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ANALYSIS OF CAPITAL MARKET DEVELOPMENT AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT: *This study examined the analysis of capital market development and economic growth in Nigeria between 1986 and 2022. As a result, the real gross domestic product was used as the dependent variable while independent variables in the study included market capitalisation, all share index, value of transactions, total number of new issues and exchange rate. The Auto-Regressive Distributed Lag Modelling (ARDL) technique as well as the Engle Granger causality test were used to analyse the data obtained from the CBN statistical bulletin. The results emanating from the analysis reported that the total number of new issues had a positive impact on economic growth while other variables had insignificant effects on economic growth. Furthermore, the causality results revealed that all the stock market variables had a uni-directional causality running from each of them to economic growth. Therefore, it is recommended that new issues in the capital market should be seriously regulated as they can affect economic growth in a significant manner.*

KEYWORDS: Market Capitalisation; All Share Index; Value of Transactions; Total Number of Issues; Exchange Rate and ARDL.

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INTRODUCTION

Economic development generally refers to the sustained, concerted actions of policymakers and communities that promote the standard of living and economic health of a specific area. This development is usually evidenced by the increase in the Gross Domestic Product (GDP) of a country, a decrease in the poverty rate and unemployment and an increase in disposable income (Ranis *et. al.*, 2004). The role of capital in the production process and economic performance of a nation has long been recognised as it provides the impetus for the effective and efficient combination of factors of production to ensure sustainable economic growth. (Babalola *et al*., 2011). The capital market is a “complex of institution and mechanism through which intermediate and long term funds are pooled and made available to business, government and individuals and instruments already outstanding are transferred” (Dougall *et al.*, 1975). These institutions which traditionally play one role or the other in the transfer of funds from savers to users include the Nigerian Stock Exchange, Stock Registrars, Issuing Houses, Stock Brokers and Underwriters as well as the Securities and Exchange Commission.

The capital market is an essential agent of economic growth because of its ability to mobilise savings and investments. In developing countries like Nigeria, a high rate of capital formation is targeted to achieve the objectives of development plans. As such, financial institutions are required to mobilise domestic savings and attract foreign investment with the view to accelerating sustainable economic growth. The growth of the capital market is a precondition to inspire and guide capital formation. The potential role of the capital market in encouraging investment and enhancing economic growth cannot be over emphasised. In today’s competitive business environment, most countries around the globe are assessed by the performance of their capital market. The Nigerian capital market is an important component of the Nigerian financial system. According to Anyanwu (1993), the financial market is a complex mechanism made up of procedures, instruments and institutions through which efficient economic units (the users of funds, e.g. government, corporate bodies) and the surplus economic units (i.e. suppliers of funds/savings) are brought together to transact business with each other. Nzotta (2004) stated that the capital market is a mechanism for lenders to provide long-term funds in exchange for financial assets issued by borrowers or traded by holders of outstanding negotiable debt instruments.

Osaze (2000) viewed the capital market as an in-built stabilizer of any nation's growth since capital formation via long-term loans is vital for economic growth. Likewise, Ekundayo (2002) opined that a nation needs many local and foreign investments to achieve sustainable economic growth and development. Drawing from this assertion, the security market offers several means through which this is achievable and this essential role is important in determining the aggregate growth of the economy. Major actors or players in the Nigerian capital market comprise the NSE, development banks, discount houses, individuals, government, investment banks, stock broking firms, Securities and Exchange Commission (the regulatory body), pension and insurance houses, and quoting companies. The essential yardstick used in mobilising funds at the Nigerian capital market comprises government bonds, equities (ordinary shares and preference shares), industrial loans or debenture stocks and loans. The market makes available a different preference for portfolio managers and financial instructions and those savers through long-term fund mobilisation for corporate investors (portfolio managers) and financial institutions while providing platforms for savers to invest when the needs arise without upsetting the smooth operation of the firm.

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Considering the decline in economic performance aggravated by the COVID-19 pandemic and other anti-economic activities, individuals and business organisations require more long-term capital to sustain their business growth, hence the capital market is expected to intervene and mobilise the required capital as an intervention fund by the government. This timely intervention and support may be difficult for the capital market to provide, given the infancy-growth status of the market. Apart from the deficiency in financing the productive sectors of the economy, the impact of the capital market has not been thoroughly investigated in Nigeria thereby creating a gap in the literature. Even though the relationship between the capital market and economic growth in Nigeria may be beneficial to policy analysts, there is a lack of a sufficient number of studies to explore this research domain. Given the foregoing, the broad objective of this study analysed the correlation between capital market development and economic growth in Nigeria. Hence, the null research hypotheses are stated as the basis of the specific objectives and research questions of this study:

$H_0$1: Market capitalization has no significant relationship with economic growth;

$H_0$2: All share index has no significant impact on the economic growth of Nigeria.

