and government development stock that ranges between 1961 to 2004. The model specification for the analysis of data is multiple regression and ordinary lest squares estimation techniques. The result of the study shows that the capital market in Nigeria has the potentials of growth inducing, but it has not contributed meaningfully to the economic growth of Nigeria.

In Belgium, Nieuwerburgh et al (2005) after investigating the long-term relationship between financial market development and economic development in Belgium using a new data set of stock market development indicators posited that the financial market development substantially affected the economic growth of Belgium with strong emphasis on the stock market within the period of 1873 and 1935. They also noted that institutional and policy changes affecting the stock exchange are responsible for the time-varying nature of the relationship between stock market development and economic growth. Hsu et al (2004) in their efforts to determine the role of financial market development in economic growth, using Taiwan, Korea and Japan as case study, the opined that with regards to sock market capitalization ratio, there exist positive impacts on economic growth in Taiwan more than in Korea and Japan. Chee et al (2003) revealed that stock market development is co-integrated with economic growth in the context of Malaysia. They posited that stock market development has a significant positive impact in the long run on economic growth in Malaysia.

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development.

Nigeria is one of the economies with great demand for goods and services and has attracted some FDI over the years. The amount of FDI inflow into Nigeria has reached US$2.23 billion in 2003 and it rose to US$5.31 billion in 2004 (a 138 % increase) this figure rose again to US$9.92 billion (an 87% increase) in 2005. The figure however declined slightly to US$9.44 billion in 2006 (LOCOmonitor.com). The question that comes to mind is that do these FDIs actually contribute to economic growth in Nigeria? If FDI actually contributes to growth, then the sustainability of FDI is a worthwhile activity and a way of achieving its sustainability is by identifying the factors contributing to its growth with a view to ensuring its enhancement. Again, most studies on FDI and growth are cross-country studies. However, FDI and growth debates are country specific (HarunaDanja, 2012).

Beside this, Otepola, (2002); Oyejide, (2005) and Akinlo (2004) examine only the importance of FDI on growth and the channels through which it may be benefiting the economy. The
FDI inflow to West Africa is mainly dominated by inflow to Nigeria, who received 70% of the sub-regional total and 11% of Africa's total. Out of this Nigeria's oil sector alone receive 90% of the FDI inflow (UNCTAD World Investment Report 2006).Inflation is an important economic statistic because it affects the value of money, gradually and continuously increases prices of goods and services and at the same time indicates the overall stability of a country's economy. Inflation reduces the purchasing power of the consumers thereby causing producing companies to earn less revenue, a situation which in turn impacts on the overall economy of the nation. A stable yearly inflation amount is typically between two and four percent, any inflation over 10 percent per year is potentially problematic for the country's economy.

The Total New Issues total number of securities whose equities were offered for the 1st time within the year under review, while the number of listed Securities is the total number of securities in existence within the Nigerian Capital Market within the year under review. In addition, the total value traded is the total monetary value of all traded securities within the year under reference.

METHODOLOGY

This section describes the sources of data and variables used in formulating the model of Capital Market on the Economy.

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Data Sources

The period covered in the study of the relationship between Nigerian Capital Market and the Economy is between 1992 and 2011. The data is sourced from the Nigerian Stock Exchange (NSE) , Security and Stock Exchange Commission (SEC) Market Bulletins, and the Central Bank's Statistical Bulletins.

The Variables

Capital Market such as Market Capitalization is the dependent variable. The economy is the independent variable such as Gross Domestic Products (GDP), Inflation rate, Foreign Direct Investment (FDI), Total Number of New Issues, Total Value of the Traded Securities and Total Listed Equities.

A model of Capital Market on Economy

Market Capitalization = B_0 + B_1 (GDP) +B_2 (Inflation Rate) + B_3 (FDI) + B_4 (Total Number Listed) + B_5 (Total Traded Value) + B_6 (Total New Issue) + ui.

Finally, ui is the random error term, which is independently and identically distributed.

Table 4.2 Showing the Descriptive Statistics for the Capital Market and the Economy

Variables	N	Mean	Std. Deviation
Market Capital	20	4,774.84	3,806.57
Gross Domestic Product	20	466.89	184.64
Inflation Rate	20	21.87	19.78
Foreign Direct Investment	20	3,303.39	2,810.73
Total number Listed	20	550.41	660.72
Total Trade Value	20	391.02	679.52
Total New Issue	20	269.00	12.97

THE RESULTS OF THE DATA ANALYSIS

This section provides analysis of the relationship between the capital market and the Nigerian Economy, individual regression analysis was carried out on the available elements of the Nigerian capital market as dependent variable against the GDP as independent variable, inflation rate, foreign direct investment, total new issues, transaction value and total listing.

