AN ANALYSIS OF THE IMPACT OF STOCK MARKET DEVELOPMENT ON ECONOMIC GROWTH IN NIGERIA

DEPARTMENT OF ECONOMICS

IN THE DEPARTMENT OF ECONOMICS, FACULTY OF SOCIAL SCIENCE, UNIVERSITY OF IBADAN, NIGERIA.

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ABSTRACT

The stock market is a common feature of a modern economy and it is perceived to perform some necessary functions which promote the growth and development of the economy. Hence, deliberate effort has been made by various nations, especially those of the developing world to develop their stock markets as a means of achieving economic growth. This study examines whether the development of the Nigerian Stock Market promotes economic growth in Nigeria over the period of 1981 – 2018.

To achieve this objective, time series data on some notable stock market development indicators for the study period were obtained from secondary sources. The study employed the ordinary least squares (OLS) and the co-integration estimation techniques. However, attention was focused on the co-integration results, given that it allows us to make appropriate policy implications on the relationship that exists between time series variables which may be non-stationary. With a 98 percent R-squared and 96 percent R-squared adjusted, the result of the study revealed that economic growth is adequately explained by the model for the study period. Moreover, the study established that, a positive but non-significant relationship exists between some notable stock market indicators used – market capitalization ratio, turnover ratio, new issues – and economic growth.

This study suggests the pursuit of policies geared toward improving and rapidly developing the Nigerian stock market as a way of expanding its contribution to economic growth. The study also calls on all sectors of the economy to act in a collaborative manner such that the optimum benefits of linkages between stock market and economic growth can be realized in Nigeria.

CHAPTER ONE

INTRODUCTION

BACKGROUND TO THE STUDY

The mobilization of resources for national development has long been the crucial focus of development economists. This is because, for sustainable growth and development to take place, funds must be effectively mobilized and allocated to enable business and the economy harnesses their human, material and managerial resources for optimal output. It is against this backdrop that every country has a financial system which serves as a mechanism for the mobilization of resources for the attainment of economic growth. Consequently, the more developed the financial system of an economy is, the more efficient it is likely to be in the mobilization and allocation of resources for development purposes.

The financial system of any society is the framework within which capital formation takes place. According to Odife (1994), it is the framework within which the savings of some members of the society are made available to other members of the society. Put differently, it is the arrangement or mechanism by which the savings surplus units of the economy transfer their resources to the borrowing deficit units for the purpose of enhancing economic growth (Okereke – Onyiuke, 2009). The financial system is made up of two major markets. These are the money market and the capital market. According to Elakama (2009), the two markets are at the heart of the financial system.

The money market is a type of market where short term funds and securities such as treasury bills, inter-bank deposits, Banker's acceptance, certificate of deposits etc whose tenor

are usually shorter than or equal to a year are bought and sold. In other words, it is a market where short term capital is sourced. The capital market on the other hand is a type of market where long term debt instruments whose tenor exceeds a year are traded. According to Sulaiman (1999), it is a network of interrelated institutions governed by operational guidelines, which permit the sale of equity and long term debt. Furthermore, Al-Faki (2006) describes the capital market as a network of specialized financial institutions, series of mechanism, processes and infrastructure that, in various ways, facilitate the bringing together of suppliers of medium to long term capital for investment in socio-economic development projects. Instruments traded in the capital market include equities, debts, government bonds, corporate bonds, preference shares, debentures, rights etc.

Within the broad classification of the capital market is the stock market, it operates as the rallying point for the overall activities in the capital market. According to Alile and Anao (1984), the stock market is the pivot around in which every activity in the capital market revolves. Its follows therefore that without the facilities provided by the stock market, it is doubtful if the capital market can efficiently perform its expected role of resource mobilization (Ologunde et al). It is in the light of the above that the stock market is considered a vital element in the mobilization and allocation of resources in any modern economy.

Until recently, the literature has mainly focused on the role of financial intermediation in the process of economic growth and capital accumulation. Indeed, many studies have analyzed the channels through which banks and other financial intermediaries may help to increase, for example, the savings rate or the average productivity of capital and, in turn growth. However, with the upsurge in world stock markets and a large proportion of this boom accounted for by emerging markets, there has been a growing interest among economists and policy makers on

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the role played by stock market development in the process of economic development. Recent research has therefore begun to focus on the linkage between the stock market and economic development. It is not surprising that the World Bank Economic Review dedicated its May 1996 issue to the role of the stock market in economic growth.

The stock market also known as the stock exchange or equity market performs some functions that promote the growth of the economy (Osinubi, 2004). Firstly, as an economic institution, the stock market promotes efficiency in capital formation and allocation. Secondly, the stock market serves as a veritable tool in the mobilization and allocation of savings among competing uses which are critical to the growth of the economy. Thirdly it enables governments and industry to raise long term fund for financing new projects and expanding and modernizing industrial or commercial concerns, thereby increasing the quantity and quality of investment. Fourthly, by performing its function of allocating capital efficiently, the stock market allocates a larger proportion of savings to the firms with relatively high prospects as indicated by their rate of returns and level of risk. The importance 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. Additionally, the stock market performs the functions of intermediating between the needs of firms and investors; thus, providing a means of sharing investment risks; providing information about companies, promoting and providing the means of improving corporate governance, etc. Furthermore, a well functioning stock market provides low cost equity capital for firms, imposes control on the investment behaviour of firms through continuous adjustment of shares and serves as a mechanism for attracting foreign portfolio investment. Given the

above functions, it is expected that the development of the stock market will both enhance and lead to the growth of the economy.

In recognition of the impact of the stock market in economic growth and development, many developing countries have launched stock exchanges during the past few decades. This explains the drive toward the establishment of stock exchanges in most African countries especially during the past two decades, with new stock markets established in Ghana, Malawi, Swaziland, Uganda and Zambia. Prior to 1989, there were just eight stock markets in Africa, of which three were in North Africa and five in Sub-Sahara Africa. At present, more than 50% of the fifty four African countries operate stock exchanges, accounting for over twenty-two stock exchanges in Africa (Komo, 2008). According to Komo, this rapid expansion of stock exchanges in Africa has contributed to economic development in various ways, these include facilitating the privatization process, diversifying the financial services, facilitating long term capital mobilization, provision of alternative investment opportunities, attracting capital inflow and serving as a signal of overall macroeconomic performance.

Given the crucial role played by the stock market in any modern economy, the Nigerian government in 1960 established the Nigerian Stock Exchange (NSE). Like many African countries, Nigeria has invested in developing her stock market as a means of providing opportunities for greater fund mobilization and improved efficiency in resource allocation. This study therefore examines whether stock market promote growth and development in Nigeria.

STATEMENT OF RESEARCH PROBLEM

The role of the stock market in the development of any economy cannot be over emphasized in view of its potentials and likely impact on the economy if well harnessed. It is a known fact that nations cannot develop without the needed long term funds for development

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projects, the more developed a stock market is, the higher the potential for sourcing long term fund for industrialization. Indeed, as pointed out by Osinubi, a wellfunctioning stock market serves a veritable tool in the mobilization and allocation of resources needed to meet the rapid expansion of the economy as it develops.

Over the years, the Nigerian Stock market has experienced relative stability and recorded impressive growth. This growth has been most significant especially since the introduction of the Structural Adjustment Programme (SAP) in the early 1980's,that brought about the privatization, commercialization and liberalization programmes, all of which have helped in boosting activities in the stock market. However, as noted by Ogwumike and Omole (1997), when compared with other emerging and developed markets, it becomes evident that the Nigerian Stock Market is still relatively small in size and underdeveloped. For example, a comparison of the Nigerian Stock Market in terms of number of listed equities reveals that while Nigeria has only 214 equities listed in 2005, even though its stock exchange was established in 1960, Singapore's stock market that was established in 1979 has over 500, Hong Kong has 695 equities and was established in 1986 and Istanbul have over 900and was established in 1986. This, thus, indicates the relative poor performance of the Nigerian Stock Market vis-à-vis those of other countries. Moreover, Osazee (2007) pointed out that less than 21 percent of the 400,000 registered companies in Nigeria are not currently quoted on the Nigerian Stock Exchange, a situation which he attributes to the unattractiveness of the market as well as the lack of incentives for more companies to go public. Furthermore, while the growth of the stock market has been impressive, same cannot be said of the growth of the Nigerian economy.

In recognition of the above, the research questions for this study are:

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1. Has the Stock Market promoted economic growth and development in Nigeria?

2. Has the market acted as a mechanism for attracting foreign capital inflow?

3. How has the market facilitated the mobilization of long term fund for financing long term development project?

1.3 OBJECTIVES OF THE STUDY

The stock market is a common feature of a modern economy and it is reputed to perform some functions that promote the growth and development of the economy. This study is therefore broadly carried out to empirically ascertain the impact of the Nigerian Stock Market on economic growth. Specifically, the objectives are:

i. to identify the channels through which the stock market impacts on economic growth and development;

ii. to examine the establishment of the Nigerian Stock Market, as well as its performance and growth potentials;

iii. to identify the performance or growth drivers of the Nigerian stock market;

iv. to identify the challenges facing the Nigerian Stock market and examine various ways of boosting its performance and growth.

1.4 HYPOTHESES OF THE STUDY

A research hypothesis is a scientific statement expressing the relationship between two or more variables which is meant to be tested. In the light of the primary objective of this study, the following hypotheses have been formulated

1. **Ho:** The Nigerian Stock Exchange is not positively associated with Nigeria's economic growth and development.

2.   **H1:**   The Nigerian Stock Exchange is positively associated with Nigeria's economic growth and development.

1.5   SIGNIFICANCE OF THE STUDY

The significance of efficient and well functioning stock market in spurring economic growthhas been emphasized in the literature. A constructive and objective study of the stock market that aims at highlighting its role in the process of capital formation and national development will be of great importance to individual investors, firms and policy makers.

As a market place where securities (Stocks, bonds and shares) are bought and sold openly with relative ease, the stock exchange is very important to investors. Hence, prospective shareholders and investors would find the work relevant as the research focuses on the Nigerian Stock Exchange where activities of the capital market are often carried out. Furthermore, since the stock market is a reliable means through which firms can source for low equity capital, and given the fact that the prices of the stocks of firms (quoted on the stock exchange) serves as an indication of the overall performance of the firm, this research study will also be of great significance to firms. Additionally, this research will be relevant to the government as it will enable it have a better knowledge of the policies necessary to enhance or improve the contribution of the stock market to the economy.

This research work will also serve as a reference for subsequent researches and stimulate further in-depth and insightful study in this area of study.

1.6   SCOPE OF THE STUDY

In view of its primary objective, this study focuses mainly on the activities of the Nigerian Stock Market without detailed reference to other markets in the capital market. The

study covers activities of the Nigerian stock market for a period of 28 years, from 1990 to 2018. The choice of this period is anchored on the fact that it covers both the relatively small and high activities performance of the market.

1.7   LIMITATIONS OF THE STUDY

This research was limited by certain constraints which include difficulty in sourcing data from certain relevant organization, non-availability of data on certain variables, restrictions on accessing certain materials on the internet and insufficient financial resources for the study.

Lastly, this study was also constrained by inadequate time on the part of the researcher, since attention had to be given to other course work.

CHAPTER TWO

BACKGROUND OF THE STUDY

2.1   **CONCEPTUAL ISSUES**

In examining the relationship between stock market and economic growth and development, it is important to throw light on some key concepts that will enhance a better understanding of the study. These are the concept of stock market and economic growth and development.

The Stock Market

The Collins Dictionary of Economics (2005) defines a stock market as a market that deals in the buying and selling of company stocks and shares and government bonds. The stock market provides trading facilities for stock brokers and traders, to trade in stocks and other securities. In the words of Armstrong (1977), "it is the citadel of capital, the temple of values, the axle on which the whole financial structure of the capitalist system revolves." The purpose and duty of a stock exchange is to organize security trading so that process may be found in the best possible condition (Urban, 1990).

The evolutionary process of exchanges began in the 12th and 13th century in Europe in Italian towns such as Lucia, Genoa, Florence, Venice and Milan. However, the term "exchange" began to be used first in Bruges, a Belgian town situated in Flounders where Florentine, Venetian and Norwegian merchants used to had periodical meetings called "de beurse". According to Osazee (2007), the oldest stock exchanges include those of Antwerp in Belgium established in 1531, Frankfurt (1588), Berlin (1685), London (1773) and New York (1792). The oldest in Africa are those of Cairo, established in 1883 and Johannesburg which came into existence in 1887.

Stock exchanges perform the following roles in an economy:

i.   Raising capital for business.

ii. Mobilizing savings for investment.

iii. Facilitating company growth through merger and acquisition.

iv. Creating investment opportunities for small investors.

v.   Raising capital for government development projects.

vi. Serves as a barometer of the economy.

The development of a stock market simply implies improvement over time in the services of the stock market. It is characterized by growth in stock market size; improvement in market liquidity, infrastructure and regulatory framework, greater risk diversification and integration with world capital market. Theoretically, the more developed a stock market is, the greater its contribution to economic growth. Yartey and Adjasi (2009), Garcia and Liu (1999) and Yartey (2007) have identified several factors which determine stock market development. These include:

a.   **Macroeconomic Stability:** a stable macroeconomic environment with low and predictable rates of inflation, consistent and sound monetary, fiscal and exchange rate policies is more likely to contribute to stock market development because both domestic and foreign investors will be unwilling to invest in the stock market where there is high macroeconomic volatility.

b.   **Banking Sector Development:** This is important to stock market development because at the early stage of its establishment, the stock market is a complement rather than substitute for the banking sector (Yartey and Adjasi, 2007). Hence, support services from the banking system contribute significantly to the development of the stock market.

c. **Institutional Quality:** Institutional quality is important for stock market development because efficient and accountable institutions tend to broaden appeal and confidence in equity investment. Equity investment thus become more attractive as political risk is resolved overtime.

d. **Shareholder Protection:** Stock market development is more likely in countries with strong shareholders protection because investors do not fear expropriation as much. In addition, ownership in such market can be relatively dispersed, which provides liquidity to the market (Shleifer and Vishny, 1997).