LITERATURE REVIEW

The capital market is a network of financial institutions and infrastructure that interact to mobilize and allocate long-term funds in the economy. The market allows business firms and governments to sell stocks and bonds, to raise long-term funds from the savings of other economic agents. The capital market is a highly specialized and organized financial market and indeed an essential agent of economic growth because of its ability to facilitate and mobilize saving and investment. (Nwaolisa, 2013). Economic growth in a modern economy hinges on an efficient financial sector that pools domestic savings and mobilizes foreign capital for productive investments. The capital market of any nation is believed to be efficient if it has the capability and capacity to mobilize the required resources for economic growth and industrial development. The importance of the capital market as an efficient channel of financial intermediation has been well noted by researchers, academicians, and policymakers as a primary determinant of the economic growth of any country. Underdeveloped or poorly functioning capital markets typically are illiquid and expensive which deters foreign investors. Furthermore, illiquid and high transaction costs also hinder the capital-raising efforts of larger domestic enterprises and may push them to foreign markets (Oke, 2013).

Capital Market Concept

A capital market is an institution or a financial market in which buyers and sellers come together for the exchange of financial instruments like stocks, bonds, equities, etc. Participants, such as individuals and institutions, carry out the purchasing and selling. Capital markets assist in directing people’s excess cash towards institutions so they can use it for investments in profitable ventures (Viral, 2019). Generally, long-term securities make up the majority of this market’s trades. There are primary markets and secondary markets in the capital market. Primary markets deal with the trading of newly issued stocks and other securities, whereas secondary markets deal with the trading of already-existing or previously issued securities. The

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stock market and bond market are two examples of significant divisions based on the type of security traded in the capital market (Bennett, 2017).

The Capital market through the vehicle of financial intermediation has been identified as an institution that promotes and contributes to the economic growth and development of a country. The capital market provides a platform for raising long-term capital for both private and public organizations. This is not unconnected with the fact that it creates a means through which long-term financial securities are traded. As in Adekanye (2010), the capital market is the market from which large companies and public enterprises attract long-term investment funds through a network of financial institutions and stockbrokers licensed to perform capital market functions. The capital market provides a platform for the trading of long-term debt and equity securities. The capital market is made up of two interrelated segments namely; Primary and Secondary Markets. The primary market provides the mechanism for raising funds through the issuance of fresh or new securities. The secondary market provides facilities for trading in already existing securities, hence creating liquidity in the market.

Capital Market and Economic Growth

A vibrant capital market will fuel growth in the economy by enhancing the role of the financial sector in financing economic activity by creating employment, investment facilitation, and tax revenue generation. The capital market must contribute to the development of the economy. It must support diverse sectors and provide diverse products to address the specific needs of the economy. It must provide long-term capital and play a key role in funding infrastructure and high-impact projects. It must have a strong positive effect on the economy and increase the number and capitalisation of corporates, particularly in priority economic sectors.

Economic growth in a modern economy hinges on an efficient financial sector that pools domestic savings and mobilizes foreign capital for productive investments. The capital market of any nation is believed to be efficient if it has the capability and capacity to mobilize the required resources for economic growth and industrial development. The importance of the capital market as an efficient channel of financial intermediation has been well noted by researchers, academicians, and policymakers as a primary determinant of the economic growth of any country. Underdeveloped or poorly functioning capital markets typically are illiquid and expensive which deters foreign investors. Furthermore, illiquid and high transaction costs also hinder the capital-raising efforts of larger domestic enterprises and may push them to foreign markets (Oke, 2013). However, Odetayo et al. (2012) asserted that the capital market is an engine of economic growth and development globally, Nigeria inclusive. The capital market is made up of markets and institutions which facilitate the issuance and secondary trading of long-term financial instruments. Osaze (2000) considered the capital market as the driver of an economy's growth and development because it is essential for the long-term growth of capital formation. It is crucial in the mobilization of savings and channelling of such savings to profitable self-liquidating investments. The economy will feel the effect of the stock market activities more positively when the Gross Domestic Product (GDP) is on the increase as a result of the operations of the capital market. However, one expects that the operation of the stock market must have a significant impact on economic growth and development which is evidenced by the GDP. The operations are represented by factors such as stock Market Capitalisation, value of transactions and all shares index.