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Table 4.1: Showing Market Capitalization, Gross Domestic Products, Inflation Rates, Foreign Direct Investment, Total New Issues, Transaction Values and Total Listing

Year	Market Capitalization	GDP (N'B)	Inflation Rate	Foreign Direct Investment	Total New Issues	Transaction Value	Total Listing
1992	312.73	271.37	44.57	896.64	33.06	.49	251.00
1993	474.36	374.83	57.14	1345.36	26.36	.80	272.00
1994	663.68	275.45	57.42	1959.22	21.61	.99	276.00
1995	1803.05	281.41	72.73	1079.27	44.25	1.84	276.00
1996	2818.16	293.75	29.29	1593.46	58.58	6.98	276.00
1997	2818.87	302.02	10.67	1539.45	108.75	10.33	264.00
1998	2625.17	310.89	7.86	1051.33	150.18	13.57	264.00
1999	3000.41	312.18	6.62	1004.92	120.38	14.07	268.00
2000	4722.90	329.18	6.94	1140.14	172.08	28.15	260.00
2001	6625.61	356.99	18.87	1190.63	371.98	57.68	261.00
2002	7649.76	433.21	12.88	1874.04	612.84	58.90	258.00
2003	1359.27	477.53	14.03	2005.39	180.10	113.80	265.00
2004	2112.54	527.58	15.00	1874.03	195.40	223.90	277.00
2005	2900.11	561.93	17.86	4982.54	552.80	254.70	288.00
2006	5120.90	595.82	8.22	4854.42	707.40	468.60	288.00
2007	13294.59	634.66	5.41	6034.97	1935.08	2083.42	301.00
2007	9562.97	672.21	11.58	8196.61	1509.23	2375.61	265.00
2009	7030.84	717.00	12.54	8554.84	700.34	684.04	264.00
2010	10325.45	776.30	13.72	6048.56	1428.25	787.58	250.00
2011	10275.34	833.40	14.02	8841.95	2079.43	634.90	256.00

Sources: *Securities and Exchange Commission, Nigeria*
Capital Market Bulleting, December 2007

Table 4.2 indicating the result of the regression analysis for the Capital Market on the Economy

Dependent Variable: Market Capitalization
Market Capitalization = B_0 + B_1 (GDP) +B_2 (Inflation Rate) + B_3 (FDI) + B_4 (Total Number Listed) + B_5 (Total Traded Value) + B_6 (Total New Issue) + ui.

ISSN 2053-4086(Print), ISSN 2053-4094(Online)

Variables	Observation
Intercept	9190.60 8192.70 (1.12)
Gross Domestic Product (GDP)	-2.73 6.38 (-0.43)
Inflation rate	-36.93 22.26 (-1.66)
Foreign Direct Investment	-0.14 0.40 (-0.36)
Total number Listed	-19.16 29.74 (-0.64)
Total Trade Value	0.62 0.11 (0.60)
Total number of New Issue	5.52** 1.39 (3.99)
R-square	0.89
F-statistic	16.68
No of observation	20

The numbers with significant level are coefficient value, while the middle numbers are the standard error and Numbers in the parentheses refer to t-statistics.
F-Statistic is significant at 1% and 5% critical value
***significant at 1 percent level.*
**significant at 5 percent level.*
*****Heteroskedasticity is corrected using White-adjusted standard errors.

Result of the regression analysis for the impact of Capital Market on the Economy
In Table 4.2 Column 2 there is evidence that Market Capitalization does not have significant effect on Gross Domestic Product (GDP), Inflation Rate, Foreign Direct Investment (FDI), Total Number Listed and Total Trade Value. However, Market Capitalization has a significant positive effect on total number of new Issue. This result suggests that Nigerian Capital Market does not really have a significant impact on the economy.

CONCLUSION

This study examines the impact of Nigerian Capital on the Economy on Nigeria. Results show that Market Capitalization does not have effect on the economy. We therefore conclude that the Nigerian Capital Market has not impacted significantly on the Nigerian economy

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within the period under study. This indicates that the stakeholders of Capital Market in Nigeria need to act in a right direction so that there can be improvement on Nigeria Capital Market. These issues concerning ranging from the appointment of management team, to instituting proper and efficient policies that will re-position the market for its proper function in the society.

RECOMMENDATIONS

Based on the finding from the study we recommend that there is need to introduce and implement policies that will increase the level and size of Market Capitalization in the Nigerian Capital Market by the government through the Central Bank as increase in Market Capitalization will surely increase fund availability for desired investment which in turn will increase productivity of the Nation. The positive impact of total New Issues is an indication that organizations operating in the country should open access to the public for investment and by so doing make returns available to the investors thereby increasing an average investors' income. There is also the need to institute policies that will further increase value of transaction in the market. This goes beyond mere regulatory measures but should include but not limited to punitive measures to check fraud and other malpractices that betray the trust from investor. Investors should be encouraged with necessary incentives so as to increase the volume and value of equities being traded upon in Nigeria, thus widening the coast of investment opportunities as well as increasing productivity. Even though the relationship obtained from the annual Total Listed Equities is very weak, increase in Total Equities will surely but may be insignificantly impact on the economy and as such should be encouraged. Lending rates should be controlled in a manner that it will attract the attention of investors genuinely in need of the fund.

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