Economic Growth and Development

Economic growth can be defined as the sustained increase in the output of an economy over a period of time. According to Todaro and Smith (2006), it is the process by which the productive capacity of the economy is increased overtime to bring about rising levels of national output and income. On the other hand, economic development refers to the sustained increase in an economy's output over time plus a transformation in the method of production and in the attitude and values of the people. In the words of Ai-Faki (2006), economic development is a sustained increase in standard of living that implies increase in per capita income, better education and health as well as environmental improvement. Thus, while economic growth is related to quantitative sustained increase in a country's per capita income, economic development encompasses both economic growth and the upward movement of the entire social system (Jhingan, 2006). However, for the purpose of simplicity, both terms will be used inter-changeably in this study.

Generally, the growth of an economy is determined by a number of factors which can be grouped into economic and non-economic factors. The economic factors include increase in

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resources of an economy, increase in capital stock of the economy and technological development.   The non-economic factors include social attitudes, values and structure, effectiveness of political and administrative machineries, etc.

2.2   STOCK MARKET AND ECONOMIC GROWTH AND DEVELOPMENT

Following the celebrated works of Gurley and Shaw (1973), Shaw (1973) and McKinnon (1973) which recognized the important role played by financial institutions in economic development, there has been increasing interest among economists and policy makers on the role of the stock market in economic growth and development. As part of the financial system, the stock market is in the focus of economist and policy makers because of the perceived benefits it provides to the economy. Hence, in recent times, research interests have focused on investigating whether stock markets, especially in developing countries, have achieved the development oriented goals for which they were originally conceived.

Recent researches have identified various channels through which the stock market may influence economic growth. According to Levine and Zervos (1996), Levine (1996, 1997), Bakaert and Harvey (1997), Yartey and Adjasi (2007), Osinubi (2004) and Ezeoha*et al* (2009), stock market may affect economic growth through the following channels:

a.   Creation of liquidity.

b.   Risk diversification

c.   Corporate control

d.   Information acquisition about firms;

e.   Savings mobilization

a.   **Creation of Liquidity:** Basically, liquidity refers to the ease with which an asset (in this case securities) can be turned into cash. The liquidity role stands out clearly as the most significant

among the numerous functions provided by the stock market. In the words of Levine (1991, 1997), without a liquid stock market, many profitable long term investment would not be undertaken because savers would be reluctant to tie up their investments for long periods of time. However, as shown by Levine (1991) and Bencivenga, Smith and Starr (1996), liquid stock markets reduces the downside risk and cost of investing in projects that do not pay off for a long time, thus making such investment attractive. This is because with a liquid equity market, the initial investors do not lose access to their savings for the duration of the investment since they can quickly, cheaply and confidently sell their stake in the company. Thus more liquid stock markets ease investment in long run, potentially more profitable projects thereby improving the allocation of capital and enhancing prospects for long run growth (Levine, 1996).

b. **Risk Diversification:** Without efficiently run stock markets, investors have limited means to diversify their portfolios. As a result, investors may avoid equity stakes because they are too risky. Hence, corporations may find it difficult to raise equity capital. However, with creation of stock markets, individuals can diversify firm-specific risks, thus making investment in firms more attractive (Bakaert and Harvey, 1997). According to St. Paul (1992), Deverreux and Smith (1994) and Obstfeld (1994), greater risk diversification can influence growth by shifting investment into higher-return projects. Intuitively since high expected return projects also tend to be comparatively risky, better risk diversification through internationally integrated stock markets will foster investment in higher return projects. The resultant effect is a boost in the economy, leading to economic growth.

c. **Corporate Control:** Stock market development may also influence corporate control through the take-over mechanism. Laffont and Tirde (1983), Schartein (1988)*et al* argue that take-over threats induce managers to maximize firm's equity price.   The presumption is that, if

management does not maximize firm value, another economic agent may take control of the firm, replace management and reap the gains from the efficient firm. Such consciousness which is likely to cause a company to be better managed may no doubt be transmitted into the wider macroeconomic management and consequently lead to economic development in the country.

d. **Information Acquisition about Firms:** In larger and more liquid markets, it will be easier for an investor who has gotten information to trade at posted prices. This will enable the investor to make money before the information becomes widely available and price change. The ability to profit from information will stimulate investors to research and monitor firms. Better information about firms improves resource allocation and spurs economic growth.

e. **Saving Mobilization:** At any stage of a nation's development, both the government and the private sectors would require long term capital. By agglomerating savings, stock market provide long term capital to both the government and the private sector, thereby enabling them to embark on worthy projects which require large capital injections and enjoy some economies of scale. Thus, stock markets that ease resource mobilization can boost economic efficiency and accelerate growth (Levine and Zervos, 1996).

2.3 **OVERVIEW OF THE NIGERIAN STOCK MARKET**

The genesis of the Nigerian Stock Exchange (NSE) can be traced to the issue of the first Nigerian government registered stock in 1946, under the ten-year plan local loan ordinance promulgated by the British Colonial administration (Ogumike and Omole, 1997). However, the actual establishment of the stock exchange as a formal and specialized capital market institution in Nigeria took place on September 15, 1960 when the Lagos Stock Exchange was established. The Lagos Stock Exchange which was established following the recommendation of the R.H. Barbock Committee set up to examine the viability of securities exchange in Nigeria was

incorporated under the companies ordinances as a non-profit organization limited by guarantee (Osazee, 2007). Having been incorporated on September 15, 1960, the stock exchange opened its doors for business on its first trading floor in Lagos on June 5, 1961, with 19 securities value at N80 million listed on it.

On December 1977, the Lagos Stock Exchange was recognized and renamed the Nigerian Stock Exchange (NSE) following the recommendations of the industrial enterprise panel that branch exchanges be established. As a result of this, new branches and trading floors of the NSE were established in some major commercial cities in the country (Kaduna, Port Harcourt, and Kano). Today, the NSE has thirteen functional trading floors, namely: Lagos (1961), Kaduna (1980), Port-Harcourt (1980), Kano (1981), Onitsha (1990), Ibadan (1990), Abuja (1999), Yola (2002), Benin (2005), Uyo(2007), Ilorin (2008) , Abeokuta (2008) and bauchi(2009). As at May 31,2018, it has 169 listed companies with a total market capitalization of over 13 trillion. In terms of market capitalization, the Nigerian stock exchange is the third largest stock exchange in Africa.

The Nigerian stock exchange is governed by a council (Board) of the stock exchange which is the highest policy making body of the exchange (Alile and Anao, 1986). While the Council is responsible for policy-making, the day-to-day affairs or administration of the exchange is vested in the office of the Director-General. The powers and functions of the council include:

a. Enforcing the articles as well as the rules and regulations of the exchange.

b. Taking disciplinary measures against erring members and policing the market.

c. Granting quotations to companies and decisions to delist, suspend or withdraw quotation from any quoted company as it may deem fit.

d.   Protecting the interests of the investing public.

Objectives of the Nigerian Stock Exchange

The objectives of the Nigerian Stock Exchange as stated in its memorandum of Association are as follows:

i.   To create an appropriate mechanism for capital formation and efficient allocation of resources among competing projects.

ii.   To maintain discipline in the capital market.

iii.   To broaden share ownership practice.

iv.   To provide special financing strategies for those projects with long term gestation periods.

v.   To maintain fair prices for securities.

vi.   To encourage savings.

vii.   To disseminate information to industrialists and investors.

Functions of the Nigerian Stock Exchange

According to the NSE, the primary functions of the Exchange are:

i.   To support the capital raising process by providing the best quality, most efficient, most effective market place for the trading of financial instruments.

ii.   To promote confidence in and understanding the process.

iii.   To serve as a forum for discussion of relevant national issues.

iv.   To serve as a broad communication area for its constituencies and the dual role of overseeing the markets and their member-firm participants.

v.   To maintain broad and liquid secondary markets for corporate securities, and therefore help to build public confidence and participation in the market, enhancing issuer's ability to raise

capital in the primary market and underscoring the importance of efficient capital management (NSE, 1990).

Regulation of the Nigerian Stock Exchange

The Nigerian Stock Market, like elsewhere, is a regulated market. Government oversight of the stock market in Nigeria is achieved through two basic frameworks – the legislative and the institutional.

a.   **Legislative Regulation of the NSE**

By legislative regulation, we imply the relevant laws regulating the operation of transactions on the Nigeria Stock Exchange. These include:

i.   The Companies and Allied Matters (CAMA) Act of 1960.

ii.   Investment and Security Act (ISA) of 2007.

iii.   Nigerian Investment Promotion Council Act of 1995.

iv.   Foreign Exchange (Monitoring and Miscellaneous Provision) Act of 1995.

v.   The Pension Act of 2004.

vi.   The Trustees Investment Act of 1990.

It should be noted that among the legislations listed above, the Investment and Securities Act (ISA) of 2007, is the major law regulating the operations of the stock market in Nigeria.

b.   **Institutional Regulation of the NSE – The Securities and Exchange Commission**

According to Akamiokhor (1984) and Ogunmike and Omole (1997), the Nigerian Stock Exchange itself is a self-regulatory organization. However, besides its self-regulatory actions, the regulation of the Nigerian stock market is achieved through the operations of the Securities and Exchange Commission (SEC). The Commission formerly known as the Capital Issues Commission (CIC) is the apex regulatory body for the Nigerian capital market. It was set up

under the securities and exchange decree of 1979, and it is currently empowered legally to carry out its functions by the investment and securities Act (ISA) of 2007. The two basic objectives of the SEC include:

i.   To attend to and accelerate the orderly growth and development of the Nigerian capital market.

ii.   To protect investors against fraudulent practices.

Functions of the Security and exchange commission

According to SEC (2004), the Commission was set up to perform two broad functions – the regulatory and developmental. The Regulatory functions of the SEC include:

i.   **Valuation:** To approve the price, amount, and time which securities of a company are to be sold;

ii.   **Allotment:** To oversee the basis of allotment of Securities in a public offering to ensure wider spread of shares ownership;

iii.   **Surveillance:** To monitor the activities of the Nigerian Stock Exchange Trading floors in order to ensure orderly, fair and equitable dealings in securities to forestall illegal deals;

iv.   **Investigation/Enforcement:** To investigate complaints and suspected violations of securities laws and to impose penalties and remedial action.

v.   **Registration:** To register all securities proposed to be offered for sale to or for subscription by the public or offers privately; stock exchanges and their branches, persons and institutions involved in securities dealing – stock brokers, registrars, issuing houses, fund managers, etc.

On the other hand, the developmental functions of the SEC involve:

i.   Stimulating ideas, initiating policy changes and innovation for the growth of the securities market;

ii.   Advising the Nigerian government on capital market issues.

iii.   Conducting researches and providing general education about securities.

iv.   Supporting a nation-wide system for securities trading including modern communication and data processing facilities.

Structure of the Nigerian Stock Market

According to Olugunde, Elumilade and Asaolu (2006), the activities of the Nigerian Stock Exchange fall into two broad categories: the primary market and the secondary market.

The primary market also known as the new issues market is concerned with the offering of new shares or the initial issue of securities in the exchange. Hence it provides the avenue through which the government and corporate bodies raise fresh funds for development purposes. Issuance of securities in the primary market can take the form of offer for subscription, offer for sale, private placement, right issues, stock exchange introduction, America depository receipts/global depository receipt.

The secondary market also known as the after-market, is a financial market where previously issued securities and financial instruments such as stock, bonds, and options are bought and sold. In other words, the secondary market operates after the issues had been completed and the securities listed on the Stock Exchange. In Nigeria, licensed stockbrokers of the Nigerian Stock Exchange carry out secondary market transactions in the quoted securities on its trading floors.