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An increase in the output of products and services over a given period is referred to as economic growth. The measurement must account for inflationary impacts to be precise (Michael et al., 2020). A second definition of economic growth is a rise in an economy's ability to create products and services over time. It can be measured in real terms, which are inflated and adjusted, or in nominal terms. Although alternative metrics are occasionally employed, Gross National Product (GNP) or Gross Domestic Product (GDP) are traditionally used to measure overall economic growth (Abdullah et al., 2022). Economic growth is just an increase in overall productivity. Gains in overall productivity frequently but do not always correlate with higher average marginal productivity. This implies that the typical worker in a particular economy becomes, on average, more productive. It is also possible to achieve total economic growth without an increase in average marginal productivity by increasing immigration or birth rates (Michael et al., 2020).

Businesses profit more as a result of economic expansion. Stock prices consequently increase. That provides businesses with the funds they need to expand and hire more workers. Income increases when more jobs are created. The purchasing power of consumers has increased. Higher economic growth is a result of purchases. Therefore, all nations desire favourable economic growth. As a result, economic growth is the economic indicator that receives the greatest attention (Arindrajit, 2019). The most accurate indicator of economic growth is gross domestic product. This is because it accounts for the entire nation's economic production. It comprises all products and services that companies in the nation manufacture for export. It makes no difference whether they are sold domestically or abroad. GDP is a measurement of output. It excludes the components created to create a product. Because they are made domestically, exports are included. Economic growth is adjusted for imports. Most nations assess economic expansion every three months. Real GDP is the most reliable indicator of growth. It eliminates the consequences of inflation. Real GDP is used to calculate the GDP growth rate (Karen, 2018).

An efficient and well-regulated capital market is one of the key requirements to support economic growth and development. Capital markets improve access to long-term capital to finance economic activities through the deployment of a variety of capital market products. Given this, the Nigerian capital market should attain the necessary scale and sophistication to be relevant in transforming the economy and achieving Nigeria's development aspirations. In particular, the market should seek to:

i. Close the gap in the proportion of market capitalisation to GDP and keep pace with projected annual GDP growth.

ii. Facilitate funding for the growth and development of critical sectors such as agriculture, power, manufacturing, telecommunications, real estate, healthcare, and transportation.

iii. Mobilise capital for infrastructural development purposes through private sector participation.

iv. Extend its reach to a wider group of investors and become central to organised investment schemes including retirement savings (pension fund) management.

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Overview of the Nigerian Capital Market

The Nigerian capital market is regulated by the Securities and Exchange Commission as empowered by the Investment and Securities Act (ISA), 2007 and under the supervision of the Federal Ministry of Finance. There are two securities exchanges, one over-the-counter exchange and five commodity exchanges currently registered and operating in the Nigerian capital market as follows:

- The Nigerian Exchange ("NGX");
- The National Association of Securities Dealers ("NASD");
- FMDQ Securities Exchange ("FMDQ"); • Nigeria Commodities Exchange ("NCX");
- AFEX Commodities Exchange Limited ("AFEX"); • Lagos Commodities and Futures Exchange ("LCFE");
- Gezawa Commodity Market Limited ("Gezawa"); and
- Prime Commodity Exchange ("Prime Commodity").

The Nigerian Exchange (NGX) is the predominant equities market in Nigeria with 176 listed securities as of December 2020, while the National Association of Securities Dealers (NASD) is an over-the-counter exchange that provides a trading platform for securities of unquoted public companies in Nigeria. Established in 2013, the NASD has shares of 52 unquoted companies currently trading on its platform, with a market capitalisation of N536 billion as of December 2020. FMDQ commenced operations in 2013 as an OTC market predominantly for debt securities, however, it became a full-fledged securities exchange in 2019. The NCX, formerly known as the Abuja Stock & Commodities Exchange, is the first commodity exchange in Nigeria and is primarily involved with the trading of agro-commodities. AFEX is the first registered private commodities exchange in Nigeria after which the LCFE, Gezawa and Prime Commodity were licensed as commodities exchanges, all securities exchanges are registered as Self-Regulatory Organisations ("SROs") by the SEC and act as first-line regulators for their members. Following the completion of the demutualisation process of the NGX in March 2021, a related company, NGX regulation, has now assumed the SRO function of the exchange. The Central Securities Clearing System ("CSCS") and the FMDQ Depository Limited are the financial market infrastructure licensed by the SEC to facilitate clearing and settlement of all trades executed on securities exchanges as well as maintain a central depository for listed securities. As part of efforts geared towards the development of the derivatives market, the SEC recently registered two central counterparties to facilitate derivatives trading and intermediate derivatives transactions in the Nigeria capital market. The ISA 2007 provides for the establishment of the Investment and Securities Tribunal ("IST") to adjudicate on all capital market disputes. While the SROs and the SEC maintain their mediation process, the IST exercises exclusive jurisdiction in all capital market disputes. However, the IST does not have criminal jurisdiction. It is not unusual for capital market participants to approach the court directly on matters pertaining to capital markets.

