THE IMPACT OF CAPITAL MARKET GROWTH ON NIGERIAN ECONOMY

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ABSTRACT: *This study examined the impact of capital market growth on Nigerian economy between 2000 and 2013. Data were collected from Security Exchange Commission reports, Nigerian Stock Exchange Review Reports, Central Bank of Nigeria Statistical Bulletin respectively and ordinary least square method of regression was used with aid of SPSS version 16 software packages to analyze the data. Gross Domestic Product (GDP) was used as measure for economic growth while the capital market development are represented with Market Capitalization (MCAP), Numbers of Deals, All-Share Index (ALSI) and Total Value of Transaction (TVT).The result of the study reveals a strong correlation between economic growth and the independent variables. This is clearly shown in the very high R, R^2, and adjusted R^2 of 0.951, 90.4% and 86.1% respectively. With the exception of All Share Index, Total Value of Transaction and Numbers of Deals do not have significant impact on economic growth of Nigeria within the period of study. On the whole, 90.4% variation in economic growth in Nigeria is explained by the model. The long run relationship showed that only market capitalization impact significantly on the GDP. In the same manner the short run error correction model still indicates that market capitalization impacts positively on the economy. The study therefore recommends the pursuit of policies that would improve the depth and breadth of the Nigerian capital market so as to engender a rapid development of the market that would result in the economic growth and development of the economy.*

KEYWORDS: MCAP, All Share Index, GDP, Value of Transaction Capital Market

INTRODUCTION

The financial system in any economy plays significant role in stimulating economic growth and development. It channels funds efficiently to various economic agents that need them for productive uses. This function is very important for economic growth and development because it creates and makes link between the surplus and deficit units of an economy. The financial system provides this basically through the activities in the financial market. The capital market which is a subset of the financial market provides an avenue for the efficient channeling of long term funds (idle funds) to the users of funds for investment uses from the savers of fund. The other subset being money market, serves as a medium through which short term fund are channeled.

Capital market is a collection of financial institutions set up for the granting of medium and long term loans. It is a market for government. In this market, lenders (investors) provide long term funds in exchange for long term financial assets offered by borrowers. The market encompasses of two arms; the primary market which creates a medium for long-term fresh funds to be raised through the issuance of new financial securities, and, secondary market which provide opportunities for the sale and purchase of existing financial securities that have already been traded in the primary market, among investors thereby encouraging investment in financial securities and boosting economic growth.

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The capital market effectively started operations in Nigeria on 5th June, 1961 under the provision of the Lagos Stock Exchange Act 1961, which transformed into the Nigerian Stock Exchange in December 1977 as a result of the review of the Nigerian financial system (CBN, 2007). The Securities and Exchange Commission (SEC) was established in 1979 through the SEC Act 1979, to regulate the capital market, but it commenced actual operation in 1980. It took over regulatory functions from Capital Issues Commission, which was established in 1973. Since then, various forms of financial instruments have been issued in the capital market by new and existing business to finance product development, new projects or general business expansion.

In the Nigerian context, participant includes Nigerian Stock Exchange, Discount Houses, Development banks, Investment banks, Building societies, Stock Broking firms, Insurance and Pension Organizations, Quoted companies, the government, individuals and the Nigerian Stock Exchange Commission (NSEC). The capital market is therefore very important to any economy because, it encourages long-term savings which are channeled into real investment with a view to increase capital stock. According to Ewah *et al.* (2009), the main objectives of establishing the Nigerian capital market is to mobilize savings from various economic units for economic growth and development, provide adequate liquidity to investors, widen the ownership base of assets as well as the creation of a buoyant private sector and provide alternative source of funds for government. Others are to encourage more efficient allocation of new investments through the price mechanism, encourage more efficient allocation of a given amount of tangible wealth through changes in the composition and ownership of wealth, create a built-in efficiency in the operations and allocation in the financial system to ensure optimal utilization of resources, and promote rapid capital formation.

The introduction of the Structural Adjustment Programme (SAP) in 1986 has contributed positively on the activities of the capital market in Nigeria. The total number of securities transacted in the capital market (both first and second tier) was 334 in 1961. Of this, government securities were 92 while industries were 342 (72.5% of the total). In 1965, the total number of transaction increased to 1018 (204.79% over the 1961 figure). Of this, industrial securities dominated with a percentage share of 61.6%.

The number of transactions however dropped in 1970 to 643 (47.8% of which were government securities). Again, the value of total transactions in the year was N16.6 million with government securities accounting for almost the total value (98.78). Industrial securities though more in number were valued at only N0.2 million. From 1976 however, industrial share of both in number and value of transactions increased tremendously (from 97.0 and 2.03% for 1990 to 97.3 and 3.29% for 1985 and 98.85 and 11.11% respectively in 1987. The sudden growth both in the total number and value of transaction in the market and in the share of industrial securities during these periods can be attributed to the positive effect of the Nigeria enterprise Promotion Decree of 1977 on the development of the private enterprise in Nigeria. The same positive trend continued at even a faster rate in the late 1980's. The share of government securities in the number and value of transaction fall from 1.44% and 92.6, in 1985 to 1.15 and 88.9% respectively in 1987, falling further to 0.39 and 65.13% in 1990,0.10 and 10.4% in 1993 and 1995. This development is in line with Structural Adjustment Programmes' policy of allowing greater private sector participation in the economy. Unlike the above picture, the trend in the total number and value of securities traded in the capital market over the same period as being erratic with decline in number 1990 and 1993 and the value in 1985. Both the secondary and primary market recorded massive growth in 1995 as a result of the relative calm in industrial

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environment (compared with 1993 and 1994), the repealing of the Nigeria Enterprise Promotion (NEP) Decree and Exchange Countries Act (ECA) of 1962. Another development that aided positive growth in 1995 was the promulgation of the Nigerian Investment Promotion commission (NIPC) Decree No. 16 and the Foreign Exchange provision decree No. 17 of 1995.

Activities in the year 2001 shows that exchange as 282 securities made up of 19 government stock / bond, 49 industrial loan (debentures) or preferences. Six companies were listed on this segment of the stock market by 1988 and by 2002 over twenty-three companies had availed themselves of the opportunities offered by this market.

Over the years, the listing has increased and as at November 30th, 1985 there were 20 securities on the exchange official list, and increasing to 290 as at the end of April 2007. Although a small market by international standard, the Nigerian capital market is one of the leading markets in Sub-Saharan Africa and has made some notable strides in recent years. With a history of over 50 years (when the first public issue was floated) and 42 years of a stock exchange, equity listings and Market capitalization is still relatively small, standing at 196 and US$7.0 billion respectively at the end of March 2003. The value of equities traded at year-end 2002 was US$0.5 billion, a much lower figure than market capitalization. As a result of this, turnover ratio of 7.9% was recorded at the end of 2002, higher than the average turnover ratio for 1998 to 2002. From a historical perspective, this figure except for 2001 is an improvement, evidencing the continued rise in activities in the market.

