The Role of Stock Market on Nigeria's Economic Development

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Abstract- The paper examined the role of stock market on Nigeria's economic development from 1980 to 2010 which cover the market performance and economic growth in Nigeria. Data were sourced from statistical bulletin. This research study made use of annual time series data covering the period between 1980 – 2010. The study also made use of ordinary least square of multiple regression estimates. From the study, stock market development is positively correlated with the development of financial intermediaries and consequently economic growth. It was therefore recommended that the funds raised by government in form of government securities in the capital market should be put into productive sectors of the economy that will necessitate to growth in all facets of the economy.

Index Terms- Stock market, Economic development, Economic performance, Stock market performance, Economic growth.

I. INTRODUCTION

The stock market plays a major role as an economic institution which enhances the efficiency in capital formation and allocation. It enables both corporations and the government to raise long-term capital which enables them to finance new projects and expand other operations. In this manner, "Alile" (1984) observed that the performance opf the economy is boosted when capital is supplied to productive economic units. Furthermore, as economics continue to develop, additional funds are therefore needed to meet the rapid expansion and the stock market therefore serves as an appropriate tool in the mobilization and allocation of savings among competing uses which are critical to the growth and efficiency of the economy. It is this light that the stock exchange market acts as a barometer for economic performance in the sense that it assists to allocate the necessary capital needed for the consistent growth of an economy.

Alile (1987) further argued that the determination of the overall growth of an economy depends on how efficiently the stock market performs in its locative functions of capital. When the stock market mobilizes savings, it simultaneously allocates a larger portion of the same to firms with relatively high prospects as indicated by their returns and level of risk. The significance of this function is that capital resources are channeled by the mechanism of the forces of demand and supply to those firms with relatively high and increasing productivity thus enhancing economic expansion and growth.

Stock markets are a vital component for economic development as they provide listed companies with a platform to raise long-term capital and also provide investors with a forum for investing their surplus funds. Stock markets therefore encourage investors with surplus funds to invest them in additional financial instrument that better matches their liquidity preferences and risk appetite. Better savings mobilization and critical to the growth and efficiency of the economy stock market liquidity again helps to reduce the downside risk and cost of investing in projects that do no pay-off for a long-term. With a liquid market the initial investors do not lose access to their savings for the durations of their investment project because they can quickly and easily sell their stake in a company as noted by (Bencivenga and Smith, 1991).

The stock market being a major component in the financial sector of most developing economics such as Nigeria serves a pivotal role in contributing towards economic growth through diversification, mobilizing and pooling of savings from difference investors and availing them to companies for optimal utilization. As much as the stock markets are important in facilitating privatization channels and diversification of the financial sector services, they also offer the investors alternative investments to put their fund in. however, they face serious constraints if not properly monitored and adequate measures taken to curb any externalities. Most stock market especially those in the developing countries face constraints which result in serious implications such as liquidity issues, absence of activities and absence of well developed investors' base.

II. LITERATURE REVIEW

Capital market is defined as the market where medium to long-term finance can be raised (Akingbohungbe 1996). In another exposition, Mbat (2001) described it as a forum through which long-term funds are made available by the surplus to the deficit economic unit. It must, however, be noted that although all the surplus economic units have access to the capital market, not all the deficit economic units have the same easy access to it. The restriction on the part of the borrowers is meant to enforce the security of the funds provided by the lenders. In order to ensure that lenders are not subjected to undue risks, borrowers in the capital market need to satisfy certain basic requirement. It has very profound implication for socio-economic development of any Nation. Companies can finance their operations by raising funds through issuing equity (ownership) or debenture/band borrowed as securities. Equities have perpetual life while bond/debenture issues are structured to mature in period of years varying from the medium to the long-term of usually between five and twenty-five years.

Capital market offers access to a variety of financial instruments that enable economic agents to pool, price, and

exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages savings in financial form. This is very essential for government and other institutions in need of long-term funds and for suppliers of long-term fund (Nwankwo, 1991).