2.4 Theoretical framework

In the light of the above, the following are the measures which will be used to examine the performance of the Nigerian Stock Market:

a.   Market Capitalization

b.   Trading Value

c. New issues

d. Listings

e. Stock index

f. Market Concentration

g. Regulatory and infrastructural development.

h. Integration with world capital market (internationalization)

a. **Equity Market Capitalization**

Market capitalization is perhaps the most widely used indicator in accessing the size of the stock market to an economy and in relation to other markets. It equals the value of all listed shares on a stock exchange.
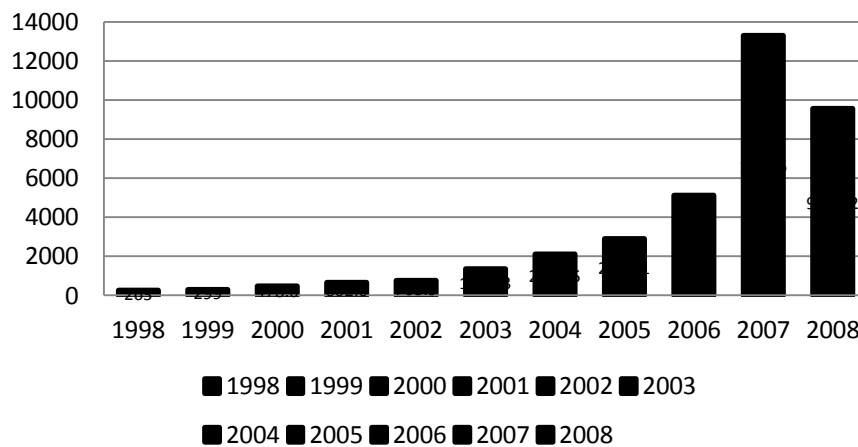
The market capitalization of the Nigerian Stock Exchange recorded remarkable growth during the period, 1981 – 2008. It grew from N4.84 billion in 1981 to N6.4 billion and N15.9 billion in 1985 and 1990 respectively. Between 1995 and 2000, the stock market capitalization witnessed 179.7% increase from N171.1 billion in 1995 to N478.6 billion in 2000. In 2003, market capitalization hits its 1 trillion mark of N1.3 trillion and recorded an all time high of N13.2 trillion in 2007, representing 878.2% increase over its 2003 figure. However, in the face of the global financial crisis, market capitalization dropped by 28.1% to reach N9.5 trillion by December 2008. As at September, 2009, the market capitalization was N7.81 trillion, representing 18.3% decline over its 2008 closing figure. The trend is shown in column 2 of table 2.1

Table 2.1 Market Capitalization, Total Value Traded and Turnover ratio of the NSE for selected years

Year (1)	Market Capitalization ₦b (2)`	Total Value traded ₦b (3)	3 ÷ 2 (4)
1981	4.84	0.33	6.82
1985	6.40	0.31	4.84
1990	15.90	0.31	1.95
1995	171.10	1.84	1.08
2000	478.60	28.15	5.88
2001	662.60	57.64	8.70
2002	763.90	60.32	7.90
2003	1,359.30	120.70	8.88
2004	2,112.50	225.82	10.69
2005	2,900.10	262.94	9.07
2006	5,120.00	470.25	9.18
2007	13,295.00	2,086.3	15.69
2008	9,560.20	2,379.1	24.89

Source: *Nigerian Stock Exchange Annual Reports and Accounts, Various years.*

Figure 2.1: Nigerian Stock Exchange Market Capitalization (1998-2008)

Source: The Nigerian Stock Exchange

A comparative analysis of equity market capitalization of the Nigerian market with major emerging markets of Asia, Europe and Latin America depicts the Nigerian market as small and still lagging behind. For example, while the market capitalization ratio for the NSE was 20.1 in 2004, those of Malaysia, Mexico and Thailand were 61.3, 25.4 and 70.6 respectively. However, coming down to Africa, a comparison of the Nigerian market with other markets in the continent show Nigeria as the third largest in 2007 and 2008 after South Africa and Egypt.

The top five Exchanges in Africa by Market Capitalization (USD Million) for year 2008 is shown in Figure 2.2

Figure 2.2: Top 5 Stock Exchanges by Market Capitalization (USD million) for Year 2008

Top 5 Stock Exchanges by Market Capitalization (USD million) for Year 2008
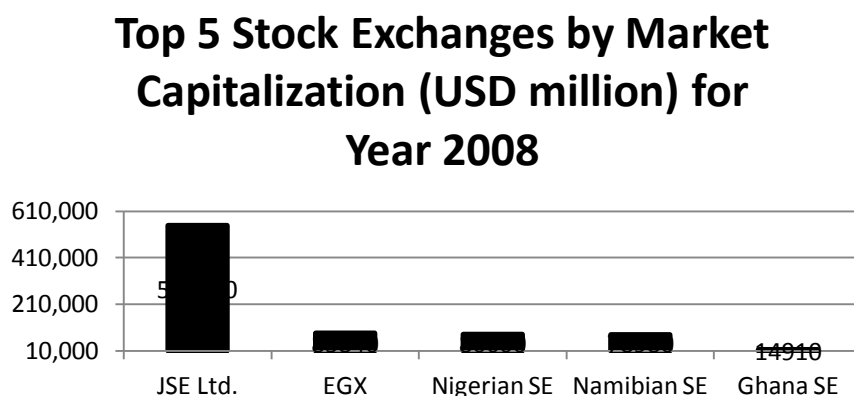
Source: African Securities Exchanges Association (www.africansea.org)

b.   **Trading Value**

The value traded of a stock exchange is usually indicative of its level of activity, that is, the rate at which securities are bought and sold, as well as its liquidity, which is the ease at which securities can be converted into cash.

The total value trade of the NSE shows that the Nigerian Stock Market is still relatively inactive and illiquid although recording marked improvement in recent years. In 2008, the market registered a total value trade of N2.4 trillion. This performance represents an improvement over the N28.15 billion total value traded registered in 2000, N262.94 billion in 2005 and N2.1 trillion in 2007. Thus, between 2000 and 2008, the value of trading had risen by over 8000%. The value traded of the NSE for some selected years is shown on column 3 of table 2.1. Moreover, a further proof of the relative illiquidity of the Nigerian Stock Market is

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given bythe turnover ratio (i.e. the ratio of value traded to market capitalization). As can be seen in column 4 of table 2.1, the turnover ratio of the NSE in 2008 was 24.88% and this was an improvement over 15.70%, 9.07%, 8.90% and 5.88% in 2007, 2005, 2003 and 2000 respectively.

A look at the standing of the Nigerian Stock Market vis-à-vis some emerging markets in 2003 show India with a ratio of 84.4%, Malaysia 39.8%, Brazil 44.9%, Indonesia 46.2%, South Africa 79.0%, Egypt 16%, and Zimbabwe 19.0%. A turnover ratio of 12.0% in 2003 obviously reveals the relative illiquidity of the Nigerian Stock Market. In 2008, however, the NSE ranked third in Africa in terms of value traded and turnover ratio respectively. This is shown in figure 2.3

Figure 2.3: Top 5 Stock Exchanges by Value (USD MILLION) Traded for Year 2008

Top 5 exchanges by value (USD million) Traded for Year 2008
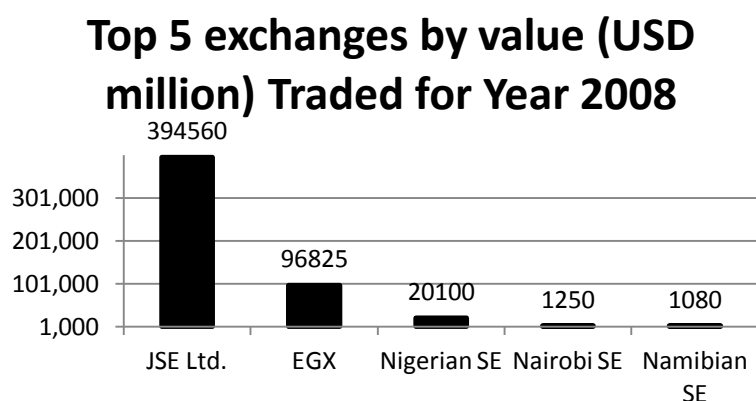
Source: African Securities Exchanges Association (www.africansea.org)

c. **New Issues**

The major channel through which the stock exchange contributes to capital formation is via new issues. Therefore, the growth of new issues is indicative of the potentials of the market to efficiently mobilize more savings into productive investment. From column 2 of table 3.2, it can be seen that new issues grew from N455.2 million in 1981 to N817.2 million, N9,964.5

million in 1985 and 1990 respectively. It recorded its highest figure in 2007 by recording

N2,400,000 million that year.

Table 2.2: New issues and Gross fixed capital Formation

| Year (1)	Total New Issues (₦m) (2)`	Gross Fixed Capital formation(₦m) (3)	3 ÷ 2 (4)
1981	455.2	18,220.6	2.5
1985	817.2	8,799.5	9.3
1990	9,964.5	40,121.3	24.8
1995	4,424.2	141,920.2	3.1
2000	17,207.8	331,056.7	5.2
2001	37,1988	372,135.7	10.0
2002	61,284.0	499,581.5	12.3
2003	180,079.9	865,876.5	20.8
2004	195,418.4	863,072.6	22.6
2005	522,782.0	804,400.8	65.0
2006	1,420,000.0	1,546,525.7	91.8
2007	2,400,000.0	NA	
2008	2,200,200.0	NA	

Source: *CBN Statistics Bulletin, 2008; Nigerian Stock Exchange.*

New issues as a percentage of Gross Fixed Capital formation recorded its highest performance in 1990 and between 2003 and 2006, with performance of 24.8%, 20.8%, 22.6%, 65% and 91.8% respectively. The reason for the exceptional performance in 2003 may be attributed to the Federal Government floating of N150 billion bond in that year (Al-Faki, 2006). Additionally, the impressive performance of new issues between 2005 and 2007 may be attributed to the N25 billion recapitalization exercise for banks, in which majority of banks had to resort to the capital market for fresh capital.

d. **Listings (Number of Listed Companies and Securities)**

The number of listed companies' specifics all companies listed on a country's stock exchange at any point in time. The number of listed companies on the NSE was 93 in 1981. However, this number grew by 40.8% to reach 131 in 1990. By 1995, the number was 181, growing further to 195 in 2000. Between 2000 and 2008, the number of listed companies grew by 9.2% to reach 213 in 2008. On the Africa scene, the NSE ranked third in Africa in 2008 with 213 companies after South Africa with 425 companies and Egypt with 373 companies. The growth in the number of listed companies on the NSE is shown in figure 2.4

Figure 2.4: Number of Listed Companies on the Nigerian Stock Exchange (1996-2008)
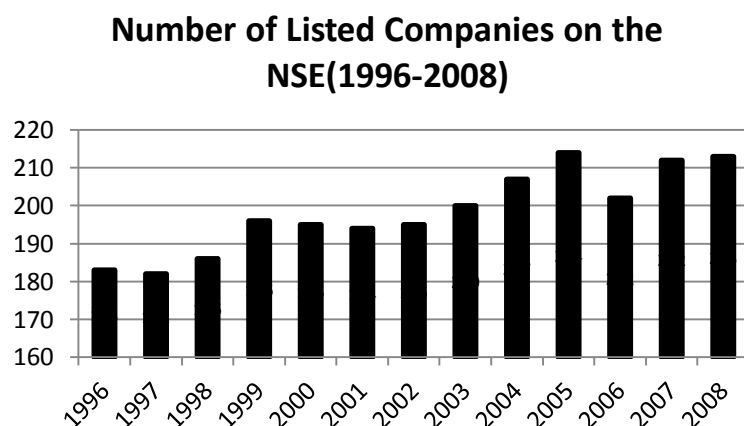
Source: The Nigerian Stock Exchange

The Nigerian stock market has also witnessed impressive growth in the number of listed securities. The number of listed securities rose from 163 in 1981 to 217 in 1990, representing a 33.1% increase. This number grew further to 276 in 1995 but declined to 261 in 2000. However, by 2007, the number of listed securities reached its all time high of 310, but later

declined to 299 in 2008. The growth in the number of listed securities has been attributed to government's policy of privatization and the establishment of the second tier securities market (SSM) amongst others. The growth in the number of listed securities is shown in table 2.3 below

Table 2.3: Growth in Number of listed Securities

Year (1)	Government Stock (2)`	Industrial and Bond (3)	Equities (4)	Total (5)
1981	56	14	93	163
1985	57	28	96	181
1990	43	43	131	217
1995	28	67	181	276
2000	12	53	196	261
2001	11	56	194	261
2002	10	53	195	258
2003	9	56	200	265
2004	17	52	207	276
2005	23	50	214	287

| 2006	39	47	202	288
2007	51	47	212	310
2008	40	46	213	299

Source:*Nigerian Stock Exchange, Annual Reports and Accounts, Various years.*

e.   **Stock Market Index**

The All-share index of the Nigerian Stock Exchange was established in 1985. Over the years, the index has witnessed astronomical increase. It increased by 3900% from 127.3 in 1985 to 5099.2 in 1995. This increasing trend continued until 1998 when it decreased from 6440.5 in 1997 to 5672.8 in 1998 and 5266.4 in 1999. According to Osinubi (2004), the decrease was due to the backdrop of a series of upward adjustment in the Minimum Rediscount Rate (MRR) which attracted fund away from the capital market. However, in 2000, the index recovered by recording a 54.0% increase over its previous year figure to reach 8111.0. Since then, the index has sustained its increasing trend, attaining itsall time high of 66,371.20 points or March 5, 2008. The NSE All-share index from 1998 to 2008 is illustrated in figure 2.5 below.

Figure 2.5: Growth of the Nigerian Stock Exchange All-Share Index   (1998-2008)

NSE All-Share Index(1998-2008)
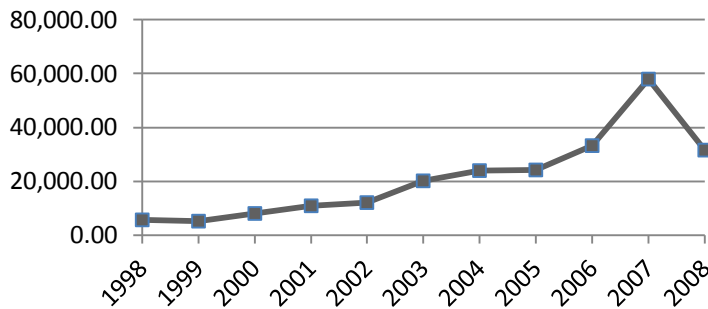
Nigeria Stock Exchange

f.   **Regulatory and Infrastructural Development**

The purpose of regulating securities market is to ensure fair play and transparency in market operations. To this end the Nigerian capital market has over the years reviewed the body of laws and regulations guiding its operations. For example, the Securities and Exchange Commission Act of 1988 was a product of the review of the Securities and Exchange Commission Decree of 1979 (Ndanusa, 2003). Moreover, the further review of the 1988 Act, which gave birth to the investment and Securities Act (ISA) of 1999 (now Investment and Securities Act 2007) was aimed at providing greater protection of investors' interest as well as ensuring the overall and orderly development of the market.