The market has been quite active this year with traded equities of N10.8 billion (US$ 86 million) in January 2003, which represented about 18% of the total equity value in 2002. By end of March 2003, N24 billion (US$188.9 million) equities had been traded. It is important to point out that the depreciation of the local currency, the naira, has continued to impact on the size of the market in dollar terms. Between 1997 and December 2002, the naira lost over half its value to the dollar. As a result, while market capitalization witnessed impressive growth in local currency terms, this was not the case in dollar terms as a much slower growth was registered. For instance, in the five years ending 2002, equity market capitalization recorded almost three-fold increase from N256.8 billion in 1998 to N748.7 billion in 2002 or a 191.5% increase while it rose by 52.6% or from US$3.8 billion in 1998 to US$5.8 billion in 2002. The point being made is that, if the local currency had been strong, the dollar size of the market would have been larger. In 2002, equity market capitalization grew by over N100 billion (US$794million) or 15% and has remained on the upward swing this year. In the month of January 2003, equity market capitalization rose by over 12.4% and by February 2003, it had gained N116 billion (US$0.9 billion) over December 2002 more than the increase in the whole of that year. However, in March 2003, market capitalization rose by N98.2 billion (US$0.8 billion) over December 2002. If this trend continues, market capitalization by year-end 2003 is likely to significant surpassing the gain recorded in 2002.

The impressive movement in market capitalization has been led principally, by new listings, and firmer prices arising from positive market sentiments. In 2004, the stock index rose by 10.7% albeit lower than the price increase of 35.2% in 2003 and 54.0% in 2000. In point of fact, the five years (2000 to 2005) average index growth of 33.3% was higher than the growth of inflation, which averaged 12.6% during the same period.

The impressive expansion of the capital market is also evident in the size (percentage) of market capitalization to gross domestic product (GDP). A look at this over the past decade shows that market capitalization represented 14.0% of GDP in 2002 in contrast to 12.0% in

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2005, 9.4% in 1999 and 5.6% in 1992. The rising trend indicates that market capitalization is growing faster (in percentage terms) than GDP. The commission believes that as the merits of the capital market become better appreciated, more initial public offerings (IPOs) would be induced. Furthermore, privatization and strong equity prices could further bolster the percentage of market capitalization to GDP. Indeed, the capital market has in recent times become a major source of funds to corporate entities and is increasingly becoming attractive to state governments. This is particularly obvious in the number and value of new issues as well as the variety of fundraisers in the market lately.

Year 2002 was a record year for the capital market with total flotation of N61.3 billion or US$0.483 million, the highest annual record ever posted in the capital market. This single year record surpassed the cumulative figure for the preceding two years. It is also significant that the total value of flotation last year 2006 represented 36.4% of flotation in the ten years ended 2002. It may be instructive to state that the commission actually received 46 new issue applications for N78 billion but only 33 applications had been cleared and opened by year-end.

The 33 flotation's in 2004 compares favourably with 27 and 21 in 2001 and 2000 respectively. The listing as increased to 310 securities as at 2007. While in 2013 the domestic participation due to the on- going reforms and initiatives which affected the market indices positively, as All Share index showed sustained growth throughout 2013. It experienced a major downside in June and August and declined by 4.31% and 4.38% respectively, owing partly to the remark of Ben Bernanke, Chairman of the US Federal Reserve Board about a potential beginning of the end of the Federal Reserve Board quantitative easing. However, the All Share Index rallied and as at December 2013, stood at 39,562.75 points, indicating an appreciation of 40.90% year to date, exceeding the 35.45% appreciation recorded in 2012. In addition. Total market capitalization closed at N18.60 trillion, from 14.80 trillion in 2012, indicating an appreciation of 25.68% and an upsurge in market activity and market confidence. In contrast to the position in 2012, transactions on the Exchange also improved tremendously as turnover value stood at about N1.01 trillion from sale of over 104.20 billion securities in about 1.40 million deals.

The trading value, volume of securities traded and numbers of deals appreciated in 2013 by 53.61%, 16.85% and 39.98% respectively (SEC Annual Report, 2013 and various issue).

The Nigerian capital market has acquired a significant status even though it is relatively small in scope and operation within the emerging capital market groups (Akinsola, 2007).

Despite the glamorous claims of the growth of the capital market and its contribution to economic development as a vehicle for the provision of long terms funds for investment and capital formation within the Nation and the various efforts being made by the various tiers of government in developing the nation's economy, the dearth of finance to the major sectors of the economy, and the uneven allocation of financial resources has continued to pose serious challenges to the development of the national economy(Ewah et, al, 2009).

Apart from social and institutional factors inhibiting the process of economic development in Nigeria, the bottleneck created by the dearth of finance to the economy constitutes a major setback to the economy. Consequently, it is necessary to recognize the market, institutions and instruments comprising the system to facilitate the efficient production of goods and services for the well being of the society, as well as facilitating the transfer and redistribution of real economic resources from the surplus sector to the deficit sectors for economic growth and development of the Nation.

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Therefore, the research study seeks to x-ray the growth and contributions of capital market to Economic Development in Nigeria.

REVIEW OF RELATED LITERATURE

The literature involves citing different contribution on what capital market is all about and what means to follow in having a strong, viable and reliable market.

Al-faki (2006), states that 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 terms capital for investment in socio-economic developmental projects''.

Jhingan (2004) posited that the capital market is a market which deals in long term loans. It supplies industries with fixed and working capital and finance medium term and long term borrowings of the central, states and local governments. Thus the capital market comprises the complex of institutions and mechanisms through which medium term funds and long term funds are pooled and made available to individual business and governments.

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

Nwankwo (1998), observed that the capital market comprises the complex of institution and mechanism through which intermediate term funds and long term funds are pooled and made available to business, government and individual. They also asserted that the capital market comprises the process by which securities already outstanding are transferred. This definition is very embracing; it contains the fact that the capital market has no fixed location and deals on medium and long term funds, has government, individual and business firms as participants and ensures liquidity as it provides market for both new and old securities.

Alile (1986), stressed that the central task of the capital market is the mobilization of funds in the hands of individuals who save pool and channel such

funds into productive uses.

Characteristics of Capital Market

Ekiran (2000) the characteristics of capital market include:

Participant

The participants of capital market can broadly be classified into regulators and the operators. The regulators include an apex regulatory body usually a securities commission and the securities exchange itself which is usually self regulatory. The operators which are sometimes referred issuing houses, regulatory etc.

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Commodities traded in the market

The commodities traded in the market are securities of medium and long term nature.

Scope and size

The scope and size of a capital markets are quite large and wide. The market thrive on movement of activities and dealing.

Organization

Most capital market though wide in scope are normally organized. This is necessary in order for them to command the respect of the public and at the same time guarantee a fair play to all the participants.

Flexibility and adaptability

One way by which the effectiveness of a capital market can be measured to examine its readiness to accept and take part in changes that may occur in the overall economy.

Mode of transaction

Transaction in the capital market involves the use of financial instruments such as cooperate equities (shares), debentures, government bonds etc all in an effort to raise funds.

Duality on the transfer process

This feature is based on the fact that the capital market performs the dual role of raising funds through the issue of new instruments or selling existing ones to new investors. By this function, the market helps to ratio funds among numerous competing alternative uses.

Environmental Imperatives for Capital Market Smooth Functioning

Before the objectives of capital market can be fully achieved for economic growth of any nation, the following environmental factors are imperative for its smooth functioning;

a) An economic and administrative central structure cum policy measures that allow an appropriate role for private sector enterprises: This refers to the encouragements and public enlightenments made to the members of the public or benefits to be derived by investing their savings in capital market and all other steps to boost development for the betterment of a nation.

b) A policy scheme that encourages price flexibility as reflected by the interplay of supply and demand factors.

This is the work of the regulatory bodies like Nigerian Stock Exchange (NSE), Security and Exchange commission (SEC) and government can come up with any measures for its growth if the need arises.

c) A stable political environment: frequents changes of government and their policies cum decisions without due consideration of the importance of capital market will not augur well for development. Therefore a well defined and articulated programme coupled with a stable and organized political environment will have a positive effect on the activities and growth of capital market.