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Market Development and Innovation

The effects of the global COVID-19 pandemic revealed the overwhelming need to develop the capital market and increase the adoption of technological innovations in all aspects of the market. In recent years, new technologies and innovation have impacted most industries; introducing varying levels of disruption and changing the competitive landscape, and the Nigerian capital market is not exempted. Digitalisation and growing volumes of trade are driving the need for more automation in the capital market, especially for real-time processing of trades, reconciliation & settlement, and matching of trades. In addition, increased digitisation of activities would allow for more retail participation in the medium to long term. Robotic Process Automation (RPA) can also help to simplify the processes of the capital market participants and redefine business models. Studies show that RPA can help capital market firms boost efficiencies and reduce costs by 25%-50% within five years. To develop the market, the capital market products, processes, and standards must be optimised. Likewise, there needs to be increased utilisation of advanced technologies to innovate cost reduction mechanisms, improve investor servicing, and maintain agility to be able to adjust to future changes faster- all factors that contribute to developing and deepening the market. These technologies can help access a new participant base and build new capabilities. Moreover, utilising technologies that leverage blockchain, data & analytics, cloud computing, etc., can help create new opportunities for entrepreneurs to raise capital, reduce transaction costs, increase efficiency and competitiveness, and enhance compliance.

Theoretical Review

Several researchers have contributed different theories to the subject matter of capital market and economic growth. These theories are of relevance to this study as they serve as a foundation for this research work and as such the following theory will be discussed;

The Efficient Market Hypothesis (EMH) was postulated by Fama (1965) as a framework to be used for examining the efficiency of capital markets; financial market prices are supposed to mirror all identified information and hence, unbiased so that collective beliefs of investors are represented (Osakwe et al., 2020; Akintola et al., 2020). This available information about current stock prices and the value of the firm should not permit investors to receive excess profits above the overall market and this has implications for financial managers and investors, a test of efficiency is if current prices have integrated all available information as at that time (Abina et. al., 2019; Akintola et al., 2020). This naturally leads to more efficient investment activities in the capital market which leads to economic growth; hence, EMH is among the theories that assess the relationship that occurs concerning the capital market and the general growth of the economy (Abina et al., 2019). The key assumptions of EMH are that; markets function efficiently, stock prices cannot be manipulated by investors because stock values are already based on fair value, Investors cannot beat the market to earn more, and investments in riskier stocks are the only way an investor can achieve a superior position. Fama (1970) segregated market proficiency into the weak form, semi-strong form, and strong form. EMH in its weak form is when rates completely suggest information based on a historic sequence of previous prices while the semi-strong form is when values show all freely available information; the strong form emphasises information available to market participants and insiders are reflected on stock prices (Akintola et al., 2020). The critique of EMH was a result of empirical studies that invalidated some of its assertions and observed that; Investors are

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rational and mindful in making investment decisions and cannot be accurately predicted, although, predictions could be made using other tools (Malkiel, 2003).

In the Harrod-Domar Growth Model, every economy must save a certain proportion of its national income, if only to replace worn-out or impaired capital goods (buildings, equipment, and materials). However, in order to grow, new investments representing net additions to the capital stock are necessary.

The Solow Growth Model is an economic model of long-run economic growth set within the framework of neoclassical economics. It attempts to explain long-run economic growth by looking at capital accumulation, labour or population growth, and productivity increases, commonly referred to as technological progress. At its core is a neoclassical (aggregate) production function, often specified to be of Cobb-Douglas type, which enables the model "to make contact with microeconomics. The model was developed independently by Robert Solow and Trevor Swan in 1956 and superseded the Keynesian Harrod–Domar model.