Based on its importance in accelerating economic growth and development, government of most nations tends to have keen interest in the performance of its capital market. The concern is for sustained confidence in the market and for a strong investor's protection arrangement. Nigeria Securities and Exchange Commission (NSEC) is the government agency responsible for developing and regulating the Nigeria capital market. Kit was created by Act No 71 of 1979 and re-enacted as Securities and Exchange Commission Decree No 21 of 1988. The NSEC purses its objectives by registering all market operators based on capital adequacy, competence and solvency as criteria.

III. THEORETICAL LITERATURE

Economic growth is generally agreed to indicate development of an economy, because is transform a country from a five percent saver to a fifteen percent saver. Thus, it is argued that for capital market to contribute to economic growth and development in Nigeria, it must operate efficiently. Most often, where the market operate efficiently, confidence will be generated in the kinds of the public and investors will be willing to part with hard earned funds and invest them in securities with the hope that in future they will recoup their investment.

The theoretical explanation on the nexus between capital market and economic growth is further expanciated using Efficient Market Hypothesis (EMH) developed by Fama in 1965. According to EMH, financial markets are efficient or prices on traded assets that have already reflected all known information and therefore are in biased because they represent the collective beliefs of all investors about future prospects. Previous test of the EMH have relied on long-range dependence of equity returns (Lo, 1991). It shows that past information has ben found to be useful in improving predictive accuracy. The assertion tends to invalidate the EMH in most developing countries. Equity prices would tend to exhibit long memory or long range dependence, because of the narrowness of their market arising from immature regulatory and institutional arrangement (Nagayasu, 2003 and Nyong, 2003). Note that, where the market is highly and unreasonably speculative, investor will be discouraged from parting with their funds for fear of incurring financial losses. In situations like the one mentioned above, has detrimental effect on economic growth of any country, meaning investors will refuse to invest in financial assets. The implication is that companies cannot raise additional capital for expansion. Thus, it suffices to say that efficiency of the capital market is a necessary condition for growth and development in Nigeria.

Levine and Zervous (1996) postulated a strong positive relationship between stock market development and long-run economic growth. Further studies showed that stock market liquidity play vital role in the process of economic growth (Mckinnon 1973, and Bencivenga, et al 1996). Though there are other Scholars who share contrary views about the performance of the capital market and its attendant effect on economic growth and development of nations. Emenuga(1998) for instance

believed that the stock market is illiquid and blamed the ownership structure in the Nigeria stock market. He concluded that the stock market is small and has few listed companies, low market capitalization and low volume of transactions, Ariyo and Adelegan (2005) contend that, the liberalization of capital market contributes to the growth of the Nigeria capital market, yet its impact at the macro-economy is quite negligible.

Gabriel (2002) as enunciated by Nyong (2003) lay emphasis on the Romanian capital market and concluded that the market is inefficient and hence it has not contributed to economic growth in Romanian. Whichever School of thought, either for or against capital market as a sine qua non for economic growth all depends on the particular situation the nation is passing through and the prevailing economic indices/determinants. With financial liberalization, many of the East – Asia capital markets like Singapore, Hong Kong and Bangkok have developed over time to the extent that they are presently regarded as international central of Asia. In contract the past year saw comparatively little change in the capital market of Sub-Saharan Africa including Nigeria. Also, various studies have tried to study the nature of relationship that exists between stock market development and the economic trends persisting in a country. Such studies include (Demirgue- Kunt and Levine (1996). Levine and Zervous 1996). These researchers investigated:

(i) The consistency of stock market development with economic growth and,

(ii) The harmonious nature of stock market development with financial intermediaries with some empirical demonstration. Their main findings and outcomes were as follows (i) They carried out cross-country growth regression that suggested that the predetermined component of stock market development was positively and robustly associated with long-run growth (ii) From the cross-country analysis, they found out that the level of stock market development is positively correlated with the development of financial intermediaries and consequently economic growth (iii) while stock market development induces the substitution of equity finance for debt finance in developed countries, it facilitates more debt finance in least developed countries. Hence, their hypothesis deserves an investigation in the Nigeria context which this paper intends to carryout in order to fill the knowledge gap.