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Conditions for establishing a capital market

Ekiran (1999) the environment of a country plays a major role in the success or failure of capital market development because if an environment is conducive, it will give room for the rapid growth of a capital market than in an environment that is hostile.

Political Environment

This is the first to be considered in establishment of capital market. If there is enough political stability, it gives the investors' confidence that national policies will permit over time and that this policies will appropriate measures to encourage private savings of both the entrepreneurships and the investors. But in an unstable short term view, this causes a volatile market and does not encourage long term planning.

Economic Environment

In an economy where market development becomes priority, government enterprise should not be pre dominant, otherwise capital market development becomes difficult.

Role of Private Sector

The role of a stock market within an economy as an engine for capital formation is intentioned with findings and positive constructive role for the private sector in general. To achieve thus, both the private sector and the capital market must be integrated into the country's overall development programme, both must know and be responsive to the needs of the population as a whole. In addition, microeconomics measures such as risk, yield and liquidity of capital must be adopted to encourage the greater channeling of saving through capital market.

Legal and Regulatory Environment

Regulation is necessary to protect the investors and in process increase their confidence. It is also necessary to ensure a fair and orderly security in the market to achieve these objectives, company laws must be modernized and the conditions granting the listing to companies seeking quotations must be clear and positive, there must be rules and regulations for the brokers, directors and also operators of the stock market. Also, there must be code of conduct for brokers, directors and managers of the stock exchange, stock broking firms and quoted companies.

Capital Market Instruments

The instruments are the securities that are traded in the stock market. They cannot be inspected or assessed the way electronics, tubers, apples, grapes etc are being assessed. The instruments can be categorized into three major groups of securities according to Herbert (2004). These are;

a) Ordinary shares

b) Preference shares

c) Debt instruments

Ordinary Shares: They are issued to owners of the company. They are long term financing with a nominal value or face value. The memorandum and article of association of a company

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specified the number of authorized ordinary shares a company can issue. The ordinary shareholders of a company have a residual claim in the company, their claims to income and assets come after the creditors and preference shareholders have been paid in full. As a result, a shareholders return on investment is less than the return to a lender or preference shareholders. However, there is no limit to the return of ordinary shares.

Preference Shares: This is another major source of long term financing to a company. The holders of preference shares are entitled to a fixed percentage dividend before any dividend is paid to ordinary shareholders. However, preference dividend can only be paid if sufficient distributable profits are available, although with cumulative preference shares the right to an unpaid dividend is carried forward to later years. The arrears of dividend on cumulative preference shares must be paid before any dividend is paid to ordinary shares. For credibility sake, companies always try to pay the fixed dividend regularly. Just like the debt instruments, a preference shares has a nominal value and dividend, which is paid at a fixed percentage of this amount. Preference shares can be redeemable or irredeemable.

Debt Instrument: A bond represents a method of long term borrowing by corporation of government agencies, when a corporate bond is issued, it as a legal contract that goes with it which contains the provision of loans in terms of its amounts, interest and maturity period. Bonds are sold in multiples such as N1000. They are purchased by commercial banks, insurance companies, pension fund and even individuals. This form of financing is usually reserved for target companies or corporation. This is why they have prior claims on the firm's asset inthe event of liquidating. There are different classes of bonds.

Types of Capital Market

Primary Market

Soyede (2005) 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 issuing houses and stock brokers also play prominent roles. Until 1993, when deregulation of the capital market commenced, the SEC was responsible for pricing and allotment of new issues in the Nigerian capital market while the quotation committee of the Nigerian Stock Exchange approved only issue which is to be listed on the exchange's official list. The issuing houses and stockbrokers package issues for government and public companies.

However, the Central Bank of Nigeria acts as issuing houses for federal government stocks when company wishes to sell such shares (offer for sale). If such company is already listed, the price is technically suspended to forestall any insider or abuse of classified information. This situation holds true reason for Companies going into mergers and acquisition or rearrangement that may potentially have bearing on their price and the suspension is sustained by the Nigerian Stock Exchange until such exercise is completed.

For companies seeking listing for first time, the securities are listed with the offer price; soon after the offer exercise is completed instruments representing ownership are dispatched to the shareholders. It is of paramount important to mention here that hitherto, Securities and Exchange Commission was the sole body giving approval to offer price proposed by the Issuer in conjunction with Issuing Houses. However, under the present dispensation the issuing house

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proposes and defends a price at which it is willing to underwrite the entire securities to be issued. This becomes the offer price and entirely conforms to the price. While Securities and Exchange Commission examines the offer documents with a view to ascertaining the adequacy of price and conformity with statutory requirements among other things, the Nigerian Stock Exchange reviews the same documents to ensure the company or institution meets its listing requirements.

Alile (1997) the primary market takes into representation the issuance which could be in form of any of the following:

a. **Offer For Sale**: Public offers for shares in a company by existing shareholders, proceeds of which go to the vendors. This is a system by which existing shareholders offer their shareholding or part of them for public subscription. In other words, offer for sale is a transfer of ownership of shares from existing holders to new holders. Most of the public offers under the federal government privatization programmer under this category. It differs from offer for subscription in that the proceeds of an offer do not go to the company but to the selling shareholders.

b. **Offer For Subscription**: This is a direct issue to the public by floating a number of shares of debenture stock. It carries the suppositions that the company is a public one and the proceeds of the issue go to the company to finance expansion or and modernalization. In other words, the company issues a prospectus inviting the public to its shares and it should be noted that the company cannot dictate who subscribes to its shares.

c. **Stock Exchange Introduction**: Where a company seeking quotation already has enough shares held in public hands, the council of stock exchange may permit its security to be introduced into and listed on the market, no new or existing shares to be sold. The added marketability to raise fresh funds in the future invariably at a lower price or cost.

d. **Private Placement:** Securities are sold to the client of the Issuing Houses or Stockbrokers handling the issue instead of being offered directly to the general public.

This is often necessitated by the desire to save time and cost of issue. The council of the Stock Exchange seldom grants such permission and this method is utilized by quoted Plc's. This differs from offer from the subscription and offer for sale in that it is not an invitation to the public to subscribe, rather, the shares or stocks are placed with a broker who then seeks out for the prospective Purchasers.

e. **Right Issue:** These involve offer to buy more shares generally made to existing shareholders and sometimes at concessionary price. Applications are considered by quotations committee of the exchange for ratification and avoid excruciating interest rate charged in the money market. The approval of the council gives the go ahead for the primary market activities before the commencement of the primary market activities; the Securities and Exchange Commission is given the application to determine the offer price of the security.

However, in view of favourable terms on which such issues are usually made, shareholders scarcely ever miss the opportunity. Underwriting of securities is an aspect of primary market. It is an intermediary process and it is far gaining ground in Nigerian Capital Market.

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They buy from the issuers at one and sell to the investors at a slightly higher price. The price differences referred to as "underwriters spread", represents compensation for absorbing the risk that goes along with guaranteeing the borrower, the expected proceed from sales before the securities are actually placed in the market or in hand of investors.

