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Anticipated Change in the Nigerian Capital Market and Its Implication on Economic Growth

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Abstract
This paper examines the Anticipated Change in the Nigerian Capital Market and its implications on Economic Growth. Data were collected through secondary source and analyzed using multiple regression and descriptive method of statistical analysis. The study reveals that market capitalization, value of stocks and interest rate has significant impact on the GDP. The paper recommends that government should step up investor's confidence and activities in the capital markets so that it could contribute significantly to economic growth hence, national development.
Keywords: Market Capitalization, Economic Growth, Capital Market, Nigerian Stock Exchange, Structural Adjustment Programme, Gross Domestic Product

Introduction

The capital market all over the world has been identified as an institution which contributes to the socio-economic growth and development of emerging and developed economies. (Okafor, 1983). This is made possible through some of the vital roles it plays such as channeling resources, promoting reforms to modernize financial intermediation by linking the deficit sector with the surplus sector of the economy. Mobilization and allocation of savings among competitive uses are critical to the nurturing and growth of local investment (Allie, 1984, Ibenta,2000).

The market helps to channel long-term resources to firms with relatively high and increasing productivity, thus enhancing economic expansion and growth (Allie, 1994). Ekundayo (2002) argues that a nation requires a lot of local and foreign investments to attain sustainable growth and development. The capital market provides a means through which this is made possible.

However, the paucity of long-term capital has posed a great challenge to economic development in most African countries including Nigeria. Anyanwu, (2000) perceive the capital market as the driver of any economy to sustain growth and development because it is essential for the long-term growth and capital formation. It is crucial to the mobilization of savings and channeling of such savings to profitable self-liquidating investment. (Alile and Anao 1986, Okafor 1980) asserts that the Nigerian capital market provides the necessary lubrication that keeps turning the wheel of the economy. It does not only provide the funds required for investment but also efficiently allocates these funds to projects of best returns to fund owners. This allocative functions is critical in determining the overall growth of the economy. The functioning of the capital market affects liquidity, acquisition of information about firms, risk diversification, savings mobilization and corporate control (Ojo,1998).

Therefore, by altering the quality of these services, the functioning of stock markets can affect the rate of local investment (Ashi, 2005). Berlet, (2000) posits that the cheap source of funds from the capital market remain a critical element to ensure sustainable development of the economy.

The objective of this study is to examine the effect of the anticipated change in the Nigerian capital market on economic growth. Economic growth is proxy by the gross domestic product (GDP) while capital market variables in consideration are market capitalization, value of stocks and interest rate. Also, the study shall suggest ways to enhance the contribution of the Nigerian capital market to achieve growth and development of the nation.

Literature Review

The growth of the financial markets of developed and developing countries has been aided by improved macroeconomic fundamentals such as monetary stability, various reforms processes, financial liberalization and an improved institutional framework for investors.(Chanda, 2013).

Financial stabilization has increased cross boarder capital flows, tighten links among financial markets and greater commercial presence in the countries around the globe. An important element of the growth in the capital market activities is the emerging markets which has alerted countries of the world to reform their financial market. (Stijin, Daniel and Sergio, 2004).

It has been argued that poor domestic environment prompt firms and investors to use international

market more intensively. One of the reasons accounting for poor domestic environment was long considered as one of the reasons for capital flight. Over the last decades, there has been an increasing migration of securities activities to major international financial countries like New York, London and so on and so forth. (Akinlo, 2008).

Irrespective of the intensity of the reform efforts, the local stock market performance is still very low. These markets in developing countries are illiquid and segmented as trading and capitalization was concentrated on some particular stocks. (Olayiwola and Ogundiran, 2008).

In 1986, Nigeria embraced the International Monetary Fund (IMF) World Bank and put in place the Structural Adjustment Programme (SAP) which influenced the economic policies of the Nigerian government and led to reforms in the late 1980s and early 1990s. The programme was proposed as an economic package to rapidly and effectively transform the Nigerian economy within two years (Adekanye, 1986, ibenta, 2000). However, until SAP was abandoned in 1994, the objectives were not achieved due to the inability of government to judiciously implement some of its policy measures (Adebiyi, 2005). The notable reforms include monetary and fiscal policies, sectoral reforms such as removal of oil subsidy in 1988 to the tune of 80%, interest deregulation from August 1987, public sector as well as the financial market reforms. There have been growing concerns and controversies on the role of the stock markets and local investment (Akingbohungbe, 1996).

Levine and Zervos (1996) examines whether or not there was a strong empirical relationship between stock market development and long-run economic growth. It was revealed that there was a strong correlation between overall stock market development and long-run economic growth.

Demiurgic-Kunt and Levine (1996) found that different measures of stock exchange size are strongly correlated to other indicators of activity level of financial, Banking, Non banking institutions as well as to insurance companies and pension funds. They concluded that countries with well developed stock markets tend to also have well developed financial intermediaries. Again, Demiurgic-Kunt and Maksi (1998) have shown and re-emphasized the complementary role of the stock market and banks that they were not rival or alternative institutions.

The rate of Gross Domestic Product (GDP) per capita was regressed on a variety of variables designed to control political instability, investment in human capital and macroeconomic condition and then, included the conglomerated index of stock market development. They found empirically that the measures of stock market liquidity were strongly related to growth, capital accumulation and productivity while stock market size did not seem to correlate with increased local investments.