The study made recommendations in such as the removal of impediments to stock market development which include tax, legal and regulatory barriers, and the employment of policies that would increase the productivity and efficiency of firms as well encourage them to access capital on the stock market and also enhance the capacity of the Nigeria Security and Exchange Commission so as to facilitate the growth of stock market, restore the confidence of stock market participants and safeguard the interest of shareholders by checking sharp practices of market operators (Particularly Speculators). Vazakidis (2009) carried out a study on stock market development and economic growth in France with an attempt to investigate the causal relationship between stock market development and economic growth for the

period 1965 – 2007, using a VAK framework. The result of the study confirmed that economic growth causes stock market development in France, and consequently therefore economic growth has a positive effect on stock market.

Levine and Zervous, (1996) examined the nature of links between stock markets, banks and income growth, on a cross-country, study consisting of 47 countries and there results showed that the size of both stock market and banks and income growth with the future economic growth. The paper identified and stated that the problems with the variables were perhaps even more severe with stock marker variables, where the market capitalization represents the present value of future earnings, and so there is most likely a positive correlation between the outcome of capitalization and expected economic performance.

IV. Conceptual Literature

The capital market has opened the floodgate to relatively inexpensive fund surpassing the possibility of self-financing available to indigenous enterprises. Such funds are usually used for expansion of existing business or to cushion the effect of inflation so that business may continue as going concerns. It also affords indigenous enterprises and entrepreneurs the opportunity to be introduced into the economy in general through entry into the security market. This enables shares that have been privately held to be general market or international market for inflow of foreign investment. The entering of an indigenous company into the capital market enhance its prestige and reputation, especially its products and credit worthiness in the eye of the public as conferred upon it by the new status (Bayero, 1996). The capital markets in Nigeria create a free entry and exist for investors. It is a known fact in private company that it is not easy for an investor (Shareholder) to withdraw capital invested without upsetting the company capital structure. But for public quoted company, it does work not like that. As long as an investor's broker can find a prospective investor to buy the clients' shares the process is done.

One of those important functions of the capital market is to encourage indigenous enterprises to develop its peculiar technologies through accessibility to funds and expertise through international connection. This has achieved tremendously. Moreover, most of the enterprises benefitted from the implementations of the Nigeria Enterprises promotion Acts and the privatization policies through the market. Both policies promoted indigenous enterprises, which are the main engine of economic growth and development in an economy.

Despite the capital market laudable performance and benefits, it is still beclouded with some weakness in Nigeria. The bureaucratic system of the Securities and Exchange Commission is hindrance to smooth processing of application submitted to it. The private sector to which most enterprises belong is not used to the "leap and tumble" system of the public sector, but operates by leaps and bounds. The fee charge b y the exchange are unreasonably high and constitute a great burden on enterprises/companies for whose sake the second tier securities market (SSM) was established in 1985. It is is realized that the engine of economic growth and development in Nigeria rest in this sector, which is endowed with the capacity to create jobs for the unemployed, then the charges should be moderate and not

appear to be punitive. Likewise the cost of hiring the services of stock brokers, registrar and issuing hoses in the capital market is getting higher every now and then, but their efficiency is not commensurate to the high cost, this given room for complaints and mistrust. The imposition of all forms of taxes by the three tiers of government on companies and businesses is especially discourage, and add to the number of weakness that undermine the capital market as the engine room and pivot for economic growth and development in Nigeria.

Purpose of the Study

The broad objectives of this research are to examine the role of stock market on economic development in Nigeria and it this seeks specifically to:

(i) Examine the presence of causal relationship between stock market performance and economic growth.

(ii) Examine the direction of causal relationship between and stock market performance and economic growth (i.e is it un-directional or bi-directional)

Research Hypotheses

Ho: there is no significant relationship between stock market development and economic growth in Nigeria.