Secondary Market

This enhances the new issue market in many ways, it provides the means by which investor can monitor the value of their shares and liquidate them when they wish to do so. 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. It has little to do with influencing the way an economy allocates its capital resources or the way in which sailing surplus and savings deficit unit deal with one another. However, events in the secondary market frequently provide the basis for the terms and conditions that will prevail in the primary market. If there were no secondary market in which investors could turn investments in new issues back into cash when they choose, many investors would not buy new issues in first places. If any investors truly intend to make any irrevocable commitment of their funds, the availability of a secondary market is an absolute pre-requisite to the existence of a primary market in common stock. From the perspective of the overall economy, the secondary augmentation of the flow of funds into the new issue market is particularly important. It makes it possible for the economy to make long term commitment in real capital. This point is perhaps best illustrated by considering what would occur if the financial claims issued by firms and individuals could not be traded in the secondary market. The secondary market makes it possible for those who desire to make long term real investments to obtain the money capital of savers who have no intension of committing themselves for the long term. Thus, they provide the economy with the opportunity to consider entirely new approaches to building its capital stock. Market capitalization is the market value of a company's issued shares capital; it is the product of the current quoted prices of shares and the number of shares outstanding.

Role of Capital Market in an Economy

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 terms capital for investment in socio-economic developmental projects''. The capital market is divided into the primary and secondary market. The primary market or the new issues market provides the avenues 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. The secondary market provides an avenue for sale and purchase of existing securities. Sule and Momoh (2009) found that the secondary market activities have impacted more on Nigeria per caipta income by tending to grow stock market earning through wealth than the primary market.

The role of the capital market in the development of the economy includes:

1. It provides opportunities for companies to borrow funds needed for long- term investment purposes.

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2. It provides avenue for the marketing of shares and others securities in order to raise fresh funds for expansion of operation leading to increase in output/ production.

3. It provides a means of allocating that Nations real and financial resource 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 essentials amenities for socio- economic development.

5. The capital market can aid the government in its privatization progrsamme 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.

Opportunities in the Capital Market

Dozie (1996) the capital market can be described as a place where a nation's wealth is bought and sold. It creates facilities for raising funds for investment in long term assets. The Nigerian capital market is no expectation to this global role. The opportunities that abound in our market can be looked at from three major perspectives.

Corporate Finance Benefits Of The Capital Market

A unique benefit of stock market to corporate entities is the provision of long term, non-debt financial capital. Through the issuance of equity securities, companies acquire perpetual capital for development. Through the provision of equity capital the market enables companies to avoid over reliance on debt financing. Thus, improving corporate debt to equity ratio.

Financing Options In The Capital Market

The stock market offers an array of financing instruments that the long term investments that meets the long term investment needs of both government and private sector.

The medium and long term corporate debt markets remain a critical element in the sustainable development of economics.

Experience in Nigeria in the last decade, shows that the use of corporate bonds is a more prudent method of raising long term finance than bank loans. The advantages are that states or local government can implement their project quickly and at the same time avoid high interest rates in the bank loans.

Secondary Market Activities

The stock market is an important economic sector whose uses are best appreciated from the perspective of efficiency in capital formation and allocation. An efficient stock market

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mobilizes savings and allocates a greater proportion to those investments with the highest perspective rate of returns after giving due allowance for risk.

Secondary market is synonymous with the NSE and does not create new securities.

The business in this market is triggered off when investors in the primary market decide to dispose their holdings. In effect, the issuing companies do not directly benefit from transactions in the secondary market. It is the original investors that benefits. Such benefits come in form of Okigbo (1981);

a) Dividend payment.

b) Stock splits.

C) Capital appreciation.

d) Long term hedge against trends.

Levels of Market Efficiency

A market is said to be efficient if it uses the information available correctly in setting and adjusting prices of securities. Inoga (1977). Market efficiency refers to two essential ingredient of price adjustment to new information. Speed and quality (direction and magnitude) of the adjustment. The main effect of efficiency in capital market is that it precludes most investors from the capacity or ability to out-perform the market. But the market is deficient in term of speed and quality of it reaction, the sophisticated investors would have little difficulty in profiting from the situation.

Alile (1997) and Pandey (2006) made a distinction between three levels of market efficiency with each level relating to a specific set of information which is increasingly more comprehensive than the previous level. These are weak, semi strong, and strong levels of efficiency.

a. Weak efficiency

A market is efficient in the weak form if share prices fully reflect the information implied by all prior price movements. Share price movements become totally independent of previous price movement implying the absence of only price pattern with prophetic significance. Prices would only respond to new information such as new economic event of new industry.

The implication of this is that historical price and returns information does not provide a basis for superior forecasting of future price or returns. Therefore past information cannot help investors beat the market and make excessive returns.

b. Semi strong efficiency

This is efficient on the semi strong sense if share price respond instantaneously and unbiased to new published information. The implication of semi strong efficiency is that current share prices would invariably represent the best interpretation of the information about the firm.

Therefore, it becomes futile for investors to search for bargain opportunities from analysis of published data, such as annual reports or other corporate announcements designed to lure them to the market.

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c. Strong efficiency

The market is efficient in the strong form if share prices fully reflect not only published information but also all relevant information including data not yet publicly available.

To conclude the review on the efficient capital market theory, it can be asserted that if prices and returns prevailing at any point in the capital market do reflect all available historic and current public information, it will be difficult for investors to achieve superior performance by judging that security market conditions may be better or worse in the future.

The Second-Tier Securities Market and the Exchange

This market arose for various reasons. One of them was to encourage small firms in participating in the activities of exchange. Another was to increase the number of quoted companies. The Federal Government creates this market as a kind of solution to problems, which these small companies faced in gaining quotation in the exchange.

These companies faced high cost of seeking quotation with exchange. There was the fear of losing control of the business through going to the public. Also, it is known that Nigerians hate disclosing accurate financial information about their business. Also little or no knowledge of the capital market becomes a handicap to them. Many companies in Nigeria are experiencing these problems. But the establishment of the second-tier securities market, it helped in solving most of these problems.

Information requirement are not as extensive as that of the stock exchange. The firms involved here are nurtured and helped to grow and graduate from second tier to the first tier security market. Benefit of second tier security market;

1) Reduced cost of quotation especially for small firms.

2) Enhanced ability to buy and sell shares.

3) Assurance of continuity of business even after death of founders.

4) Greater scopes of raising capital for the companies.

5) Growth through help of the exchange and certain schemes provided by government like the employees share scheme.

6) More knowledge in the capital market operation and benefits to be derived from it Inoga (1977).

Overview of the Nigerian Capital Market

The capital market is cornerstone of every financial system since it provides the funds needed for financing not only business and other economic institutions, but also the programme of government as whole.

The capital market is essentially a market for long term securities that is stock, debenture and bonds lasting for usually longer than three years.

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The proper functioning of the capital market was not set up until the establishment of the Central Bank in 1959 and launching of the Lagos stock exchange in 1961even though securities were floated as far back as 1946.

The needs to have an organized stock exchange came up and committee was set up by the government under the chairmanship of Prof. R.W.Barbock to consider the feasibility of having indigenous forum for the purchase and sales of shares and stocks.

The Nigeria capital market was established for the following reasons below.

i. To overcome difficulties of selling government stock

ii. To provide local opportunities and lending for long term purpose

iii. To enable authorities mobilized long term capital for economic growth and development

iv. To enable the foreign business the chance of offering their shares to interested Nigerians to invest and participate in the ownership of these foreign business.