The EMH theory relates to this work because efficiency is critical in the financial market which could be operational, allocation or pricing efficiency and any form of inefficiency may lead to drastic changes in the economic growth of Nigeria. This theory explains the link concerning capital market development in terms of information availability that eventually leads to stable economic growth as shown in Ghana by Osei in 2006 that the Ghana stock market is efficient in terms of providing information (Alajekwu et al, 2012).

Empirical Review

Olusegun et al. (2024) investigated capital market development and economic growth in Nigeria from 2003 to 2022. The market capitalization rate was used as a proxy for stock market development, along with interest rates, and the RGDP as a measure of economic growth. The empirical finding indicates that while the stock market has a negligible impact on economic growth in Nigeria, it is positively correlated with it. It is advised that market regulators for the capital markets, such as the Securities and Exchange Commission (SEC), should be more adaptable and receptive to new ideas without endangering investor interests, protection, or the effectiveness of the market. The regulatory agencies should sensitize Nigerian investors to engage in dynamic and speculative stock marketing activities rather than perpetually holding onto their investments. The network for communication and information should be improved. Finally, the government should increase its investment in infrastructure development and by extension improvements to the nation's growth pattern.

Eniekezimene, et al., (2024) looked at the influence of the capital market on economic growth in Nigeria between 1981 and 2022, using vector autoregressive (VAR) analysis. The variables used included: real gross domestic product (RGDP), market capitalization (MCAP), total value of securities traded (TVST), and gross fixed capital formation (GFCF). The study concluded that while RGDP and MCAP influenced their outcome as well as the outcome of other variables positively in both the short and long run, TVST and GFCF influenced their outcome as well as the outcome of other variables negatively in both the short and long run, using the VAR system tools of impulse response function and forecast error variance decomposition. Based on the findings of this study, we recommended among others the urgent need to boost the perception of local firms listed in the Nigerian stock exchange both locally and internationally in terms of the total value of their corporate assets and performance measured by price-to-earnings, price-

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to-sales and return-on-equity metrics. This can be improved upon when these firms are able to increase the quality of their products and services thereby making them better competitors in the global space.

Adamu, et al., (2023) examined the relationship between capital market and economic growth in Nigeria from 1985 to 2021. Findings revealed, among others, that the Johansen Normalized Co-integration indicated that in the long run, all share index and total value of transactions had a negative impact while market capitalization and number of deals had a positive impact on economic growth. In addition, the short-run results also revealed that all share indexes, number of deals and total value of transactions have positive and significant effects on economic growth while market capitalization is negatively related. The findings suggested that the Nigerian capital market would benefit from the active participation of the real sector and other regulatory authorities through an expansion of the production base, increased public awareness, and a lowering of entry and listing requirements for sound and robust participation.

Yakubu (2023) empirically examined the nexus between capital market capitalization and economic growth in Nigeria using annual time series data for the period 1990-2021. By applying Augmented Dickey-Fuller, OLS, co-integration and causality tests the results indicate that there is a positive and significant relationship between capital market capitalization and economic growth, there is a long-run relationship between the variables and also unidirectional causality was found from MCAP to GDPG. Subsequently, the paper recommended that policymakers should concentrate on implementing short-term and long-term policies that will develop the Nigerian financial system especially the capital market since it is capable of boosting economic growth in Nigeria.

Umar, (2022) investigated the impact of capital market performance on economic growth in Nigeria from 2010 to 2020. Analysis revealed that there is a positive and significant level relationship between indices of capital market performance and economic growth measured by real gross domestic product in Nigeria and statistically significant at 5%. It concluded that the Capital Market positively and significantly impacts economic growth in Nigeria. Further studies need to be carried out using different parameters to verify the consistency of all findings. This research is currently part of limited studies that investigated the influence of capital market performance on economic growth in Nigeria using quarterly time-series data.

Miftahu, (2020) assessed the impact of capital market development on economic growth in Nigeria using annual data covering the period of 1981 to 2019. Findings revealed the existence of a positive and long-run relationship between capital market development and economic growth in Nigeria. The further result from the Ganger causality test indicates the presence of unidirectional causality running from capital market to economic growth for the period under consideration. Instead of that, there is a need to make provision for modern facilities in the capital market targeted towards encouraging foreign investors by maintaining state-of-the-art technological services. More so, there is a need for Nigeria to develop a capital market that is effective and efficient, by expanding access to credit and financial services and encouraging long-term savings mobilisation and long-term capital for investment.