Research Methodology

The researcher employed ex-post facto design and the data used for this study is collected from Nigeria Stock Exchange Annual Report and Accounts, various years Securities and Exchange Commission Annual Report and Account: Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics. The adopt correlation and regression analysis to explore the nature of relationship and implicit direction of the causation between dependent and independent variables of this study. Correlation coefficient is the square root of coefficient of determination R^2, since the coefficient of determination varies between 0.0 and 1.0, it follow that the correlation coefficient must vary between +1 and -1. Both the correlation coefficient and the coefficient of determination have nothing to say about causation. However, in regression analysis, the direction of the relationship between variable is made at the outset, thus the causality is assumed rather than inferred from the model. The researcher chooses a correlation coefficient ±0.50 as a benchmark for the relationship between different variables as analyzed in the table below

Table 1: Dependent Variables

Dependents Variables: GDP
Method: Least Squares
Date: 03/11/13, Time:12:04
Sample: 1980 - 2010
Included observation:31

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	6804109.	1008650.	6.745757	0.0000
SMC	4.009877	0.572355	7.005920	0.0000
MCR	-824690.8	114499.8	-7.202554	0.0000
VTR	-38.56415	4.959049	-7.776521	0.0000
TOR	21.86943	2.441054	8.959011	0.0000

R-Squared	0.966249	Mean dependent var	5971026
Adjusted R-Squared	0.961057	S.D. dependent var	8695059
S.E of regression	1715886	Akaike info criterion	31.69545
Sum Squared resid	7.66E+13	Schwarz criterion	31.92674
Log likelihood	-486.2794	F-statistic	186.0880
Durbin – Watson stat	0.828545	Prob(F-statistic)	0.000000

Source: Author's Computation, 2014

V. RESULTS AND DISCUSSION

Hypothesis

The null hypothesis that there is no significant relationship between stock market development and economic growth in Nigeria.

This hypothesis may be written as follows:

$$GDP_t \, \beta_{6+} = \beta \, \beta_2 \, MCR_{t+} BVTR_t + B_4 \, TOR_t + \mu t$$

Where GDP_t is the Gross Domestic Product at 1990 factor cost over the time period. MCR is the stock market capitalization ratio over the time periods VTR is the value traded ratio of domestic stock over the time period. TOR is the turnover ratio over the time period, & and β are unknown parameters to be estimated while μ_t is the error term.

Stock market development can be measured by three basic traditional characteristics (Inanga and Emenuga, 1997). This include stock market size measured by stock market capitalization and stock market liquidity measured by total value traded ratio and turnover ratio.

Total value traded measures the organized trading of equities as a share of the national output turnover ratio is used as an index of comparison for market liquidity rating and level of transaction costs. This ratio equals the total value of shares traded on the stock market divided by market capitalization. It is also a measure of the value of securities transactions relatives to the size of the securities market.

Table 2: An extract from the regression result

Dependent Variables: GDP**Vaariables**	Coefficient	Standard Error	t-Statistics	Possibility
C	6804109	1008650	6.745757	0.0000
SMC	4009877	0.572355	7.005920	0.0000
MCR	-824690.8	114499.8	-7.202554	0.0000
VTR	-38.56415	4.959049	-7.776521	0.0000
TOR	21.86943	2.441054	8.959011	0.0000

R = SQUARED: 0.966249
Adjusted R = Square: 0.961057
F – Statistics: 186.0880
Prob (F-statistics)0.000000
GDP = 6804109 + 40098773MC – 8246908 MCR – 38.56415 VTR + 21.86943 TOR
Source: Author's Computation, 2014

Analysis of the Estimate Co-efficient

The regression result presented above revealed a constant value of 6804109 which indicates the value of gross domestic product in Nigeria. If all the explanatory variable in the model are held constant or assumed to be Zero. The result further revealed that stock market capitalization and value Total Ratio have a negative relationship with the Gross domestic Product (GDP) and this implies that a unit increase in the value of stock market capitalization and value Total Ratio (VTR) will bring about a reduction of 4.009877 and 38.56415 respectively in the value of GDP. However, turnover ratio and the market capitalization Ratio put up a positive relationship with the Gross Domestic Product (GDP) with further indicates that a unit

ncrease in the value of turnover ratio (TOR) and market capitalization ratio. (MCR) will bring about an increase of about 21.86943 and 824690.8 respectively.