So also, the buoyant capital flows among the nation boundaries have raised the existing strength of the financial market domestically as well as internationally. The markets over the world, particularly the financial markets are largely affected by the hedge funds. The use of hedge funds has allowed the trading activities with large number of dealers. Traditionally, the banks were involved in the activities of lending and receiving deposits. In the recent years banking sector among the countries over the world are the main area of concerns in the financial activities with rendition of a large number of services.

Banking sector plays a major role in development of the financial sector both in the rural area as well as in urban areas and this has resulted in the falling of transaction costs on investments in Nigeria. The trading of highly liquid short-term assets and securities such as treasury bills and commercial papers, Bankers acceptances, Certificate of deposit, Bills of exchange and so on attested to the reasons for their heavy patronage. (Ekiran, 2009).

The Implications of the Anticipated Change on Economic Growth.

According to Al-Faki (2006), the capital market is a network of specialized financial institutions, series of mechanisms, processes and infrastructure that have in various ways links suppliers and users of medium and long term capital for investment in socio-economic developmental projects." The capital market is divided into the primary and the secondary market.

The primary market or the new issues market provides the avenue through which government and corporate bodies raises fresh funds through the issuance of securities which is subscribed to by general public or a selected group of investors. The secondary market provides avenue for sale and purchase of existing securities.

Ewans, (2009) opines that the secondary market activities have impacted more on Nigeria per capital income through growth in stock market earnings and wealth creation compared with the primary market.

The anticipated Change expected of the capital market in the development of the economy includes:

1. Improvement in the allocative functions of the Capital market so as to make it more efficient in mobilization of domestic savings.
2. The Capital market should be able to assist the nation towards ensuring quick and accelerated switching from one stockholder to another so that beneficiaries of such securities could take advantage of the purpose for which the switch was made.
3. The anticipated change should be able to enhance rapid mobilisation of funds for firms towards business

expansion.

4. The anticipated change should be able to create a convenient framework to assists in the listing of new businesses on the capital market so as to generate employment and enhance the growth of the real sector of the economy.

5. The capital market should be able to compete favourably with her counterparts in developed world in terms of its pragmatic efforts in ensuring accelerated development of the economy.

METHODOLOGY:

Model specification

The following model was formulated for this study. The model is similar to that of

GDP = f (MCAP, INT, VOS)

$GDP = a_o + b_1MCAP + b_2INT + b_3VOS + Ut$

Where:

GDP = Gross domestic product

a_o = constant

Mcap = market capitalization

Int = interest rate

Vos = value of stock

Ut = error term

b_1-b_3 =coefficient of independent variables

Method of Data Collection and Analysis

Secondary source of data collection was used in this study and the data were collected from the Nigerian Stock Exchange (NSE), Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) statistical bulletins. Multiple regression analysis was employed in analyzing the data.

Data Presentation, Analysis and Discussion of Findings:

Data Presentation

Table 1: GDP, Market Capitalization, Interest Rate and Value of Stocks (2006 to 2013)

YEAR	GDP	MCAP	INT	VOS
2006	18,564.59	5,121.00	17.26	470,313,123.00
2007	20,657.32	13,294.60	16.94	1,076,020.40
2008	24,296.33	9,563..00	15..14	1,679,143.70
2009	24,794.24	7,030.80	18.99	685,717.30
2010	54,204.80	9,918.20	17.59	799,911.00
2011	63,258.58	9672.60	16.02	638,925.70
2012	71,186.53	14,800.90	16.79	808,991.40
2013	80,222.13	19,077.40	16.72	2,350,875.70

Source: ABS, Statistical bulletin (Various issues)

Data Analysis and Interpretations

Table 2: Multiple regression analysis table showing Market Capitalization, Value of Stocks and Interest rate prediction to Gross Domestic Product (GDP)

Variables	MCAP	INT	VOS
Coefficient	3.837	186.800	-8.250
Std, err,	2.428	211.807	0000
T	1.581	.023	-0.130

R^2 =0.501 R=.71

Adj. R^2 =0.127 F= 1.341

GDP= -476.774+3.839MCAP+186.80 INT -8.250VOS

Interpretation of Results

It can be deduced from table 1 that the predicted variables (i.e market capitalization, value of stocks and interest rate) jointly predicts gross domestic products which is significant with (R^2 = 0.501(50%). The predictor variables, jointly explained 50% variance of GDP, while the remaining 50% could be due to effect of extraneous variables. The value of Market Capitalization (MCAP) which is 3.839 t=1.581 and Interest (INT) =186.800, t =.023 which all have positive relationship with the GDP while Value of stocks (VOS) coefficient is - 8.250 and t= -0.130. This implies that the coefficient has a negative relationship with the GDP. However MCAP, INT and

VOS have significant impact on economic growth and they all account for 50% of the relationship with GDP in the long run.

Conclusion and Recommendations

The study concluded that the capital market in Nigeria has the potential of contributing positively to economic growth if the regulator s of the industry could find solutions to the problem of low market capitalization, low absorption, and liquidity of stocks as well as misappropriation of funds. Thus, affirming the alternate hypothesis which states that the anticipated change in the capital market operations has significant implications on Nigerian economic growth.

It is therefore recommended that the government should:

* restore confidence to the market through regulatory authorities to portray transparency, fair trading and dealings in the stock exchange.
* improve dealings in the market capitalization by encouraging more foreign investors to participate in the market and also to increase investment instruments such as derivatives, convertibles, swaps and options in the market.

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