In view of the above the **major participants in capital market are:**

i. Government
ii. Quoted Companies (listed companies)
iii. Stock Brokers
iv. Central Bank of Nigeria (C.B.N)
v. Banking and non Banking Financial Institutions
vi. Nigerian Stock Exchange
vii. Nigerian Securities and Exchange Commission

Functions of the capital market:

a. The promotion of rapid capital.

b. It is machinery for mobilizing long-term financial resources for industrial development.

c. The provision of an alternative source of fund other than taxation for government.

d. The mobilization of savings from numerous economic units for growth and development.

e. The provision of liquidity for any investor or growth of investors.

f. The broadening of the ownership base of assets and the creation of a healthy private sector.

g. It is an avenue for effecting payment of debts

h. The encouragement of a more efficient allocation of new investment through the pricing mechanism.

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i. The creation of a built in operational and allocation efficiency within the financial system to ensure that resources are optimally utilized at relatively little cost.

j. It is a necessary liquidity mechanism for investors through a formal market for debt and equity securities.

The Nigerian Security and Exchange Commission

The Nigerian security and exchange commission (NSEC) is the apex institution for the regulation and monitoring of the Nigeria capital market. The commission was established under the security and exchange commission decree 1979, operating retrospectively from 1st April 1978.

Prior to the SEC, two bodies had in succession been responsible for the monitoring of capital market activities in Nigeria. The first was capital issues committee, which operated between 1962 and 1972. It could not be seen as the superintendent of the capital market because its functions were more or less advisory without the force of instruction even through its functions included the coordination of capital market activities. The next body was the capital market issues commission (CIC) which came into being in March 1973. The C.I.C, unlike its predecessor, had full powers to determine the price, timing and volume of security to be issued. Despite this wider power, the CIC could not be seen as the apex of capital market because it concerned itself with public companies alone and its activities did not cover the stock exchange and government securities.

The enabling Act of the Securities and Exchange Commission specifies its overriding objectives as investors' protection and development while its functions were divided into two regulatory and development.

The functions of the commission are extensively spelt out in Nigeria Securities and Exchange Commission Decree (Decree No 29) of 1983 and the Nigerian Enterprises Promotion Decree 1990. According to section (6) subsection (9) to (10) the commission is charged with the following duties and functions.

i. Determining the amount of price and time when securities of companies are to be sold to the public whether through offer for sale or subscription.

ii. Registering all securities proposed to be offered for sale to or for subscription by the public.

iii. Maintaining surveillance over the securities market to ensure orderly, fair and equitable dealing in securities.

iv. Protecting the integrity of the security market against any abuses arising from the practice of insider trading.

v. Acting as regulatory apex organization for the Nigerian capital market including the Nigerian Stock Exchange and its branches to which it would be at liberty to delegate power.

vi. Creating the necessary atmosphere for the orderly growth and development of the capital market.

vii. Reviewing, approving and regulating merger acquisition and all forms of business combination.

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viii. Registering Stock Exchange or their branches, registers investment advisers, securities dealers and their agents and controlling and supervising their activities with a view to maintaining proper standards of conduct and professionalism in the securities business.

ix. Undertaking such other activities as are necessary or expedient for giving fall effect to the provision of this decree.

The Nigerian Stock Exchange

As one of the constituencies of the capital market, the exchange is a private, nonprofit making organization, limited by guarantee. It was incorporated via the inspiration and support of businessmen and the federal government. But owned by about 300 members. The membership includes financial institution, stockbrokers and individual Nigerians of high integrity, who have contributed to the development of the stock market and Nigerian economy.

The Nigerian stock exchange started with the incorporation of the then Lagos stock exchange in 1960. Trading commenced on the exchange in 1961 after the enactment of the Lagos stock exchange Act of 1961, the self regulatory 18 organization was subsequently reorganized and renamed the Nigerian stock exchange 197, based on the report and recommendation of Pius Okigbo financial system review commission.

The stock exchange is thus an institution of capital market, which provides trading floors where all dealing members operates on every business day. The exchange now has nine (9) branches and all the branches function principally as trading floor.

Functions of Nigerian Stock Exchange

i. To provide opportunities for raising new capital.

ii. To promote increasing participation by the public in the private sector of the economy.

iii. To provide appropriate machinery to facilitate further offerings of stocks and shares to the public.

iv. To provide a central meeting place for members to buy and sell existing stocks and shares and for granting quotation to new ones.

v. To reduce the risk of liquidity by facilitating the purchasing and sale of securities.(Al-faki, 2007).

Recent Development in the Capital Market

The Nigerian Capital Market in recent times has witnessed a lot of development such as the introduction of automated trading system (ATS) in 1999. Transactions in securities on the floor of the stock exchange are now executed electronically by brokers trading on work stations (computers), which are linked to a central server at the data centre or control room of the Exchange. The ATS allows traders to view entire market on their computers at a glance as they make their offers and bids.

This has increased transparency in the market. Before the introduction of the ATS, transactions on the floor of the exchange were done manually through the open call over system.

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Introduction of the Central Securities Clearing System (CSCS), a subsidiary of the NSE in 1997.

The CSCS facilitates an efficient, faster and more secured process of purchase and sale of securities in the market. Traders are now cleared and settled on the transaction day plus (3) three days (T+3) basis, as against T+14 which existed before the introduction of the CSCS (CBN 2009).

Introduction of floorless (remote) trading system is an improvement to the Automated Trading system ATS which requires no physical trading floor. The securities dealers simply trade through computer systems mounted in their offices but linked to a Central System on the Stock Exchange.

Introduction of Trade Alert by NSE/CSCS

It works through a software device programmed into the main computer system of the CSCS which alerts subscribers whenever there are transactions on their accounts. A message is sent to a subscriber's mobile phone to notify him or her of such transaction. The subscriber either Okays or aborts the transaction.

The establishment of the Abuja Securities and Commodities Exchange (ASCE) (SEC, 2005) is a significant development. It is an organized market that provides facilities for trading in commodities and securities. Commodities are products or raw materials such as petroleum, cocoa, rubber, palm oil, palm kernel, cotton, groundnut, soybeans, and solid minerals. Transactions in commodities are to be made through contracts, which have finite lives and delivery dates. The ASCE was established to deepen the Nigerian capital market.

The introduction of Capital Trade Points (CTPs) is another major development. These are mini-exchanges in tended to provide market places for the buying and selling of securities of small enterprises that cannot meet the more stringent listing requirements of the stock exchanges. The amounts of funds that can be raised at CTPs are also limited.

The major objective of CTPs is to attract local and small companies to the market and to provide them the opportunity to raise funds from the market at relatively low cost, to simplify the process of raising funds and to bring capital market activities closer to the grassroots.

The Nigerian Capital Market Institute (NCMI) was established to bridge the knowledge gap in the capital market by providing specialized courses to stakeholders. Without a crop of highly professional operators and regulators, the capital market objectives of contributing to the development of the Nigerian economy will be an impossible task. With the establishment of the NCMI, the knowledge base of stakeholders in the capital market has definitely been enhanced to enable them confront present and future challenges.

The code of corporate governance for public companies which was introduced in 2003 essentially provides for the conduct of the affairs of companies. It deals with issues concerning Board of Directors, shareholders, Audit committees etc, the code is expected to enhance corporate discipline, transparency and accountability. The code is currently of persuasive nature. However, appropriate sanctions are meted when necessary. In the spirit of the NEEDS programme of the Federal Government, all public companies have been directed to report their level of compliance with the code in their annual reports and accounts, and prospectuses (whenever issued). The Security and Exchange Commission (SEC) has dedicated a department

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(Office of the Chief Accountant), that will among other things monitor public companies compliance with the code.