Analysis of the co-efficient of multiple determinations (R^2)

The co-efficient of multiple determination (R^2) measures the goodness of a model, the regression result revealed an (R^2 of 0.966249 which implies that about 95% of the systemic variation in the explanatory variable of stock market capitalization, Turnover Ratio (TUR), market capitalization ratio (MCR) and value Total Ratio in the model. This revealed that the model is a good fit as only about 5% of the systemic variables is unaccounted for the model but other variables.

Analysis of the t-statistics (T-TEST)

The t-test is carried out to test for the significance of individual estimated parameters. The t-statistics is the ratio of an estimated co-efficient to its standard error. This will be carried out at 5% level of significance. Decision rule Rejected the null hypothesis if the t-calculated is greater that the t-tabulated but do not reject Ho if otherwise.

H_o : X_1 = 0 (not significanct)
H_o : X_1 ≠ 0 (significant)
Degree of freedom =μ - k = number of parameters

Tables 3: Summary of T-Test

Variable	t-statistics	t-tabulated	Decision
SMC	7.005920	1.706	Reject H_o
MCR	-7202554	1.706	Reject H_o
VTR	-7.776521	1.706	Reject H_o
TOR	8.959011	1.706	Reject H_o

Source: Author's Computation, 2014

The summary of the t-test is present above and it revealed that the turnover ratio and market capitalization Ratio have significant impact on the Gross Domestic Product (GDP) while stock market capitalization (SMC) and Value Total Ratio have an significant impact on the GDP this conclusion was as a result of the fact that their (SMC and VTR) respectively, t-statistics is less than their t-tabulated at 5% level of significant.

ANALYSIS OF THE T-TEST

The T-Test is carried out to test for the overall significance of the model and to test the hypothesis that all the estimated parameters are simultaneously equal zero. This will be carried out at 5% level of significance as well.
Hypothesis: H_o: $\alpha_2 = \alpha_3 = \alpha_4$ 0 (Not Significant)
H_1: $\alpha_1 \neq \alpha_2 \neq \alpha_3 \neq \alpha_4 \neq 0$ (Significant)
Degree of freedom = V_1 = k − 1 = 5-1 = 4
V_2 = μ - k = 31-5 =26

Decision rule: rejected the null hypothesis (H_o) if the F-calculated is greater than the F-tabulated, but do not rejected H_o if otherwise. From the regression result, the F-tabulated if given as 2.76 from the statistical table since the t-calculated is greater than the F-tabulated that is 1860880 > 2.76, we reject the null hypothesis (H_o) and accept the alternative hypothesis. We there conclude that the model is overall significant and that the estimated parameters are simultaneously not equal to zero.

Analysis of the Durbin Watson (D.W)
Test for correlation

The analysis of the Durbin –Watson statistics is carried out to test for the presence of the first order serial auto-correlation in the model. The regression result revealed a Durbin – Watson (d) statistics of about 0.828545. this will be carried out at 5% level of significance.

Hypothesis H_o : P = o (no auto-correlation)
H_i : P ≠ 0 (auto correlation)

P= Auto correlation co-efficient with N= 31 and k = 4, the lower limit (d^1) and the upper limit (d_μ) of the of the Durbin – Watson is given as 1.160 and 1.735 from the statistical table. Where N = number of observation and k = number of explanatory variables.

+ve auto Correlation	Inconclusive Region	Acceptance Region	Inconclusive Region	-ve auto Correlation
O dl	du	2 4-du	4-dl	

Since d lies between 0 and d_1, that is c < 1.760 we reject the null hypothesis and concluded that there exist a positive auto correlation in the test for first order serial correlation among the successive error term.

VI. DISCUSSION OF FINDINGS

The research suggest that increased market capitalization (as proxy for the stock market size) could spur increased trading in stock (which is a proxy for liquidity). Also, stock turnover ratio (as a proxy for liquidity) could influence economic growth. This follows that stock market size influence market liquidity which in turn influences economic growth in Nigeria as analysed in the table below:

Table 5: Influence of market liquidity on economic growth in Nigeria between 1980-2010.