In terms of infrastructure, the Central Security and Clearing System (CSCS) which is a computerized and automated clearing and settlement system, was introduced in 1997 to replace the manual clearing and settlement of market transactions. With the CSCS, trades are now cleared and settled on a T+3 basis as against T+14 which existed prior to the introduction of the new system. In April 1999, the Nigeria Stock Exchange launched its Automated Trading System (ATS) to complement the CSCS. Indeed, the introduction of the CSCS and the ATS has improved efficiency and transparency such that the Nigerian Stock Market is now in line with international acceptable clearing, settlement and trading standards. Furthermore, market infrastructure has further improved following the introduction of the e-allotment, e-bonus, remote trading, e-dividend, online trading and trade alert (plus). Table 3.4 shows the institutional and infrastructural indicators of the NSE.

Table 2.4: **Institutional, regulatory and infrastructural indicators of the NSE**

S/N	Indicators	Status
1.	Market regulator	√
2.	Government law	√
3.	Clearing and settlement	Electronic
4.	International custodian	√
5.	Foreign participation	√
6.	Settlement cycle	3
7.	Exchange control	None

8.	Trading system	Electronic
9.	Central Depository	√
10.	Trading days	5
11.	Reporting System	Intern.s

Source:*Adapted from UNDP African Stock Market Handbook, 2003.*

denotes the existence of related indicator

Intern.s: International accounting and auditing reporting systems.

g.   **Integration with World Capital Market (Internationalization)**

In recent times, the process of developing domestic capital markets, in part, entails the dismantling of existing barriers to foreign participation. In recognition of this, the Federal Government in 1995 began to internationalize the Nigerian Capital market with the abrogation of laws that were hitherto considered inimical to the participation of foreign investors. Specifically, the Nigerian Enterprise Promotion Decree of 1989 and the Exchange Control Act of 1962 were abrogated and replaced with the Nigerian Investment Promotion Commission Decree and the Foreign Exchange (Monitoring and Miscellaneous Provision) Decree of 1995, as part of the economic liberalization policy of the Federal Government. This has allowed unrestricted foreign investment in Nigeria companies and accorded foreign investors and residents, the same rights, privileges and opportunities of investment in the Nigerian capital market. Hence, foreign investors can participate freely in the Nigerian capital market either as portfolio investor or as operators or both (Okereke – Onyiuke, 2009). With the internationalization of the Nigeria Stock Market, foreign investment flow accounted for about

N250 billion out of the N2.1 trillion turnover recorded by the Exchange in 2007. Similarly, foreign investors now account for about 47% of the Exchanges total market capitalization.

The membership of the Securities and Exchange Commission (SEC) in the International Organization of Securities Commission (IOSCO) and the Nigerian Stock Exchange in the Federation of International Stock Exchange (FIBV) and the African Stock Exchange Association (ASEA) is a further drive toward the internationalization of the Nigerian Sock market. Moreover, both the SEC and the NSE have entered into Memoranda of Understanding (MOU) with counterparts in other countries. As a result of such effort at internationalization, Guarantee Trust Bank Plc and Diamond Bank Plc both of which obtained approval in 2008 to execute GDRs valued of N186.23 billion, have successfully concluded their issues and are now listed on the London Stock Exchange (NSE, 2009).

h.   **Market Concentration**

Market concentration is a measure of the level of domination of the market by a few enterprises and it is important in showing how well a stock market really works. The significance of concentration as a measure of performance of the stock market lies in its adverse effect on the liquidity of the market. A very high degree of concentration signals a heavy and illiquid market, where the benefits of risk diversification are very low (Capasso, 2006). The share of market capitalization accounted for by the 20 largest stocks often measures the degree of market concentration.

In Nigeria, few companies dominate the market as the market capitalization of the top 20 equities listed on the Nigeria Stock Exchange accounted for about 72.8%, 62.4% and 46.8% in 2000, 2005 and 2008 respectively. Table 2.5 shows the market concentration on the NSE from 2003 – 2008

Table 2.5: Market Concentration of the NSE (2003 – 2009)

Year (1)	Total Market Capitalization ₦ trillion (2)`	Market Capitalization of top 20 equities ₦ trillion (3)	(2) as a percentage of (3) (4)	Remark (5)
2003	1.37		77.3	High concentration
2004	2.12	1.06	71.2	High concentration
2005	2.90	1.51	62.4	High concentration
2006	5.12	1.81	60.2	High concentration
2007	13.29	3.08	54.6	High concentration
2008	9.56	7.26	46.8	High concentration
2009	7.81*	4.47	46.7	High concentration
		3.57		

Source:*Nigerian Stock Exchange Annual Reports, Various years, monthly stock market review,*

September, 2009

CHAPTER THREE

3.0   LITERATURE REVIEW

3.1   EVALUATION OF THE GROWTH AND PERFORMANCE OF THE NIGERIAN STOCK MARKET

Stock market provides the bridge through which the savings of surplus units maybe transformed into medium and long-term investments in the deficits units.It is reported to perform critical functions, which promote economic growth and prospects of the economy. Recent studies suggest that, over the past decades, stock market liquidity has been a catalyst for

long-run growth in developing countries. Without a liquid stock market, many profitable long – term investments would not be undertaken because savers would be reluctant to tie up their investments for long periods of time. In contrast, a liquid market allows savers to sell their shares easily, thereby permitting firms to raise equity capital on favorable terms (Adenuga, 2010).

Stock markets are one of the important parts of financial system, which enable firms to raise capital by issuing their shares and also create an environment in which the shares are traded (Bayar *et al* 2014). However, theoretical literature offers conflicting predictions about the role of stock markets in promoting economic growth (Carporale*et al* 2004). Earlier research emphasized the role of the banking sector in economic growth. In the past decade, the world stock markets surged, and emerging markets accounted for a large amount of the boom. Relevant research has therefore begun to focus on the linkages between the stock markets and economic growth. New theoretical work shows how stock market development might boost long-run economic growth, and new empirical evidence supports this view (Garcia and Liu, 1999) Hence, it is by now widely recognized that a well-functioning financial system is crucial to economic growth. As part of the financial system, the stock markets play important roles in economic growth (Garcia and Liu, 1999). In a developing economy like Nigeria, the development and growth of stock markets have been widespread in recent times. Despite the size and illiquid nature of stock market, its continued existence and development could have important implications for economic activity (Alajekwu and Achugbu, 2012). The stock market provides equity and a direct form of finance to potential investors for economic purposes. This role enables it to function as a critical long-term lubricant in the economic growth process. The

performance of the stock market is in addition often considered an essential or good barometer

for measuring a country's economic strength (Henry and Olabanji, 2013).

Thus, an economy with an active stock market may have its vital stock market index regularly used as a guide in the measurement of changes in the general level of economic activities within the concerned economy. One other major role of the stock market as an economic institution is that it enhances the efficiency of capital formation and allocation of resources. It is therefore expected that every active stock market will facilitate the availability of long-term capital for economically productive activities and this remains a key requirement for economic growth. The stock market also provides a means by which the capital needed for efficient or effective growth in the economy is made available. Stock markets are in addition regarded as a necessary tool for economic growth as they provide listed companies the platform to mobilize much needed capital for the long-term investment needs of business. This also encourages surplus spending economic agents to save thereby increasing the saving rate as well as directly stimulating more investments and consequently bringing additional investment income to the owners of funds (Henry and Olabanji, 2013).Studies have focused mainly on the role of financial intermediation in the process of economic growth and capital accumulation. Indeed, many have analyzed the channels through which banks and other financial intermediaries may help to increase, for example, the saving rate or the average productivity of capital and, in turn, growth. However, a new wave of interest on the role played by stock market development in the process of economic growth has occupied economists investigativeactivity.

The recent global financial crisis which was precipitated by the United States mortgage crisis, liberalization of global financial regulations, boom and burst in the housing market and its effect on other weaker countries like Nigeria necessitates the need for an empirical study of this nature. Evidence in Nigeria shows that between 2008 and 2009, the stock market collapsed by 70 per cent point (Sanusi, 2010). This coincided with the period of global financial crisis which began in the middle of 2007.

In examining how well a stock market performs in relation to other stock markets and primarily in relation to the role it is expected to play in facilitating economic growth and development, certain measures are employed. The body of theoretical work suggests that stock market development is multi-faced, involving issues of market size, market liquidity, market concentration and integration with world capital markets (Levine and Zervos, 1996). Hence, previous studies have utilized the above measures (i.e. market size, market liquidity, market concentration and market internationalization) in analyzing and evaluating the performance/growth of the stock market (Levine, 1997; Yartey and Adjasi, 2007; Kumo, 2008).

3.2 The Global Financial Crisis and Recent Performance of the Nigerian Stock Market

The global financial crisis which began in the U.S. in July 2007 as a fall out of the sub-prime mortgage crisis has taken its toll on the global capital market. The crisis which according to Adamu (2009), started to show its effects in mid 2008 has led to tremendous down turn in both developed and emerging stock markets. Like most capital markets across the world, the Nigerian market went through a rough period in 2008 due to the global financial melt down. According to Sampson (2009), the NSE was one of the first to be hit in the developing world since the market was already vulnerable, owing to the fact that it was undergoing a price correction circle following an unprecedented boom and high investors' optimism fuelled by

unpopular regulator policies and a negative aftermath of over reliance on margin debts by market players.

From a position of N15.640 trillion in February 2008, market capitalization of the NSE dropped by 16.62% to N13.932 trillion in July, dropping further by 31.36% to close at N9.563 trillion in December 2008. According to Okereke-Onyuike (2009), the total market capitalization on the exchange dropped by 28.16% in 2008. The downward trend in market capitalization continued into the first quarter of 2009, falling further below its 2008 year end value by 25.34% in March 2009, to reach N7.140 trillion. Although the market capitalization increased by 25.16% between March and May 2009, it fell again by 18.13% to N7.81 trillion in September 2009. The monthly behaviour of market capitalization on the NSE is shown in table 3.1and illustrated in Figure 3.1

Table 3.1: monthly Market Capitalization of the NSE for 2008 and 2009

Month	2008 Market Capitalization N' billion	Percentage change	2009 Market Capitalization N' billion	Percentage change
January	13,825	3.99	7,500	-21.57
February	15,640	13.12	7,860	0.80
March	15,265	-2.40	7,140	-9.16
April	14,610	-4.29	7,570	6.02
May	14,950	-2.37	9,540	26.02
June	14,225	-4.89	8,810	-7.65
July	13,932	-2.06	8,480	-3.75
August	13,040	-6.39	7,920	-6.60
September	13,010	-0.23	7.,810	1.39
October	10,810	-17.0	-	-
November	10,110	-6.40	-	-
December	9,563	-5.44	-	-

Source: *NSE Monthly Stock Market Review, Various issues*

Figure 3.1: Monthly Market Capitalization of the NSE for Year 2008

**Monthly Market Capitalization (=N= billion)
of the NSE for year 2008**
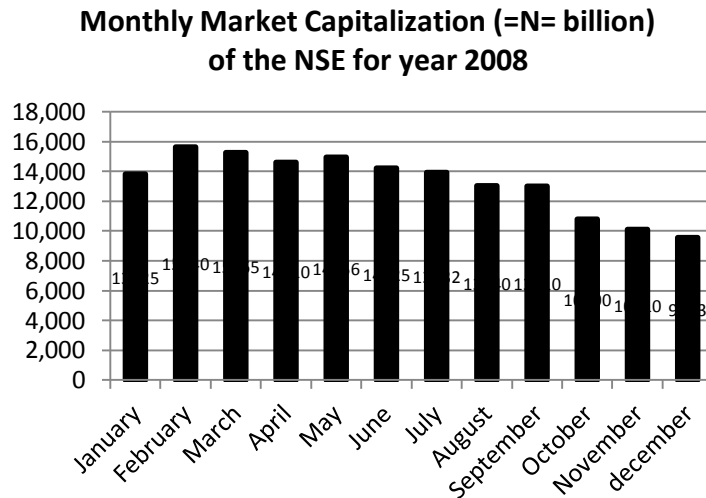
Nigeria Stock Exchange

The All-share index of the NSE which has been on the upward trend declined precipitously following the global financial crisis. From an all time high of 66371.20 points attained on March 5, 2008, the NSE All-share index fell by 15.7% to 55,949.00 points in September 2008, closing at 31,450.78 in December. By March 2009, the NSE All-Share index has declined by 36.9% or 11,598.89 points to reach 19,851.89. However, between April and June 2009, the index rose by 24.99% but declined again by 17.86% to close at 22,065.00 points in September. The monthly movement of the NSE All-share index for 2008 and 2009 is shown in table 3.1 and illustrated in figure 3.1

Table 3.2: Monthly NSE All-Share Index for 2017 and 2018

Month	2017		2018	
	NSE All Share Index	Percentage change	NSE All Share Index	Percentage change
January	58,570.55	1.00	45092.83	0.40
February	65,652.38	12.10	42,299.56	0.72
March	63,016.56	-4.01	36,636.97	0.58
April	59,440.91	-5.67	41,268.01	0.06
May	58,924.02	-0.86	36,320.09	-0.04
June	55,949.00	-5.06	36,636.97	0.58
July	53,110.91	-5.07	36.963.70	0.81
August	35,629.13	-1.48	36,316.90	-0.05
September	46,213.13	-3.29	-	-
October	36,325.86	-21.14	-	-
November	37,365.91	39.04	-	-
December	31,450.78	-4.77	-	-

Source: *NSE Monthly Stock Market Review, Various issues*

Monthly All-Share Index on the NSE for 2017
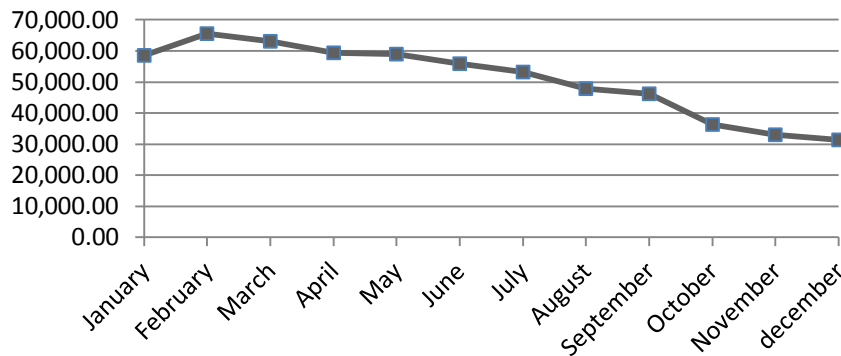
Nigeria Stock Exchange

Ajakaiye and Fakiyesi (2009) report that emerging facts reveal that the crisis may have been made evident in the capital market through various channels which include:

i.   Foreign portfolio withdrawals and withholding in order to service financial problems at the foreign investors' home as well as prospects of reduced FDI, which are bound to affect investors' confidence in the economic health of Nigeria.

ii.   The credit crunch experienced by lending institutions (particularly banks)

iii.   Other factors that have had some impact on the stock market include policy interpretation by the market (which may have been induced by the slow government initial stand on the economy), interpretation of announcements, proclamations and rumors by the market.