The SEC set up industry committees on pension funds, bond market and unclaimed dividends years back. The work of the committees contributed to the pension reform programme and to the executive bill on the unclaimed trust fund which if passed into law is expected to make dividends available to investors whenever they show up instead of the present situation where dividends are statute barred after twelve years.

Prospects of the Nigerian Capital Market

The Nigerian stock market has the capacity to provide channels for government and corporate entities to raise new funds and for deepening or broadening existing capital base. Such sound financial services will no doubt serve as hedge against the vagaries of business and economic cycles which have in recent time shaken the basic fabrics of the national economy.

The capital market as the citadel of the private sector is a network of institutions that can render financial services capable of revamping a nation's economy. But for it to render such services with optimal efficiency, the assistance of government is needed in the area of fiscal policies and in the provision of efficient infrastructure, telecommunications and investment incentives. No capital market institution works in isolation, if the entire system is to function properly (Okeke, .2004).

Capital market instruments and institutions help to support national growth and development. Capital markets should therefore be accorded pride of place in national economic development programmes.

Challenges of t he Nigerian Capital Market

The level of capital market awareness in the country is low as many Nigerians are still very much uniformed about this arm of the financial market. SEC has been marking a lot of efforts in this regard through its series of investor education programs such as state enlightenment programs, specialized seminars, workshops and conferences. Nevertheless all hands must be on deck in ensuring that the awareness level is greatly improved. It will require the use of Government machinery and Non- Governmental Organisations (NGOs) to carry out the awareness campaign to the desired level required. State Chambers of Commerce, in collaboration with their respective Ministry of Commerce and Industry should collaborate to design programmes that will be specifically tailored to encourage their respect communities to be active participants in the capital market.

The reform of the Nigerian economy will be predicated on a number of factors, among which are the formulation of capital market friendly policies that include tax and other incentives to investors and other operators in the market. These will help promote a strong private sectored economy as envisaged by NEEDS contribute to high employment level, low inflation rate and stable exchange rate.

Capital flight endangers the growth of the capital market and is an indication of a vote of no confidence in an economy. Capital knows no boundary", and will flow only to an economy which offers certain attractions including safety of investment, and attractive return on investment. Foreign investors and Nigerians in the Diaspora should be encouraged to invest in the Nigerian Capital Market. Information on the Nigerian Capital Market should be made

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available on a regular basis to the above groups to stimulate their interest and propel them to invest. Deepening of the market and the introduction of new products such as derivatives and better legal framework are bound to encourage foreign investors.

Among the biggest challenges of the Nigerian Capital Market is the creation of a highly liquid market in which investors can buy and sell with relative ease (the free entry free exit maxim) and large transactions are consumed without significant changes in prices. This becomes necessary given the backdrop that well informed investors generally consider the level of market liquidity before investing in such market.

They will only consider a market which provides ease of entry and exit. To a large extent, the changes that have taken place in the stock market in recent years have improved the standing of the capital market.

Analysis of the Nigerian Capital Market Performance

The Nigerian capital market has performed fairly despite the numerous challenges and problems some of which include: the buy and hold attitude of Nigerians, massive ignorance of a large population of the Nigerian public of the nature and benefits of the capital market, few investment outlets in the market, lack of capital market friendly economic policies and political instability, private sector led economy and less than full operation of recent developments like than full operation of recent developments like the Automated Trading System (ATS), Central Securities Clearing System (CSC), On-line and Remote Trading, Trade Alerts and Capital Trade Points of the Nigerian Stock Exchange.

Market Capitalization

This is the most widely used indicator in assessing the size of a capital market to an economy. In a bearish market the market capitalization falls and vice versa for a bullish market. Before 1988, the Total market capitalization was less than N10 billion from 1988 to 1994. It hovered between N10 billion to N57 billion. In 2003 it was N1, 3593 trillion, N2.1125 trillion in 2004 and N5.12 trillion in 2006. The market capitalization recorded the highest value of N13.2294 trillion in 2007. But this fell to N9.562 trillion in 2008 due to the global financial meltdown. The percentage market capitalization compared to the economy's Gross Domestic Product (GDP) helps to assess the size of the stock market. In 1981, it rose again to 9.3% in 1995, 10.6% in 1996; 18.9% in 2003, 25.6% in 2004 and 27.4% in 2005. Total market capitalization in 2013 closed at N18.60 trillion, as against N14.80 trillion in 2012, indicating an appreciation of 25.68%.

Total New Issues

The Total New Issues before 1989 was below N1 billion, however, from 1989 to 1996 it hovered between N1 billion to N10 billion. The amount crossed the N10 billion marks in 1997. For instance, between 1996 and 2001, a total of 172 new issues (securities of public companies amounting to N56.40 billion) were floated in the capital market. Total new Issues were valued at N5.85 billion in 1996 but it rose by about 532% to 37.198 billion in 2001. Total new Issues were N61, 284 billion, in 2002, N180, 079.9 billion in 2003. N195, 418.4 billion in 2004 and N552, 782 billion in 2005. It crossed the trillion mark in 2007 being N1.935 trillion that year but fell to N1.509 trillion in 2008.

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Listed Securities

The number of equities listed increased from 3 in 1961 to 13 in 1971, 93 in 1981 in 2001 and 198 in 2005. For the SSM, it was 1 in 1985 and 20 in 1995.

After falling from 23 in 1993, it fell to 19 in 1997 and from then to 2005 it remains at 16. The total securities increased from 8 in 1961 to 60 in 1971; 194 in 1981, 23 in 1991, 261 in 2001,288 in 2005 and 301 in 2008.

Value of Transaction

From 1961 to 1975, the annual value of the NSE was below N100 million, however, from 1976 to 1994 it was between N100 million and N600 million. In 1995, the Trading value crossed N1 billion. It was N120.70 billion in 2003, N225, 820.5 billion in 2004 and N4,4 trillion in 2008. From 1961 to 1994, Government Stock dominated the market between 58.91% and 99.5% whereas from 1995 the industrial securities continue to dominated the market.

EMPIRICAL REVIEW

There have been growing concerns and controversies on the role of the stock market on economic growth and development. While some posits a positive link, others maintain a negative one and others still, does not find any evidence at all.

For instance, Atje and Jovanovic (1993) found in a cross-country study of stock and economic growth of 40 countries from 1980 to 1988 that there was a significant correlation between the average economic growth and stock market capitalization.

Osinubi (1998) employed the neoclassical growth model with a time series data on all variables (ones he used) of GDP which was subjected to Augmented Dickey-Fuller unit Root Test and which spanned from 1980 to 2000 to come to the conclusion that a positive relationship exists between the economic growth and the measures of stock market development used. He however, pointed out that the relationships are statistically insignificant which goes further to show that the effect of stock market on economic growth is weak and insignificant.

In examining whether a strong empirical association exists between the stock market development and longrun economic growth, Levine and Zervos (1996) used pooled cross-country time series regression of forty-one countries from 1976 to 1993. The growth rate of Gross Domestic Product per capita was regressed on a variety of variables designed to control for initial conditions, political stability, and investment in human capital and macroeconomic conditions. Conglomerated index of stock market development was also included. A strong correlation was discovered to exist which implied a positive relationship between stock market development and economic growth.

Okpara (2010) analysed the capital market performance and the growth of the Nigerian economy. A co-integration approach was used for the analysis of data. He used the real gross domestic product (as a proxy for development indicator) on the market capitalization, new issues, value of shares traded and turnover ratio as capital market indicators. It showed a long run relationship between the growth of GDP and the capital market indicators.