Keji, (2020) empirically examined the nexus between capital market and economic growth in Nigeria between 1980 and 2017. In the cause of pursuing the desired result, the economic growth was proxy by the gross domestic product (GDP) while the capital market variables considered included market capitalization, all shares index, number of dealings, gross capital

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formation, exchange rate, value of all transaction and interest rate. The results revealed that there is a long-run relationship between the capital market and economic growth in Nigeria. Henceforward, the study recommended that the government should expand the market technology base to further improve transactions and dealings, which could enhance its internationalization and competitiveness. Also, regulatory bodies like the Security and Exchange Commission (SEC) should improve their supervisory roles towards reducing shoddy and unethical dealings in the Nigerian capital market.

Nwamuo, (2018) reviewed the impact of the capital market on the economic growth in Nigeria from 1981 to 2016 on the variables used for the study. The short-run regression result showed that market capitalization and number of deals have a positive impact on the economic growth in Nigeria while total listed equity and volume of transactions hurt the economic growth in Nigeria. The result from long-run dynamic analysis also revealed that total listed equity has a positive and significant impact on the economic growth in Nigeria while several deals have a negative and non-significant impact on the economic growth in Nigeria. Based on these findings, it was recommended that regulatory agencies should introduce and implement policies that will boost investor’s confidence in the market by ensuring that there is transparency, fair trading and dealing in the market.

Gbanador, et al., (2018) looked into the impact of the Capital Market on economic growth in Nigeria using time series data from 1985 to 2017. The Gross domestic product was used as a proxy for economic growth while Market capitalization, Value of transaction and the all-shares index were used as proxies for capital market variables. The findings from the study revealed that the capital market has a significant impact on economic growth. Furthermore, the study provided evidence that market capitalization exerted a positive impact in explaining and predicting economic growth in Nigeria. Thus, the study concluded that this variable played a significant role in influencing the capital market performance on Nigeria’s economic growth. On the other hand, the value of transactions and all share indexes do not have a significant impact on the growth of the economy. The study therefore recommended that the Security and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE) and other relevant agencies should ensure that the stock market is fully automated to enable market participants to have easy access to the relevant information about the market and its activities. To boost the value of transactions and liquidity in the Nigerian capital market, there is a need to introduce more investment instruments such as derivatives and cross-border quotations. Furthermore, the SEC should restore confidence in the market by ensuring transparent and fair trading.

Ikpefan, et al., (2016) investigated the impact of the capital market on economic growth in Nigeria from 1983 to 2013. The findings from this study suggest that three exhibit positive while one exhibits an inverse relationship with economic growth. Also, two variables were statistically significant while the other two were statistically insignificant. The study recommended that there should be an improvement in the negativity of the All Share Index by encouraging the extension of long-term funds to investors in the capital market rather than short-term funds as it would help to boost economic growth as more funds would be invested in the economy. Also, there should be an increase in the availability and sufficiency of investment instruments such as options, derivatives, future and convertibles for investors as this would boost the value of transactions in the market.

Briggs, (2015) assessed the impact of the capital market on the Nigerian economy from 1981-2011. The economic growth was proxy by Gross Domestic Product (GDP), while the capital

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market variables considered were; Market capitalization (MCAP), Total New issues (TNI), Value of Transactions (VLT), and Total Listed Equities and Government Stocks (LEGS). Johansen co-integration and Granger causality tests were applied. The result showed that the Nigerian capital market and economic growth are co-integrated. This indicated that a long-run relationship existed between the capital market and the growth of the Nigerian economy. The result showed the clear relative positive impact the capital market plays in economic growth and invariably on the economy. It is recommended that all the tiers of government should be encouraged to fund realistic developmental programs through the capital market for it serves as a leeway to freeing resources, of the economy and there is a need for the availability of more investment instruments such as derivatives, convertibles, future and swaps options in the market, the regulatory authority should be more proactive.

Aiguh, (2013) embarked upon research to determine the impact of the capital market on the economic growth of Nigeria. The capital market was set up to achieve specific objectives which would boost the economy such as encouraging domestic savings and increasing the quantity and quality of investments. The capital market offers access to a variety of financial instruments which are very essential for government and other institutions in need of long-term funds. The data was obtained from the CBN Statistical Bulletin (1980 – 2009) and analyzed using ordinary least square analysis. The result showed that the capital market had a positive and significant impact on the country's economic growth. It also revealed the limited contribution of the market to the development of the industrial sector.