In the light of the negative impact of the global financial crisis on the capital market and the economy at large, some policy measures have been put in place. According to Ajakaiye and Fakiyesi (2009), some of the policy measures which relates to the capital market include:

i.   presidential steering committee on global financial crisis (inaugurated on 16 January, 2009).

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ii.   Presidential Advisory team on the capital market set up to consider measures to reverse the declining fortunes of the Nigerian capital markets.

iii.   Securities and Exchange Commission (SEC) NSE and all capital market operators reduced fee by 50%;

iv.   Strict enforcement of NSE's listing requirement with zero tolerance for infractions.

v.   Rules on share buyback introduced with limit of 15.0%.

3.3 Growth/Performance Drivers of the Nigerian Stock Exchange

There are several factors that have particularly influenced the performance and growth of the Nigerian Stock Market. These include: the indigenization exercise; the privatization programme, automation of the clearing, settlement and trading system, introduction of the Trade Guarantee Fund (TGF), among others.

i.   **The Indigenization Exercise:** The indigenization of the Nigerian economy which was first brought into effect in 1972 and 1977, sought to enlarge shareholding capacity of Nigerian citizens in Nigerian business enterprises. Although there is no documented evidence that the government wanted to give a boost to the stock market by the indigenization policy, the way the exercise was carried out did have a positive impact on the market. A total of 30 million shares valued at N210 million at the time of issue were transferred through the stock market during the indigenization exercise. Furthermore, between 1961 and 1970 the number of listed equities grew from 3 to 13. By 1975, the number had risen to 36 and then to 91 by 1980 (Ogwumike and Omole, 1997). Additionally, the exercise also increased the number of listed companies to 78 which complied with provision of the indigenization Decree through the stock exchange (Alile and Anao, 1986).

ii. **The Privatization Programme:** In 1988, the Federal Government set up a programme to privatize certain public enterprise as part of the policy to restructure the economy. The transfer of ownership of the companies affected by the privatization policy was carried out through the stock exchange and this greatly contributed to the growth of the exchange itself.

In 1988, when the first round of the privatization programme commenced, the number of stocks listed on the NSE as well as their corresponding market capitalization and share price index was 102 and 233.6 respectively. By the end of the first round of the privatization programme in 1993, the number of equities on the Exchange had increased to 174. Similarly, the market capitalization of the NSE grew by about 331% from N9.7 billion in 1988 to N41.8 billion in 1993 while the All-share price index increased by more than 500% from 233.6 in 1988 to 1543.8 in 1993. Moreover, when the second phase of the privatization programme was implemented in 1999, market capitalization jumped by 59% from N299.90 billion in 1999 to N78.60 billion in 2000 (Tanko, 2005).

iii. **Automation of the Clearing Settlement and Trading Systems:** A former president and chairman of Council of the NSE, Dr. Raymond C. Obieri gave the key performance drivers of the Exchange as the automation of its trading, clearing and settlement systems which have resulted in a shorter transaction cycle of T+3, improved transparency in the market and enhanced price discovery.

Following the introduction of the central securities clearing system(CSCS) in 1997, the market witnessed a jump in daily market turnover from N28.4 million in 1996 to N44.3 million in 1997. Similarly, the introduction of the Automated Trading System (ATS) in 1999 which took place along side the implementation of the Second phase of the privatiationprogramme saw market capitalization jumping from N299.90 billion in 1999 to N478.60 billion in 2000. The

Exchange witnessed the above growth due to increased confidence of investors in the market following the automation of the trading delivery and settlement systems.

iv. **Other Factors:** Other performance/growth drivers identified by the NSE include:

a. the establishment of a Trade Guarantee Fund (TGF) which has further safeguarded the market from settlement and delivery risks, thereby strengthening investors' confidence in the market.

b. Increased awareness of the market and profitability of quoted companies.

c. the N25 billion recapitalization exercise for banks, in which majority of banks had to resort to the capital market for fresh capital.

d. the growing awareness of the private sector of the opportunities that exist in the capital market for raising funds as well as the creation of the second tier securities market with less stringent listing requirements (Edo, 2004).

Recent Development in the Nigeria Stock Exchange

The Nigerian Stock Market has undergone a lot of development since its inception. Besides the automation of its trading, clearing and settlement systems in 1999 and 1997 respectively, which has been described as one of the most important factors that has influenced the growth and performance of the market since 1999, some of the recent development in the Nigerian Stock Exchange are outlined below:

a. **Remote Trading:** remote trading was introduced by the NSE in late 2004. It is a system where brokers trade from the comfort of their offices through remote control.

b. **e-Dividend:** e-Dividend which was introduced by the Securities and Exchange Commission in February 2008 refers to the payment of dividend directly into the bank account of shareholders without the use of dividend warrants (NSE, 2009). Apart from enabling shareholders receive their dividend on the same day, the e-dividend payment system would minimize cases of

unclaimed dividends, eliminate dividend loss in transit, enhance the ability of shareholders to immediately access and utilize the proceeds of their investments and increase transparency and efficiency in the administration of dividend payment (NSE, 2009, Olumijulo, 2008).

c. **e-Allotment:** The e-allotment which became operational in January 2009 refers to the electronic allotment of shares to the CSCS accounts of subscribers to new issues (primary market offering) without the use of share certificate (NSE, 2009). It is a process which will aid the achievement of certificate - less transactions in the Nigerian capital market (UBA Registrars, 2008). Furthermore, the system standardizes allotment thereby placing the Nigerian capital market on the same pedestal with international markets.

d. **e-Bonus:** The e-bonus was introduced into the Nigerian capital market in 2004. It refers to the electronic form of bonus share. That is, when a quoted company declares bonus issues, rather than issue physical bonus share certificate to investors, they are converted to electronic form and credited to the investor's stock account in the CSCS depository. The e-bonus system will enable shareholders stock accounts to be automatically credited with their bonus shares eliminate the cumbersome process associated with bonus share certificate verification and improve confidence and transparency in the capital market.

e. **The Trade Alert:** Trade Alert is a mechanism by which stock investors are alerted via GSM number on transactions that occurred in their stock accounts in the CSCS system made on the floors of the Nigerian Stock Exchange, detailing the time and date of transaction, security, quantity, unit price and the stock broking firm that transacted. It was introduced by the NSE and its members in March, 2005. The benefits of the Trade Alert include the following:

i. Stops unauthorized trades before they happen.

ii. Reduce chances of unauthorized transactions.

iii.   Protect investors

iv.   Offers effective control of transactions

v.   provides report of stock market activities, notice of Annual General Meetings, etc.

vi.   Improves local and international rating of the Nigerian Stock Market.

3.4 Contributions of the Nigerian Stock Exchange to the Nigerian Economy

Having experienced tremendous growth since its inception in 1961, the Nigerian Stock Exchange has in various ways contributed to the growth of the Nigerian economy. Some of these contributions are discussed below:

i.   **Attracting Foreign Investments:** Firstly, the Nigerian Stock Market has helped in attracting foreign investment into the country. In 2006, the Nigerian stock market succeeded in attracting N35 billion foreign portfolio investments. In 2007, foreign investment flows accounted for about N250 billion out of the N12 trillion turnover recorded by the Exchange for that year. Similarly in 2008, the Exchange attracted an excess of N151.202 billion foreign investment, representing 64% of its aggregate turnover. The injection of these funds into the Nigerian economy has no doubt enhanced its growth.

ii.   **Financing Government Socio-economic Projects:** Secondly, the NSE helps to finance government socio-economic infrastructure projects. According to Al-Faki (2006) and Elekama (2008), some state governments have in the last nine years come to the market to source for funds to finance their development projects. For example, Yobe State raised N2.5 billion in 2001 to finance urban roads, housing and drainage improvements; Lagos State raised N15 billion in 2002 to re-finance short term facilities obtained from banks to fund development projects; Edo State in 1999 raised N1.0 billion to finance the development of Ogba River-side housing estate; Cross River State in 2003 raised N4.0 billion for tourism. Similarly, Kebbi State

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in 2006 raised fund through the market to finance the state university and an irrigation project. These various projects have further accelerated the socio-economic development of the various states and the country at large.

iii. **Facilitating the Privatization Programme:** The NSE has helped to facilitate the privatization of state owned enterprises (SOEs). This is because the transfer of ownership of the companies affected by the privatization policy has often been carried out through the Stock Exchange. According to SEC (2003), in analyzing the total number of SOEs privatized from 1989 – 2001, a total of 45 SOEs were privatized. Out of this 45, 30 were through share floatation and core investors, 9 through private placement of staff and 4 through core investors only. Thus according to Emenuga (1999), by the end of 1990, the technical committee on privatization and commercialization had transferred 159.1 million shares in 21 companies to private investors through the stock market. According to Al-Faki (2006), there are many benefits that can be derived from privatization of SOEs through the stock market. Some of the benefits are that the stock market provides credibility and transparency to the privatization exercise and it gives visibility and prestige to the privatized entities as it attracts mass participation.

3.5 CHALLENGES AND PROSPECTS OF THE NIGERIAN STOCK EXCHANGE

Some of the challenges facing the Nigerian Stock Market include:

i. Inadequate access to information about investment opportunities and corporate bodies whose securities are listed on the market. As a result investment decision making becomes extremely hazardous in the Nigerian market.

ii. Predominance of commercial banks in the financial system which has resulted in too much incentive to use short term bank facilities at the expense of long term capital market securities. Thus, the capital market still lags behind as little consideration has been given to it.

iii.   Inhibited foreign capital inflow into the capital/stock market due to bureaucracies, poor infrastructural facilities, epileptic energy supply, poor telecommunication network and insecurity of life and property, all of which has created a high cost investment environment

iv.   Ignorance of the value of the market as a source of funds or even as an avenue to make money. This accounts for the low volume of transactions of the market and thus its slow growth.

v.   Frequent intervention by the regulatory superstructure of the market to influence and regulate prices and prohibit speculation. This acts as a disincentive to investors who may not want to profit from exchanging their holdings as frequently as market conditions permit, leading to our volumes of transactions in the market.

vi.   **Other factors:** these include unstable macroeconomic environment, high degree of market concentration, buy-hold syndrome which results in few stocks in the market for trading, paucity of securities on the exchange as well as religious beliefs of many Nigerians which had the tendency to make market in certain stock very difficult.

Improving the Nigerian Stock Market

In order to enhance the operations of the NSE with a view to speeding up its growth, the following needs to be done:

i.   Ensuring a stable macroeconomic environment via the formulation, introduction and monitoring of policies which would place the economy on the path of high and sustainable growth.

ii.   Create a favorable legal environment in which business can operate effectively and property rights are protected so as to strengthen investors' confidence in the market.

iii.   Improving the liquidity of the market.

iv.   Promoting professionalism through the development of a highly professional and dynamic capital market work force.

v.   Promoting efficiency by improving the transparency in the market via improvement in timeliness, accuracy and quality market information and services given to the public.

vi.   Creating awareness about the stock market by sensitizing the public about it.

vii.   Fostering internationalization of the stock market as a way of promoting active involvement of foreign financial intermediaries and investors in the market.

viii.   Improving the regulatory environment through the automation of market surveillance and other regulatory activities. In addition, regulation of the market should be more proactive, anticipatory and preventing market abuses.

Prospects of the Nigerian Stock Market

The analysis in the preceding sections showed that the growth of the Nigerian Stock Market since its establishment in 1961 has been quite impressive. The market has thus become bigger and resilient as in other comparable African countries such as South Africa, Egypt and Morocco. However, there is still ample room for further growth and development of the market as the government is currently pursuing programmes such as the 7-point Agenda, Re-branding of the country, sanitizing the banking sector, deregulating the oil sector among others. Again with the Nigerian Stock Exchange deploying cutting-edge technology solutions to its operations as a means of boosting market transparency, enhancing trading efficiency and general service delivery, it is expected that more investors – both local and foreign – will patronize the market.