Obs	GDP	SMC	MCR	VTR	TOR
1980	49632.30	4461.200	8.988498	388.7000	7138.000
1981	47619.70	4970.800	10.43855	304.8000	10.199.00
1982	49069.30	5025.700	10.24205	215.0000	10014.00
1983	53107.40	5768.000	10.86101	397.9000	11925.00
1984	59622.50	5514.900	9.249691	256.5000	17444.00
1985	67908.60	6670.700	9.823064	316.6000	23571.00
1986	69147.00	6794.800	9.826603	497.9000	27718.00
1987	105222.8	8297.600	7.885740	382.4000	20525.00
1988	139085.3	10020.80	7.204787	850.3000	21560.00
1989	216797.5	12848.70	5.926589	610.3000	33444.00

1990	267550.0	16358.40	6.114147	225.4000	39270.00
1991	312139.7	23125.00	5.871534	491.7000	49029.00
1992	532613.8	31272.60	5.871534	491.7000	49029.00
1993	683869.8	37436.10	5.474156	804.4000	40398.00
1994	899863.2	66368.90	7.375443	985.9000	42074.00
1995	1933212	180305.1	9.326713	1838.800	49564.00
1996	2702719	258820.0	9.326713	1838.800	49564.00
1997	2801973	281960.0	10.062291	10330.50	78089.00
1998	2708431	262520.0	9.692697	13571.10	84935.00
1999	3194015	269980.0	8.452684	14072.00	123509.0
2000	4582127	429000.0	9.362464	28153.10	256523.0
2001	4725086	662000.0	14.01033	57683.80	426163.0
2002	6912381	763000.0	11.03816	59406.70	451850.0
2003	8487032	1360000	16.02445	120402.6	621717.0
2004	11411067	2110000	118.49082	225820.0	973526.0
2005	14572239	2900000	19.90085	262935.8	1021967
2006	18564595	5121000	27.58477	470253.4	1367954.
2007	20657318	13294000	64.35492	1076020.	2615020
2008	24296329	9561000	39.35162	1679144.	3535631
2009	24794239	8484000	34.21763	685717.3	1739365
2010	29205783	6656000	22.79001	799910.9	1925478

Source: Author's Computation, 2014

VII. CONCLUSION

This study reveals that there is a linkage between capital market efficiency and economic growth and development, via-a-vis market capitalization money supply, total transaction in stock, government development stock interest rate. As it can be observed market capitalization, government development stock and interest rate are important capital market variables that are capable of influencing economic growth in Nigeria. This is because, a large capital market widen the prospect form growth and also government development stock if well invested and not misappropriated to un-lucrative sector that does not have the potentials of growth inducement. Furthermore, interest rate acts as a function of what happens in the capital market. Likewise money supply and total transaction in stock are potential growth inducing macro-economic variables that are capable of enhancing economic growth in Nigeria. But the study clearly shows that Nigeria economy has low absorptive capacity that is financial capital cannot be absorbed productively to stimulate economic growth and development. Moreover, the market is characterized by illiquidity and excessive government regulations.

VIII. RECOMMENDATION

The private sector should be encouraged to invest in capital market. This can be done through educating and enlightening the public using knowledgeable people and experts or professionals that are competent in stock market dealings. Also, the illiquidity status of the capital market should be improved to make it more viable for investors to invest and such over times can contribute to economic growth. This can be achieved through complete reveal of the ownership structure. And finally, the funds raised by government in the form of government securities in the capital market should be put into productive sectors of the economic that will necessitate to growth in all facets of the economy.

List of Abbreviations

NSEC: Nigeria Securities and Exchange Commission
EMT: Efficient Market Hypothesis
VAR: Vector Auto Regessive
SSM: Second Tier Securities
GDP: Gross Domestic Product
C: Capitalization
SMC: Stock Market Capitalization
MCR: Market Capitalization Ratio
VTR: Value Total Ratio
TOR: Turnover Ratio

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