Olaniyi, et al., (2013) examined the effectiveness of the Nigerian capital market in stimulating economic growth in Nigeria using secondary data relating to GDP (Gross Domestic Product) as well as new issues, volume of transactions and market capitalization of the Nigerian Stock Exchange between 1980-2010. The study revealed that the capital market enhances capital formation with a positive impact on Nigerian economic growth and recommends that the regulatory authority should initiate policies that will facilitate more access to the market and remove impediments to trading by improving surveillance to prevent sharp practices that may erode the market's integrity and investors' confidence.

Gap in Literature

One of the primary determinants of economic growth, the exchange rate, is not adequately covered and neglects the empirical determination of the relationship between capital market and economic growth by the earlier research evaluated, which is the gap found in the literature review's inclusion of variable(s). Since it is impossible to ignore the effect of capital market development on economic growth, the reason for going into this study was sparked by the fact that earlier research had overlooked the impact of the exchange rate on economic growth in Nigeria. To fully account for exchange rates' impact on the inflow of foreign direct investment, the researcher employed it in this analysis. Also, further studies need to be carried out using different parameters to verify the consistency of all findings.

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METHODOLOGY

The research design used for this study is the ex-post-facto which considers the past to produce explanations for things that had already occurred. Secondary data (quantitative) was used for this research study. The data for the analysis was sourced from the Central Bank of Nigeria (CBN) statistical bulletin from 1988 to 2022. Ordinary least square co-integration analytical tools and the Granger casualty test were used in analyzing the data.

Model Specification

The ordinary least square regression econometric model for the study is stated below:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$………… (1)

$RGDP = \beta_0 + \beta_1 ASI + \beta_2 EXR + \beta_3 MCP + \beta_4 TNI + \beta_5 VAT + e$………… (2)

Where:

RGDP = Real Gross Domestic Product proxy for the dependent variable

ASI = All Share Index; EXR = Exchange Rate; MCP = Market Capitalization;

TNI = Total Number of New Issue; VAT = Value of All Transactions.

β_0 = Constant Term

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5,$ = Coefficients of the independent variables

e = Error Term

This study adopted and modified the model of Miftahu (2022) and Bamishe, et al., (2024).

DATA ANALYSIS AND DISCUSSION OF FINDINGS

Table 4.1: Augmented Dickey-Fuller (ADF) Unit Root Test at Stationary Points

Variable	ADF			Order of integration
	t-statistics	Critical values @5%	Prob.	
RGDP	-3.730531	-2.948404	0.0078	I(1)
MCP	-4.345120	-2.951125	0.0016	I(1)
ASI	-3.128888	-2.957110	0.0343	I(0)
VAT	-5.136486	-2.948404	0.0002	I(1)
TNI	-5.231287	-2.948404	0.0001	I(1)
EXC	-4.046518	-2.948404	0.0034	I(1)

Source: E-view 10

The Augmented Dickey-Fuller (ADF) URT test as shown in Table 4.1 provided evidence that all share indexes were stationary at level while real GDP, market capitalization, value of

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transactions, total number of new issues and exchange rate were all stationary at first difference.

Table 4.2: Selection of Optimal Lag Length

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-295.1758	NA	1.200668	17.21005	17.47668	17.30209
1	-37.97793	411.5166*	4.02e-06*	**4.570168***	6.436585*	5.214455*
2	-10.03312	35.13063	7.71e-06	5.030464	8.496668	6.226997

Therefore, as a result of the result of the optimal lag length criteria, it is concluded that the most suitable lag length is 1 premised on the Akaike Information Criterion.

Table 4.3: ARDL Bounds Test (Co-Integration Result)

F-Statistics	Lower Bound (5%)	Upper Bound (5%)
6.500781	2.62	3.79

Table 4.3 provided evidence that the F-statistics is greater than the lower and upper bound at a 5% significance level which shows that there exists a long-run equilibrium relationship between the dependent and independent variables.

Table 4.4: ARDL Long Run Result

Dependent Variable: GDP

Variable	Co-Efficient	Std. Error	T-Statistics	Prob.
MCP	0.058988	0.139794	0.421966	0.6767
ASI	-0.100240	0.086370	-1.160588	0.2568
VAT	0.034303	0.071219	0.481649	0.6342
TNI	0.209620	0.086874	2.412918	0.0235**
EXC	0.001002	0.000696	1.439575	0.1624
C	8.362185	0.902380	9.266815	0.0000

*, **, *** *indicates significance at 10%, 5% and 1% respectively*

Table 4.4 revealed the total number of new issues has a positive effect on economic growth while other stock market-related variables had no significant effect on economic growth. This implies that an increase in the total number of new issues will increase economic growth while an increase in other variables will not have any substantial impact on economic growth.