Furthermore, the growing awareness about the opportunities of investing in securities portends great prospects for growth of the market. It is also envisaged that with the regular favorable ranking of the NSE as one of the most rewarding in terms of return on investment, as well as the internationalization of the market, more foreign investors will take advantage of the

opportunities in the market.   Finally, the stable political system that has been in place since 1999 is expected to further propel the market in the long term.

3.6 Critics of Stock Market Development and Economic Growth

A number of economists have suggested that the existence of stock market has little relevance to real economic activity.   Wai and Patrick (1973) argue that securities markets have generallynotcontributed positively to the economic development of those countries that   created the markets.

In a similar vein, Calamati (1983) posits that securities markets increases economic fluctuations and therefore hinder economic growth.

Arguing against the impact of stock market liquidity on economic growth, Bhiden (1994)contends that stock market liquidity may negatively influence corporate governance because very liquid stock market may encourage investor myopia. This is because, instant stock market liquidity (i.e. the ease with which equity can be disposed off) may discourage investors from having long term commitment with firms whose shares they own and therefore create potential corporate governance problem with serious ramifications for economic growth. Moreover, critics of stock market further argue that the actual operation of the takeover mechanism in well-functioning stock market may not influence corporate control. As explained by Stightz (1985), outsiders will be reluctant to takeover firms because they generally have worse information about firms than existing owners. Thus, the takeover threat will not be a useful mechanism for exerting control; stock market , therefore will not importantly improve corporate control and thus growth.

Various empirical studies have been conducted to ascertain whether stock market development actually promotes economic growth. Atje and Jovanovic (1983) tested the hypothesis that the

stock market has a positive impact on growth performance. By studying a relatively large set of 40 countries in the period 1979 –1988, and focusing on the dynamics of market size, they find a strong positive relationship between stock market and economic growth and development. Beck and Levine (2001) in another study confirmed the significance of stock market in the process of economic growth and development. By applying novel econometric procedures, they tested the independent impact of banks and stock markets on growth. Their finding was that the expansion of banks and stock markets significantly affects growth. Furthermore, the results of a study carried out by Adjasi and Biekpe (2006), which examined the effect of stock market development on economic growth in 14 African countries, revealed a positive relationship between both variables and indicated that stock market played a significant role in growth only for moderately capitalized markets.

Particularly, empirical studies by Oke and Mokolu (2004) to examine whether stock market promotes economic growth in Nigeria confirm the existence of a positive relationship between stock market and economic growth and development. A similar study by Osinubi (2004) to examine the association between stock market development and growth performance in Nigeria reveal that a positive relationship existed between economic growth and measures of stock market development used. Additionally, Ezeoha*et al* (2009) conducted a study to examine the nature of the relationship existing between stock market and private investment growth in Nigeria. The result indicated that the Nigerian Stock Market over the years, very significantly encouraged the growth of private domestic investment.

Contrary to the above findings, Nyong (1997) who developed an aggregate index of capital market development which he used to determine the relationship with long run growth in Nigeria from 1970 – 94, found that capital market development is negatively and significantly

correlated with long run growth in Nigeria. In the same vein, a study by Osinubi and Amaghonyeodiwe (2003), using Nigerian data, provided some dissenting evidence that stock market statistically had no significant effect on economic growth in Nigeria during the period 1980 to 2000. They interpreted the result to mean that the Nigerian stock market was unable to make significant contribution to rapid economic growth and development because of the existence of certain policies that blur the effectiveness of the transmission mechanism through which stock market activities influence economic growth. This result confirms the position of Singh (1999) that the stock market might not perform efficiently in developing countries and that it may not be feasible for all African markets to promote stock markets given the huge cost and the poor financial system.

3.7 EMPIRICAL REVIEW

Theoretically, the literature posits a positive relationship between stock market development and economic growth. This implies that as an economic institution, the development of the stock market is expected to lead to the growth of the economy. Thus, as observed by Gold Smith Raymond in 1969, the emergence of equity markets and its rapid development indicate the level of economic growth and development.

According to Alile and Anao (1986), a stock market exists primarily to serve as a vehicle for the mobilization and allocation of funds (savings). In other words, it serves as a mechanism through which long term funds/savings of the major sectors comprising of households, firms and government are mobilized, harnessed and made available to various sectors of the economy. Given the general economic postulation that greater savings lead to greater rate of economic growth, and the assertion that the stock market exist primarily to serve as a mechanism for mobilizing savings, it follows therefore that the more developed a stock market is, the greater its ability to mobilize more savings and contribute to economic growth. It is within this context that Edo (1995) asserted that securities market is a veritable mechanism of

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transforming savings intoeconomic growth and development.Osinubi's and Amaghionyeodiwe'(2003) examined the relationship between the Nigerian stock market and economic growth during the period, 1980-2000, using ordinary least square regression. The result indicates that there is a positive relationship between the stock market and economic growth and suggests that the pursuit of policies geared towards rapid development of the stock market and economic growth are very important to capital market development. Therefore, the security and exchange commission should ensure that for such reforms to be attainable there is need for an absolute reform of the capital market in order to conform to world standards.

3.8 METHODOLOGICAL REVIEW

One of the economic theories which lend support to the positive relationship between stock market development and economic growth is the Harrod-Domar growth Model. According to this model, the rate of growth of GDP is determined jointly by the national saving ratio and the national capital output ratio. More specifically, it says that in the absence of government, the growth rate of national income will be directly or positively related to the savings, ratio and inversely related to the economy's capital output ratio. Therefore, in order to grow, economies must save and invest a certain proportion of their GDP (Todaro and Smith, 2006).

A further theoretical basis for the argument between stock market development and economic growth is provided by the classical theory of growth. According to the classical economists, capital accumulation was a necessary condition for economic development. However, the level and growth of capital accumulation is determined by the level of savings and investment. Thus, according to classical, the problem of economic development was largely the ability of the people to save more and invest more in a country, such that the more they save and invest, the higher the growth rate of the economy (Jhingan, 2006).

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In the light of the argument put forward in the Harrod-Domar growth model and the classical theory of growth, it can be argued that nations with well-developed stock markets, which efficiently mobilize saving and channel them to the most productive investment are more likely to experience higher growth rate than those with less developed and efficient stock markets. This view conforms to the findings of Levine (1997) who by using data from 38 countries find that those countries with relatively liquid stock markets in 1976 experienced GDP growth rate that was much faster over the subsequent 18 years than countries with illiquid markets. Moreover, countries with the most liquid market in 1976, both accumulated more capital and engaged faster production growth over the next 18 years.

The neoclassical growth theory also known as the Solow-Swan growth theory or exogenous growth theory is a class of economic model of long-run economic growth. The growth theory explains long-run economic growth by looking at productivity, capital accumulation, population growth and technological progress (Solow & Swan, 1956). This theory was developed independently by Robert Solow and Trevor Swan in 1956 and supersedes the post Keynesian Harrod – Domar theory. Due to its attractive mathematical characteristics, Solow-Swan proved to be a convenient starting point for various economic growth theories. Kenneth (1962) opines that endogenous growth theory is about investment in human capital, size of capital stock, innovation and knowledge. All these are significant contributors to economic growth. The theory focuses on positive externalities and spillover effect of a knowledge-based economy which will lead to economic development. Endogenous growth has an impact on the long-term growth rate of an economy. This theory was developed by Arrow Kenneth (1962), it further improves the work of other scholars like HarrodDomar (1946), Solow – Swan (1956) by looking at investment in technology and knowledge as the major factors of economic growth.

paulRomer Growth theoryRomer (1986) views creation of knowledge as a side product of investment and he takes knowledge as an input in the productionfunctions of firms. His theory sees new knowledge as the ultimate determinant of long-run growth which is determined by

investment in research technology. To Romer, ideas are more important than natural resources. Therefore, ideas are essential for the growth of an economy.

CHAPTER FOUR

4.1 **Methodology**

In order to examine the impact of the Nigerian stock market on economic growth, the theoretical postulation employed in this study is based on the general model of economic growth which states that economic growth occurs where there are annual increases in the gross domestic product. Additionally, the following variables will be utilized in analyzing the relationship between stock market development and economic growth:

i. **Gross Domestic Product:** This variable is a proxy for economic growth. It is defined as the total expenditure of Households (c), firms (I) and Government (G).

GDP = C + I + G -------------------------- 4.1

Since the three components of GDP are players in the financial markets, activities in the market affects them and by extension the overall economy. It follows therefore that the volume of fund passing through the stock market will form part of GDP.

ii. **Market Capitalization Ratio:** This equals the value of listed shares divided by GDP. It gives a measure equal to the total value of shares traded on the stock exchange. It complements the market capitalization of the size of the stock market relative to the size of the economy. The assumption behind this measure is that overall market size is positively correlated with the ability to mobilize capital and diversify risk on an economy-wide basis.

ii. **Value Traded:** This ratio signals whether the market size is matched by trading activities.

iii. **Turnover Ratio:** This ratio equals the value of total shares traded divided by market capitalization. Thus, it measures trading relative to the size of the stock market and, hence, signal whether a market is liquid or not.

iv. **New Issues:** This savings is mobilized for investment purposes by companies and governments through the stock market. It measures contribution of the stock exchange to capital formation in the economy.

v. **Banking Sector Development:** This is measured as the ratio of broad money supply (M_2) to GDP and it is used as an indicator of financial intermediary development. This ratio depicts the size of the banking sector in relation to the economy as a whole. The inclusion of this variable is motivated by the methodologies of previous researchers (see Levine, 1997 and Oke, 2006) and the fact that the stock market and the banking sector acts as primary agents of financial intermediation. Hence, banking sector development is used as a control variable.

4.2 MODEL SPECIFICATION

Imitating existing theoretical literature (Brasoveanu*et al*, 2009; Levine and Zervos, 1996; Osinubi, 2004; Ezeoha*et al*, 2009, Nyong, 1997), it is hypothesized that economic growth in Nigeria is a function of stock market development (Proxied by market capitalization ratio, value traded, turned over ratio, and new issues) and banking sector development, among other unobservable economic factors. This functional relationship can be written thus:

GDP = f (MCR, VT, TOR, NI, BSD) ---------------- 4.2

Where:

GDP = Gross Domestic product (Proxy for economic growth)

MCR = Market capitalization Ratio (Proxy for growth in size of the stock market)

TOR = Turnover Ratio (Proxy for transaction cost and liquidity in the stock market)

VT   =   Value Traded Ratio (Proxy for stock market liquidity)

NI   =   New issues (proxy for contribution of the stock market to gross fixed capital formation).

BSD   =   Banking Sector Development (Proxy for the size of the banking sector to the size of the economy).

The functional relationship in equation 4.2 above is shown in econometric form as follows:

GDP   = $B_0 + B_1MCR + B_2 VTR + B_3TDR + B_4NI + B_5BSD + U_t$:

Where:

B_0 =   Constant term

B_i =   Coefficient of explanatory variables (i= 1, 2 … 5)

The presumptive sign for the above variables is:

$B_1, B_2, B_3, B_4, B_5 > 0$

4.3 DATA SOURCE

The data used for this study is secondary data on Nigeria's economy and the Nigerian stock market covering the period 1990 to 2018. The choice of this secondary source is based on its authenticity and reliability. The lists of sources are the Nigerian Stock Exchange, the Securities and Exchange Commission, the Central Bank of Nigeria and the National Bureau of Statistics.

4.4 METHOD OF ANALYSIS

To analyze the long run relationship between stock market development and economic growth in Nigeria, this study employs both the ordinary least square (OLS) method and co-integration analysis. The use of the co-integration analysis along with the OLS method is based on recent empirical findings in econometrics which shows that most macro time variables are non-stationary and hence treating them as if they were by the application of the OLS would result in spurious regression (Eagle and Granger, 1987). Cointegration analysis makes it possible to integrate the short run dynamics with long run equilibrium properties of the variables which have been made stationary after first or second difference.

4.5   PRESENTATION OF DATA

The following data on gross domestic product (GDP), market capitalization (MCR), total value traded (VT), Turnover ratio (TOR), New issues (NI) and banking sector development (BSD) presented in table 4.1 below are used to empirically analyze the relationship between stock market development and economic growth in Nigeria between 1981 and 2008.

TABLE 4.1: GDP, MCR, VT, TDR, NI and BSD

Year	Gross Domestic Product(#Billion)	Market Capitali-zation Ratio (#Billion)	Value Traded (# million)	Turnover Ratio(%)	New Issues (#Billion)	Banking Sector Development (%)
1981	47.6	10.1	0.33	6.82	0.46	0.339
1982	49.1	9.9	0.22	4.47	0.53	0.368
1983	53.1	10.9	0.40	6.90	0.45	0.386
1984	59.6	9.2	0.25	4.55	0.16	0.392
1985	67.9	9.4	0.31	4.84	0.82	0.372
1986	69.1	11.1	0.49	6.36	0.84	0.396
1987	105.2	8.4	0.29	3.26	0.45	0.320
1988	139.1	6.9	0.25	0.58	0.39	0.326
1989	216.8	5.5	0.65	5.42	1.63	0.217
1990	267.6	5.9	0.31	1.95	1.96	0.256
1991	312.1	7.2	0.23	1.02	1.87	0.280
1992	532.6	6.1	0.49	1.51	3.31	0.242
1993	683.8	6.8	0.66	1.41	2.64	0.290
1994	899.9	7.3	0.99	1.51	2.16	0.296
1995	1,933.2	8.9	1.84	1.08	4.42	0.165
1996	2,702.7	10.7	7.06	2.47	5.84	0.137
1997	2,801.9	9.2	11.07	3.79	10.81	0.153
1998	2,708.4	9.7	13.57	5.16	15.08	0.194
1999	3,194.0	9.4	14.08	4.69	12.04	0.219
2000	4,582.1	10.4	28.15	5.88	17.21	0.220
2001	4,725.1	14.0	57.64	8.70	37.19	0.278
2002	6,912.4	11.1	60.32	7.90	61.28	0.231
2003	8,487.0	16.0	120.70	8.88	180.08	0.234
2004	11,411.1	18.5	255.82	9.07	195.42	0.200
2005	14,572.2	19.9	262.94	9.18	522.78	0.193
2006	18,564.6	27.6	470.25	9.18	1,420.0	0.217
2007	20,657.0	64.4	2,086.3	15.69	2,400.0	0.281
2008	23,842.2	40.1	2,379.1	24.89	2,200.0	0.384

Source:CBN Statistical Bulletin, 2008; Nigeria Stock Exchange.