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Adamu and Sanni (2005), examine the roles of the stock market on Nigeria's economic growth, using Granger-causality test and regression analysis. They discovered a one-way causality between GDP growth and market turnover. They also observed a positive and significant relationship between GPD growth and market turnover ratios. The authors advised that government should encourage the development of capital market since it has a positive effect on economic growth. Chinwuba and Amos, (2011), examine the impact of the Nigerian capital market performance on the economic development of Nigeria by using the Ordinary least Square regression model. The result indicates that the performance of the capital market impact positively on the economic growth of Nigeria.

Osinubi and Amaghionyeodiwe (2003) examine the relationship between Nigeria stock market and economic growth during the period 1980 to 2000, using Ordinary least square regression. The results show that there is a positive relationship between the stock market development and economic growth. They therefore suggested that government should pursue policies that are geared toward rapid development of the stock market. Abu (2009) examines whether stock market development raises economic growth in Nigeria, by employing the Error Correction Approach. The econometric results indicate that stock market development raises economic growth. He however encouraged SEC 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.

Nyong (1997) developed an aggregate index of capital market development and used it to determine its relationship with long-run economic growth in Nigeria. The study, which employed a time series data from 1970 to 1994, used four measures of capital market development; ratio of market capitalization to GDP (in %), ratio of total value of transaction on the main stock exchange to GDP (in %), the value of equities transactions relative to GDP and listing. These measures were combined into one overall composite index of capital market development using principle component analysis. A very negative and significant correlation between capital market development and the long run growth in Nigeria was posited as the result of this study.

In appraising the impact of the capital market efficiency on the economic growth of Nigeria, using a time series data from 1961 to 2004, Ewah et al (2009) found out that though the Nigerian capital market has the potential of growth inducing, there has not been any meaningful contribution to the economic growth of Nigeria. This, they said, was due to low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds etc.

Harris (1997) did not find hard evidence that stock market activity affects the level of economic growth.

Barro and Romer (1989) using cross country data spanning several years indicated very significant relationship between per capita output, growth rate and financial market development.

RESEARCH METHODOLOGY

Esene (2005) while quoting Yomere and Agbonigho (1999) defined research methodology as the methods, procedures, or modalities through which the researcher intends to accomplish his objectives. Thus, this chapter sets out the rationale for choosing the research population and

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samples. It also includes a highlight of the data collection process and the statistical technique adopted for testing the validity of the hypotheses already formulated.

Research Design

Research design requires the structuring of the investigation aimed at identifying the validity of the most of the hypothesis and their respective relationship with one another. This is used for the purpose of obtaining data to enable the researcher test the hypotheses questions (ThankGod, 2004).

The method and procedure adopted in examining the topic on the impact of capital market growth on economic development in Nigeria is casual inference and comparative research design. This types of research design is used were the variables are already in existence at the time of this research work.

Some dependence variables are compared with the independence variables. The research design aim at establishing cause effect from the variables. The measures of impact of the dependence variable is determined from the independence variable.

Sampling Technique

The sampling technique adopted for this research is the non – probability sampling technique. “This is when whatever elements of the population that are available are selected as sample items, without following any specific subject selection process” (Esene, 2005). This sampling techniques was adopted because all the items of the population were not available, hence the researcher had to use those that were fully available.

Research Population And Sample Size

Because of the researcher’s interest to carryout a study on the correlation between Capital market Growth and Economic Development; as measured by the various capital market Growth indicators such as market capitalization, All shares Index, Total Listing and Value of Transaction against Gross domestic Product (GDP) as Economic Development Variable, the population of this study shall consist of the whole capital market in Nigeria. However, the sample population will be drawn from all available data representing Capital Market Growth and Economic Development as stated above. This study will cover the period of 2000 to 2014.

Method of Data Collection

Data used for this study were secondary data, as represented by the “Annual Report and Account’ of the Nigerian stock exchange and central bank of Nigeria statistical bulletin.

The use of Secondary data was necessary because of the quantifiable and verifiable nature of the variables involved; capital market and economic development. Other secondary data and information used were gotten from textbooks, Journals, the internet, newspapers etc.

The data used for this study are basically time series data covering 2000 to 2013.

Technique of Data Analysis

Method of data analysis simply means the statistical total or technique utilized in processing the data collected, with a view to arriving at valid conclusions. The statistical technique adopted

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for this study is multiple regression econometric procedure. The study commenced its analysis with Dickey-Fuller test, to verify, the stationary variables so as to avoid spuriousness of empirical result. The t-test was employed to ascertain the significance of each of the constant parameters, while the diagnostic test based on the coefficient of determination (R^2) was used to check for the goodness of fit of the model. The Durbin-Watson statistic will be employed also to measures the serial correlation in the residuals. If the DW is less than 2, there is evidence of positive serial correlation. A DW statistic output that is very close to one indicates the presence of serial correlation in the residuals. The correlation coefficient ® derived from the analysis will be subjected to 5% level of significance test.

Model Specification

In this study, we adopted the statistical method of multiple regression approach in line with that applied by Olawoye (2011) and Ewah et al (2009). Their studies infer that economic growth is significantly influenced by capital market indices. We have, however, made some adaptations to suit our study.

The functional relation of the model is given as:

GDPGR= F(TMC, ASI, TVS)………………….(1)

The model is specified as follows:

$GDPGR=\beta_0+ \beta_1 TMC+ \beta_2 ASI+ \beta_3 TVS+\mu$……………….(2)

Where: GDPGR=Gross Domestic product Growth Rate

TMC=Total Market Capitalization

ASI=All Share Index

TVS=Total value of stock

Where $\beta_0>0$, $\beta_1>0$, $\beta_2>0$, $\beta_3<0$,

β_0, β_1, β_2 and β_3= constant parameters and μ = the error term

Variable Measurement and Definition

In measuring the impact of the capital market on economic growth, we adopted the convectional method of using their proxies. Thus capital was proxied by the Total Market Capitalization (TMC), All Share Index (ASI) and Total Value of Stock (TVS), while economic growth was proxied by real Gross Domestic Product Growth Rate (GDPGR)

Data Presentation

The data used in this research are completely secondary data from Nigeria Stock Market Annual Report and Central Bank of Nigeria Statistical Bulletin etc.

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Table 1: Number of Deals, All Share Index, Market Capitalization, Value of Transaction and Gross Domestic Product in Nigeria from 2000 to 2013

YEARS	Number of Deals (N'MILLION)	MARKET CAPITALISATION (N'billION)	ALL SHARE INDEX (N'MILLION)	VALUE OF TRANSACTIONS (N'MILLION)	GDP AT CURRENT MARKET PRICE(N' BILLIONS)
2000	256,523	472.3	80,414.1	28,153.1	6,713.57
2001	426,163	662.5	122,220.9	57,683.8	6,895.20
2002	451,850	764.9	139,582.4	59,406.7	7,795.76
2003	621,717	1,359.3	186,718.7	120,402.6	9,913.52
2004	973,526	2,112.5	296,863.8	225,820.0	11,411.07
2005	1,021,967	2,900.1	274,520.6	262,935.8	14,610.88
2006	1,367,954	5,120.9	304,122.6	470,253.4	18,564.59
2007	2,615,020	13,181.7	585,279.7	1,076,020.4	20,657.32
2008	3,535,631	9,563.0	605,096.4	1,679,143.7	24,296.33
2009	1,739,365	7,030.8	277,098.6	685,717.3	24,794.24
2010	1,925,314	9,918.2	297,307.1	799,911.0	54,204.80
2011	1,235,467	10,275.3	280,723.8	638,925.7	63,258.58
2012	1,147,174	14,800.9	281,191.5	808,991.4	71,186.53
2013	3,224,639	19,077.4	434,484.9	2,350,875.7	80,222.13