Table 4.5: Diagnostic Tests (Post-Estimation Tests)

Test Nomenclature	F-Statistics	Prob. Value
LM Serial Correlation	2.420358	0.1329
Heteroscedasticity	1.554307	0.1787
Normality (Jarque-Bera)	1.298718	0.5224

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Evidence from Table 4.5 containing the post-estimation tests revealed that the model has no problem with serial correlation, heteroscedasticity and abnormal distribution. This is because the probability value attached is higher than 0.05 in all cases.

Table 4.6: Engle-Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
MCP does not Granger Cause RGDP	36	6.94547	0.0127**
RGDP does not Granger Cause MCP		0.04045	0.8418
ASI does not Granger Cause RGDP	36	4.43612	0.0429**
RGDP does not Granger Cause ASI		0.00428	0.9483
VAT does not Granger Cause RGDP	36	20.6672	7.E-05***
RGDP does not Granger Cause VAT		0.34450	0.5612
TNI does not Granger Cause RGDP	36	30.3758	4.E-06***
RGDP does not Granger Cause TNI		0.40420	0.5293
EXC does not Granger Cause RGDP	36	0.00019	0.9891
RGDP does not Granger Cause EXC		0.38927	0.5370

*, **, *** *indicates significance at 10%, 5% and 1% respectively*

The result of the Engle-Granger causality test revealed that all the stock market-related variables Granger cause economic growth as unidirectional causality was reported to run from each of market capitalization, all share index, volume of transaction and total number of new issues to economic growth.

DISCUSSION AND IMPLICATIONS OF FINDINGS

The ARDL long-run result showed that the total number of new issues has a positive and significant effect on economic growth while other variables were insignificant. This therefore connotes that an increase in market capitalization, all share index, volume of transactions and exchange rate will not affect economic growth in a substantial manner. Specifically, the total number of new issues has a positive effect on economic growth which implies that an increase in the number of new issues in the stock market will increase economic growth. This is plausible as the issuing of fresh capital amplifies one of the major contributions of the capital market to the economy – the mobilisation of capital. The issuing of new capital in the stock market positions the stock market as a rallying point to raise fresh capital. In other words, for

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there to be an issuing of new capital, there must have been an economic undertaking either by the government or the private sector that requires financing. Usually, such economic undertakings will either be targeted at optimizing the performance and productive capacities of the business, generating profit or contributing to the welfare of the society. Therefore, because economic growth is measured by the total productivity within the economy, a metric that measures the capability to raise fresh capital to optimise productivity will most likely exert a positive effect on economic growth.

Furthermore, the causality test revealed that all stock market-related variables such as market capitalization, all share index, volume of transactions and total number of new issues cause economic growth. This connotes that the direction of the stock market variables will determine the direction of economic growth. This is in line with the finance-led hypothesis and negates the tenets of the growth-led hypothesis. This is possible as the capital market is a market where funds are raised. Therefore, if the indices within the stock market indicate a recession or stock market crash, it is most likely that the economy will follow suit just like the great depression of the 1930s in the United States. Furthermore, if the number of issues, capitalization, transaction and performance index within the market favours a particular sector, it is probable that economic growth will increase concerning that particular sector.

CONCLUSION AND RECOMMENDATIONS

This study examined the analysis of capital market development and economic growth in Nigeria between 1986 and 2022. As a result, the real gross domestic product was used as the dependent variable while independent variables in the study include market capitalization, all share index, value of transactions, total number of new issues and exchange rate. The Auto-Regressive Distributed Lag Modelling (ARDL) technique as well as the Engle Granger causality test were used to analyse the data obtained from the CBN statistical bulletin. From the results interpreted above, it is recommended that new issues in the capital market should be seriously regulated as they can affect economic growth in a significant manner. Also, the SEC and other relevant stakeholders should continue to liaise with the Federal Government to ensure that the Government recognises the capital market as a catalyst for economic development. Specifically, the market should support the Government in articulating policies that will drive the growth of the capital market. The capital market needs/requires a centralised information management system where all the details about investors are stored. This will eliminate the need for capital market operators to create multiple profiles for investors as the operators can leverage the centralised system. • The SEC should also ensure that the public can easily participate in the market. • To allow the capital market to thrive, there should be heightened efforts to eliminate Ponzi schemes.

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