From the table, it can be seen that the variables GDP and NI maintained an increasing trend all through the period. Both variables grew by 555% and 306.5% respectively between 1981 and 1991. By 2008, the total value of GDP was N23, 842.9 billion while that of NI was N2, 200.0 billion. The variable BSD experienced some growth between 1981 and 1986 but declined by 189.1% between 1986 and 1996. However, from 1997 onward, BSD grew continuously to reach 0.384 in 2008. The variables TOR, VT and MCR did not show a consistently increasing or decreasing trend over the period. However, unlike the TOR, the

MCR and VT showed an upward trend between 2003 and 2008. Specifically, the MCR and VT grew by 150.6% and 1871% between 2003 and 2008.

CHAPTER FIVE

5.1   PRESENTATION AND ANALYSIS OF RESULTS

This section focuses on the presentation and analysis of the results of the estimated model used for this study. The result will be presented and analyzed in the following order:

(i)   Presentation and interpretation of OLS result.

(ii)   Presentation of unit root test (both at levels and first difference).

(iii)   Presentation of co-integration results (unit not test of residuals and variable ECM).

(iv)   Presentation and interpretation of short-run and long-run Error Correction Mechanism (ECM).

(v)   Comparison of OLS and co-integration results.

(vi)   Hypothesis testing.

5.2   Presentation and Interpretation of OLS Result

Table 5.1: The model summary table of coefficient of determination and adjusted coefficient of determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.972[a]	.945	.932	1786.10030	1.548

a. Predictors: (Constant), Banking Sector Development (%), Market Capitalization Ratio (#Billion), Turnover Ratio (%), Value Traded (#Million), New Issues (#Billion)

b. Dependent Variable: Domestic Product (#Billion)

Source: Author's computation using ordinary least square technique using Spss 23

An examination of the OLS result in table 5.1 above indicates that 95% of the systematic variation in the dependent variable is explained by the regressors. This is disclosed by the co-efficient of determination ($R^2 = 0.945$). The adjusted co-efficient of determination ($R^2 = 0.932$) indicate that changes in the explanatory variables account for 93% of the changes in the

dependent variable, GDP.   This is evidence that the model has a good fit and is a good

predicator of gross domestic product of the Nigerian economy. Additionally, the Durbin Watson

(DW) statistic of 1.548 points to the presence of auto correlation in the estimated model.
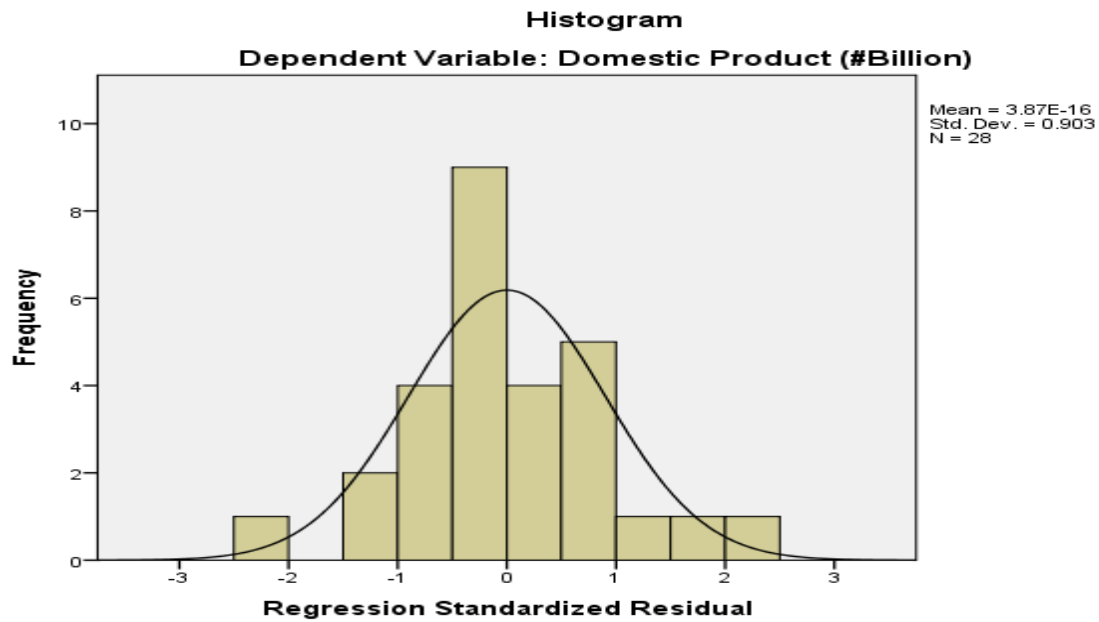
Table 5.2: The OLS estimate on the impact of stock market performance on Nigeria's economic growth.

<table>
<tr><td colspan="8" align="center">Coefficients^a</td></tr>
</table>

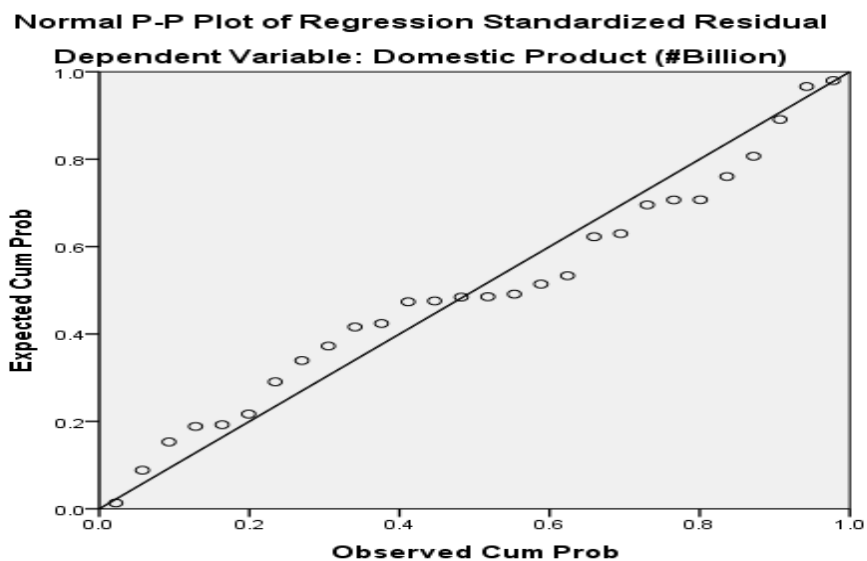|		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	4919.929	1671.140		2.944	.008	1454.196	8385.661
	Market Capitalization Ratio (#Billion)	-4.826	90.486	-.009	-.053	.958	-192.482	182.830
	Value Traded (#Million)	-6.158	2.252	-.523	-2.735	.012	-10.827	-1.488
	Turnover Ratio (%)	774.133	136.707	.570	5.663	.000	490.621	1057.646
	New Issues (#Billion)	10.282	2.319	.962	4.434	.000	5.473	15.091
	Banking Sector Development (%)	-22693.252	4700.300	-.256	-4.828	.000	-32441.077	-12945.427

a. Dependent Variable: Domestic Product (#Billion)

Source: Author's computation using ordinary least square technique using Spss 23

The P-value which is used to test the statistical significance of the individual parameter estimate

of the explanatory variables show that the parameters of TOR, NI and BSD are statistically

significant at both 1% and 5% levels respectively while VOT is also statistically significant at

5% level. This indicates that they individually have a significant impact on GDP. However, the

P-value shows that the slope parameter of MCR is not statistically significant as it fail to pass

the test at both 5% and 1% levels of significance.

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Histogram

Dependent Variable: Domestic Product (#Billion)

Mean = 3.87E-16
Std. Dev. = 0.903
N = 28

Fig 1

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Domestic Product (#Billion)

Fig 2

The above figs 1 &2 showed the normality of the data where the histogram satisfied the assumption of normality and the normal p-p plot showed the pattern of trend of the data.

Table 5.3: The test of linearity between the explanatory variables and response variable

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1204444030.431	5	240888806.086	75.510	.000[b]
	Residual	70183394.288	22	3190154.286		
	Total	1274627424.719	27			

a. Dependent Variable: Domestic Product (#Billion)

b. Predictors: (Constant), Banking Sector Development (%), Market Capitalization Ratio (#Billion),

Turnover Ratio (%), Value Traded (#Million), New Issues (#Billion)
Source: Author's computation using ordinary least square technique using Spss 23

The F-statistics of 75.510 in table 5.3 is statistically significant at 5% and 1% level of significance (Sig = 0.000). This helps to establish that the overall regression is statistically significant, indicating that the R^2 is significantly different from zero. In other words, the hypothesis of a linear relationship between GDP and the explanatory variables taken together is validated.

5.2.1 Test of Hypothesis

To better evaluate the relationship between the dependent and explanatory variables used in this study, the following hypothesis is formulated:

Ho: There is no significant relationship between the individual explanatory variables and GDP.

Ho: $Bi = (0,1, 2, ….5)$

H1: There is a significant relationship between the individual explanatory variables and GDP.

H1: $Bi \neq 0$ (for i = 1, 2, …5)

To determine the acceptance or rejection of the above hypothesis, the t-statistic of the individual parameter estimates as well as their critical values are presented in the table below:

Table 5.4: Parameter testing for variables

	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
Model	B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound
1 (Constant)	4919.929	1671.140		2.944	.008	1454.196	8385.661
Market Capitalization Ratio (#Billion)	-4.826	90.486	-.009	-.053	.958	-192.482	182.830
Value Traded (#Million)	-6.158	2.252	-.523	-2.735	.012	-10.827	-1.488
Turnover Ratio (%)	774.133	136.707	.570	5.663	.000	490.621	1057.646
New Issues (#Billion)	10.282	2.319	.962	4.434	.000	5.473	15.091
Banking Sector Development (%)	-22693.252	4700.300	-.256	-4.828	.000	-32441.077	-12945.427

Coefficients[a]

a.   Dependent Variable: Domestic Product (#Billion)

Source: Author's computation using ordinary least square technique using Spss 23

$GDP = \beta_0 + \beta_1 MCR + \beta_2 VTR + \beta_3 TOR + \beta_4 NI + \beta_5 BSD + U_t$

GDP=4919.929 – 4.826(MCR) - 6.158(VTR) + 774.133(TOR) + 10.282(NI) - 22693.252(BSD)

The result presented in table 5.4 above show that the MCR is not significant at 5% and 1% levels, since the p-value (0.958) is greater than the significant value. Thus fall within the acceptance region. Hence, we accept the null hypothesis for β_1. On the other hand, the variables TOR, NI, and BSD are significant at 5% and 1% levels of significance while VTR is significant at 5% level, since their p-values are less than the significant values. They thus fall within the rejection region, making us reject the null hypothesis for β_2, β_3, β_4 and β_5 and accept the alternative hypothesis at 5% and 1% level of significance.

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5.3   Presentation and Interpretation of Co-integration Results

Table 5.5: short-run Error Correction Mechanism

Variables	Short-run Co-efficient	T-Value
dMCR	4.9854	0.91225
dVT	0.89637	0.59480
dTOR	45.3751	-2.9469
dNI	-5.9895	-2.8782
dBSD	-3803.0	-2.0296
dCM(-1)	-0.28835	-0.8278

Source: data output via E-views 7.0

$R^2 = 0.98142$ R^2 adjusted $= 0.96427$

$F(9, 16) = 76.9201$

Durbin Watson (DW) = 2.3346

The R^2 as shown above shows that 98% of the systematic variation in GDP is accounted for by changes in the regressors. When adjusted for the degree of freedom, the R^2 shows that 96% of the systematic variation in GDP is explained by the independent variables. Hence, the model has a good fit.

The t-statistic for the variables dMCR (0.91225) and dVT (0.59480) shows that the co-efficient of both variables individually fail the test of significance of both 5% and 1% levels. However, the variables dTOR, dNI and dBSD with a t-statistic of −2-9469, -2.9770 and −2.8782 respectively is indicative that they individually pass the test of significance at 5% and 1% levels. The F-value of $F(9, 16) = 76.2901$ suggests the existence of a linear relationship

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between the dependent variable and the regressors as they pass the test of significance at 5% and 1% levels respectively. This further suggests that the model has a good fit.

The Durbin Watson (DW) statistics of 2.3346 indicate the absence of auto-correlation in the model. This implies that the estimator is efficient and unbiased. Furthermore, except the variables dMCR and dVT which are positive as theoretically expected, the negative sign of the other variable do not conform to apriori expectation.