Source: CBN Statistical bulletin various issues

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GDP	14	6.71E12	8.02E13	2.9616E13	2.59405E13
MKT_CAP	14	4.72E11	1.91E13	6.9457E12	6.00256E12
NO_DEALS	14	2.57E11	3.54E12	1.4673E12	1.03298E12
ALL_SHARE_INDEX	14	8.04E10	6.05E11	2.9754E11	1.55116E11
VOLUME_TRANSACTN	14	2.82E10	2.35E12	6.6173E11	6.74234E11
Valid N (listwise)	14				

Table 4.4; depict the descriptive statistic of the secondary data collected from the Nigeria Stock Exchange Annual Report and CBN Statistical Bulletin (2000-2013) as presented in the appendix1 for consideration.

Data Analysis

The data used for this analysis is secondary source for a period of 2000 to 2013. The study seeks to explain the impact of capital market growth on the economic performance in Nigeria. An ordinary Least Square (OLS) regression technique with the aid of SPSS IBM Version 20 is used for the analysis

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Table 3 **Model Summary[b]**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.951[a]	.904	.861	9.67213E12	1.895

a. Predictors: (Constant), VOLUME_TRANSACTN, ALL_SHARE_INDEX, MKT_CAP, NO_DEALS

b. Dependent Variable: GDP

Table 4 **ANOVA[b]**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.906E27	4	1.976E27	21.127	.000[a]
	Residual	8.420E26	9	9.355E25		
	Total	8.748E27	13			

a. Predictors: (Constant), VOLUME_TRANSACTN, ALL_SHARE_INDEX, MKT_CAP, NO_DEALS

b. Dependent Variable: GDP

Table 5 **Coefficients[a]**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.965E13	6.423E12		3.059	.014	5.117E12	3.417E13
	MKT_CAP	5.182	1.074	1.199	4.824	.001	2.752	7.611
	NO_DEALS	2.433	16.123	.097	.151	.883	-34.039	38.905
	ALL_SHARE_INDEX	-99.831	59.574	-.597	-1.676	.128	-234.597	34.935
	VOLUME_TRANSACTN	.173	20.332	.005	.009	.993	-45.820	46.166

a. Dependent Variable: GDP

The result from the analysis TABLE 1, 2, 3(Model Summary, ANOVA and Coefficient) shows that all the four variables have a significant impact on GDP. From table 3, it could be observed that market capitalization on GDP contributes the most (5.182) this mean that for every unit change in Market Capitalization there is a corresponding change of 5.182 in GDP. Numbers of Deals also contributes to GDP, for every unit change in Numbers of Deals there is a corresponding change of 2.433 in GDP. ALL share index contributes(-99.831) this means that for every unit change in All Share Index there is corresponding change of -99.831 in GDP. While volume of Transaction contributes (0.173), this means that for every unit change in

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Volume of Transaction there is a corresponding change of 0.173 on GDP. Looking at the P-value of the Number of Deals on GDP P-value is 0.883 > 0.05, though we could be tempted to say that number of Deals is insignificant, we use statistical reasoning to say that we do not have enough evidences to make that conclusion, if the value of the coefficient is anything to go by, then we conclude that for every unit change in Volume of Deals there is a corresponding change in GDP by 2.433. In furtherance to the above result a look at the P-value of Table 3 on the coefficient Table reveals that all three predictor variables significantly contribute to GDP.

The value of R=0.951(Model Summary) tells us that there is a high positive relationship between the predictor variables(Market Capitalization, Volume of Transaction, All Share Index, and Numbers of Deals) and GDP. The Value of R^2 of 0.904(known as the coefficient of determination) tells us that 90.4% of the Variation in GDP could be explained by Market Capitalization, Volume of Transaction, Numbers of Deals, All share Index while the remaining 9.6% could be not be accounted for. The Adjusted R2 of 0.861 is close to the R2 value of 0.904 meaning that the model is fit for making generalization. Furthermore the value of F=21.127 indicates the models goodness of fit to the data.

DISCUSSION OF FINDINGS

All explanatory variables (Market Capitalization, Volume of Transaction, All Share Index and Numbers of Deals) were significantly joint predictors of economic growth in Nigeria. For instance, Market Capitalization is positively related and significant to GDP. This implies that an increase in market capitalization will boost economic growth. The finding agrees with Oke and Adeusi, (2012), Pat and James, (2010), Ewah, etal (2009) and Ariyo and Adelegan (2005) who found that capital market had a positive impact on economic of Nigeria. But it has not contributed meaningfully to economic growth and development due to low market capitalization, low volume of transaction, and few numbers of Deals on the floor of Nigerian Stock Exchange.

Secondly, The positive sign of Numbers of Deals, All Share index and Volume of Transaction indicates an positive relationship but not significant with GDP. This finding is in line with Adetunji, (1997), cited in Chinwuba and Amos, (2011) who argues that "African markets basically lack depth and breadth with most of them trading only in traditional instruments. The level of awareness by the populace is low while not much is known about our markets by outsiders". Also, in the views of Ilaboya and Ibrahim, (2004) "The insignificant relationship reflects the fact that majority of key investors prefer to invest in other sectors of the economy other than the capital market". However, the DW-statistic of 1.895 approximately to 2 shows the absence of positive first-order serial correlation. This indicates that the model has a high explanatory and predictive power.

Lastly, this result revealed that increase in market capitalization is as a result of capital market reforms in Nigeria.

CONCLUSION AND RECOMMENDATION

This study is an attempt to evaluate the impact of Capital Market Growth on Economic Growth in Nigeria (2000-2013).

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Based on the findings, this research work has yielded evidence that the capital market, in the years under review (2000-2013), has maintained a significant relationship on the GDP. In other words, the capital market operations have impacted greatly on the Nigerian economy.

In as much as it has been concluded that the capital market is responsible for the growth and development of the economy, steps should be taken in order to make it take full advantage of all its potentials, therefore, for Nigerian capital market to be an engine of economic growth and development, the following recommendations are put forward in that regard;

1. Foreign Investors should be encouraged to participate in the market in order to improve market capitalization.
2. The regulatory authorities should ensure transparency, fair trading transactions and dealings in the market so as to restore confidence.
3. State of the art technology should be improve and maintain to ensure efficiency in the market in the transfer of information to all active and prospective of investors in the market.
4. The reported cases of abuses and sharp practices in the market by some companies and actors should be addressed.
5. More investment instruments such as derivatives, convertibles, futures, swaps and options should be made available in the market in order to boost the value of transactions.
6. New listings should be designed and deployed over the current plan horizon. This would be useful in dimensioning the outlook for the nation’s capital market.
7. Retail investor education/ awareness should be strengthened. Amongst other things, it will help to make investors know more on the long term nature of investments in the capital market, prevent them from being defrauded.
8. Capital market should offer investors ease of use and access.
9. Government should also discourage Nigerian investors’ attitude of buy and hold securities instead of trading in the capital market.
10. There is also need to increase investments instruments such as derivatives, convertibles, swap and option in the market.
11. There is also need to increase investments instruments such as derivatives, convertibles, swap and option in the market.

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