The coefficient of the dCM (-1) which is negative came out as theoretically expected and pass the test of significance at 5% level. This suggests that any perturbation or shock in the GDP on account of any economic changes will tend to return back to equilibrium. However, dCM (-1) value of 0.28835 indicate that the speed of adjustment to long-run equilibrium is low.

Table 5.6: Long-run Error Correction Mechanism

Regressors	Co-efficient	T-Ratio
MCR	195.6670	1.4020
VT	-171.4284	-1.2752
TOR	157.3621	1.5911
NI	2.0771	1.2799
BSD	-6654.7	-2.0761

 Source: data output using E- views 7.0

Table 5.6 present the estimated long-run relationship between GDP and the explanatory variables using the ARDL approach. The result shows that except BSD which is significant only at 5% level of significance, the other variables are insignificant both at 5% and 1% level respectively. This suggests that besides BSD, GDP does not have a significant long-run relationship with the explanatory variables.

5.4   Comparison of OLS and Co-Integration Result

An examination of the OLS and co-integration result reveal that while the explanatory variables under the OLS are able to account for only 95% of the total variation in GDP, they are able to account for 98% of the variations in GDP under the co-integration estimation technique. Thus, the co-integration result represents a better fit than the OLS result. The Durbin Watson (DW) statistic of 1.548 in the OLS result suggests the presence of auto-correlation in the model. However, the DW statistic of the co-integration result rules out the presence of auto-correlation, indicating that it is more efficient and unbiased estimation technique.

Furthermore, both the OLS and co-integration results confirm that except MCR and VT, the other explanatory variables are not significant at 1% levels of significance but OLS confirm VT to be significant at 5% level. Both results as shown by their respective F-statistic also establish that the overall regression is statistically significant at 5% and 1% levels.

Finally, while the co-integration result explicitly validates the existence of a long-run relationship between GDP and the explanatory variable, such long-run relationship is only implicit in the OLS result obtained.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1   SUMMARY

The deductions made from empirical findings of this study are based on the signs and magnitude of the co-efficient of the explanatory variables.

From the result of the OLS estimates presented in table 5.2, it can be seen that the co-efficient of market capitalization ratio, values traded and banking sector development contributed negatively to the growth of gross domestic product, the co-efficient of turnover ratio and new issues are positively signed. This means that the turnover ratio and new issues impacts positively on the growth of the gross domestic product.

The negatively market capitalization ratio is attributable to inability to mobilize enough capital and diversify risk on an economy wide basis which makes the country's stock market very volatile, thus hurting economic growth. The negatively signed co-efficient of value traded is due mainly to the inability of the market size to be matched by trading activities. This itself might be attributed to the dominance of the financial system by the money market, high cost of raising fund in the capital market and the unstable macro-economic environment. This therefore signals the need for the government to encourage participation in the market as well as maintain a stable macroeconomic environment. Moreover, the negatively signed co-efficient of banking sector development (BSD) means that inflation has been on the increase. Frequent price movement occasioned by high percentage increase in broad money supply to gross domestic product tend to be inflationary and thus negatively affect the growth of output in the

economy. This again signals the need for the government to maintain low rates of inflation in the economy.

An examination of table 5.6 which represent the long-run relationship between GDP and the explanatory variables show that all the co-efficient of the explanatory variables are positive and well signed except value traded (VT) and banking sector development (BSD). The negatively signed value traded is due to the "buy hold syndrome" of investors (especially direct investors such as multinationals) who hold a good percentage of the outstanding shares in the market, resulting in low volume of transaction. The low volume of transaction adversely affects liquidity, investors' confidence in the market, investment and thus economic growth. The positive value of the turnover ratio in the long run may be due to the fact that the volatility in the market fizzle or iron out in the long-run.

On the whole, it can be said that the dependent variable GDP is significantly influenced by the explanatory variables, TOR, NI and BSD in the short-run but is only influenced significantly in the long-run by BSD.

This study investigates and analyzes the empirical relationship between stock market development and economic growth in Nigeria, using data on gross domestic product, market capitalization ratio, value traded, turnover ratio, new issues and banking sector development from 1981 – 2008. The study got the following findings:

1. Stock market capitalization ratio is positive both in the short-run and long-run but it is not significant in explaining economic growth in the Nigeria economy. This suggests that the Nigerian stock market is still relatively small in size.

2. The value traded is positive in the short run but negative in the long-run. This may be attributed to structural rigidities in the economy as well as low volume of transactions in the market which

adversely affect liquidity and thus growth. Moreover, the negative sign of the value traded may also result from frequent intervention by the regulatory super structure in the market which acts as a disincentive to investors who may want to profit from exchanging their holdings as frequently as market conditions permit.

3. The turnover ratio is positive in the long run but does not have a significant long run relationship with economic growth. This implies that the turnover ratio is not significant in explaining economic growth in Nigeria.

4. Although new issue is negative in the short run, its long-run result came out positive, thus conforming to apriori expectations. However, new issue is insignificant in explaining economic growth in the long run. Hence, it can be said that the stock market has not been effectively used by the public and private sectors as a source of raising capital for investment. Basically, investors have continued to source for fund from the money market due to its dominance of the financial system as well as the high cost of raising fund through the stock market.

5. Banking sector development is negative both in the short-run and long-run. The non-conformity of banking sector development is as explained in Section 4.3.

On the whole, the result obtained shows that market capitalization ratio, new issues and turnover ratio exert a positive but insignificant influence on economic growth in Nigeria. On the other hand, value traded and banking sector development negatively influences economic growth in the long run. This contrasting finding may be a reflection of the structural rigidities in the Nigerian economy which make the stock market a more of an appendage of the government institutions rather than a market driven by the forces of demand and supply. The variables, banking sector development being significant may indicate that inflation due to

excess money supply in the economy has an overbearing negative effect on growth and may in turn lead to the slow growth of the stock market.

6.2   RECOMMENDATIONS

The inability of the Nigerian stock market to significantly impact positively on growth of the Nigerian economy is indicative that the market is still underdeveloped. However, based on over bearing evidence from empirical literature, the market may significantly contribute to growth of the economy if well developed and harnessed.   Hence, the following recommendations are made:

1.   Given that the stock market operates in a macro-economic environment which invariably affects its performance and development, the government should take steps to create an enabling environment in order for the market to realize its full potential.   The macro-economic environment should be characterized by low and predictable rates of inflation as well as consistent and sound fiscal, monetary and exchange rate policies.

2.   Creating incentives for companies (especially those of minimum size) to seek quotation in the stock market. This will increase the number of securities available for trading on the exchange and improve the size of the market.

3.   The stock market is known to be a relatively cheap source of funds when compared to the money market and other sources. The cost of raising funds in the Nigerian stock market is however regarded to be very high. There should be a review downward of the cost, so as to enhance and improve its competitiveness and attractiveness as a major source of raising fund.

4. The determination of stock market prices should be deregulated. Market prices should be allowed to operate without any hindrance as interference with security pricing is inimical to the growth of the market.

5. Investors should be allowed to profit more from their investment. This can be achieved by allowing some amount of speculation in the market. Also, investment analyst and advisers should be encouraged to render in-depth financial and investment analysis on a regular basis.

6. Increasing public knowledge about the functioning as well as the benefits of the stock market could also promote its development as this can help increase the investor base and improve the liquidity of the stock market. Knowledge about stock market activity can be improved through regular and intensive education programs.

7. Considering the benefits being enjoyed by the stock market through the internationalization of its operations, there should be increased effort at further internationalizing the market. Also, specific efforts should be made to attract more foreign capital flow (especially portfolio investment) into the market and encourage more foreign participation in the market.

8. Policy makers should set up ethical principles and standards of honesty, fairness, equity, diligence, competence and integrity for market operators. Also, upward review of minimum capital requirement for securities firm should be established to avoid distress and facilitate the honoring of their obligation.

9. Increased effort should be made at incorporating latest technology into stock market operations. This will help to improve market liquidity, transparency and investors confidence.

6.3   CONCLUSION

It is no doubt that stock market promotes economic growth. It serves as an important mechanism for effective and efficient mobilization and allocation of savings, a crucial function for an economy desirous of growth.

This study attempted to place this role in the Nigerian context between the period of 1981 and 2018. By the use of some notable stock market development indicators, the relationship between stock market development and economic growth was found to be positive though insignificant. This suggests that for significant growth, the focus of policy should be on measures to promote growth in the stock market.

The Nigerian market has a bright prospect given the recent policy direction especially the abrogation of all laws that hitherto hamper its effective and efficient functioning. Also, the internationalization and the improvement in the infrastructural facilities in the market in line with what obtains in the developed market as well as the present democratic dispensation will all work individually and jointly to the prospect of the stock market.

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Appendix

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.972[a]	.945	.932	1786.10030	1.548

a. Predictors: (Constant), Banking Sector Development (%), Market Capitalization Ratio (#Billion),

Turnover Ratio (%), Value Traded (#Million), New Issues (#Billion)

b. Dependent Variable: Domestic Product (#Billion)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1204444030.431	5	240888806.086	75.510	.000[b]
	Residual	70183394.288	22	3190154.286		
	Total	1274627424.719	27			

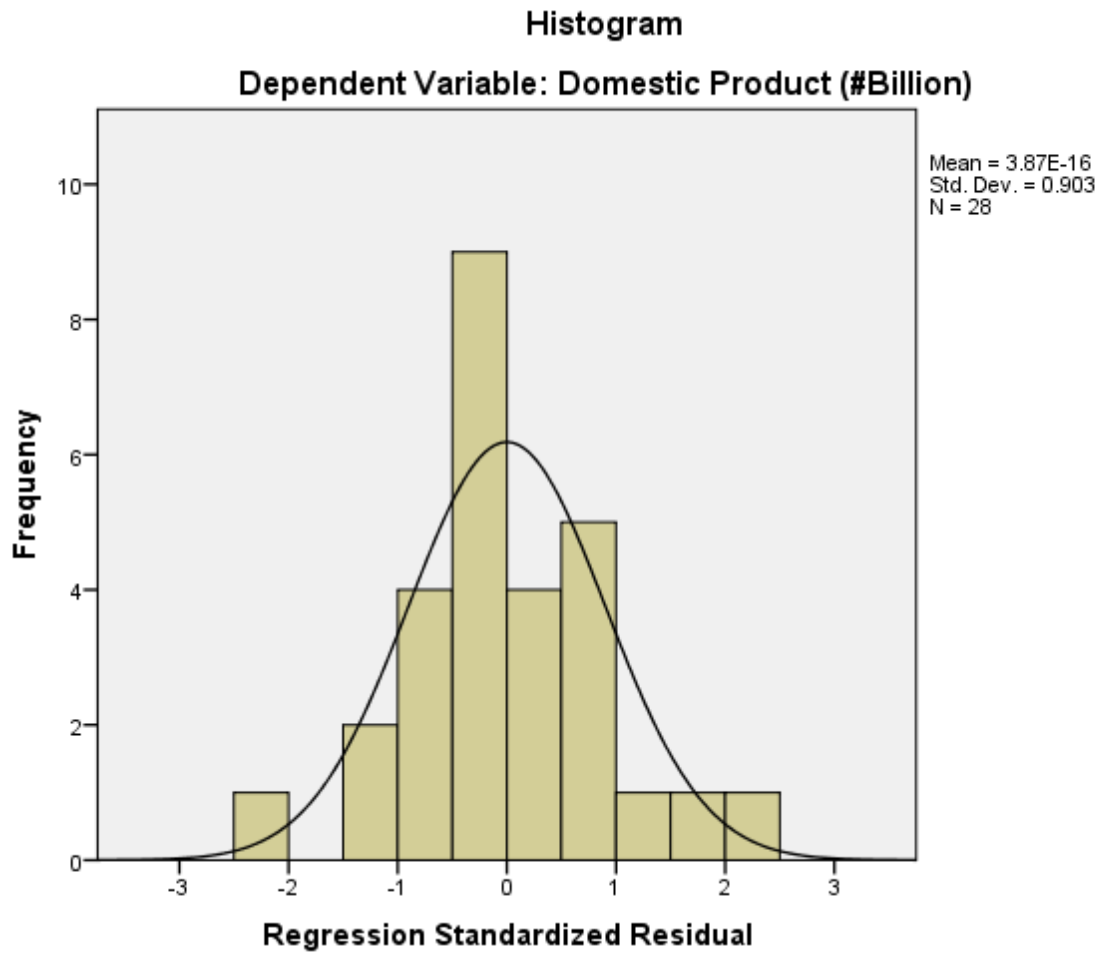a. Dependent Variable: Domestic Product (#Billion)

b. Predictors: (Constant), Banking Sector Development (%), Market Capitalization Ratio (#Billion), Turnover

Ratio (%), Value Traded (#Million), New Issues (#Billion)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	4919.929	1671.140		2.944	.008	1454.196	8385.661
	Market Capitalization Ratio (#Billion)	-4.826	90.486	-.009	-.053	.958	-192.482	182.830
	Value Traded (#Million)	-6.158	2.252	-.523	-2.735	.012	-10.827	-1.488
	Turnover Ratio (%)	774.133	136.707	.570	5.663	.000	490.621	1057.646
	New Issues (#Billion)	10.282	2.319	.962	4.434	.000	5.473	15.091
	Banking Sector Development (%)	-22693.252	4700.300	-.256	-4.828	.000	-32441.077	-12945.427

a. Dependent Variable: Domestic Product (#Billion)

Charts

Histogram

Dependent Variable: Domestic Product (#Billion)

Mean = 3.87E-16
Std. Dev. = 0.903
N = 28

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Domestic Product (#Billion)