Is Nigeria Economic Growth Capital Market Spurred?

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Abstract—: The x-ray of the sensitivity capabilities of the securities market cum economic growth in a nation's life cannot be overemphasized. This is judging by the traditional a priori expectations of the former over the later which the study put to validation test in Nigeria. Government stocks/securities, debt/bonds, exchange trust fund (ETF) and equities encapsulated in total market capitalization and, all share index (ASI), formed the independent variables used. While, gross domestic product GDP at constant basic price represents the endogenous series. All data are sourced from the apex monetary authority records and that of the stocks market spanning thirty-four years (i.e. 1985 - 2019). Analysis is also enroute a tripartite path after confirming the Augmented Dickey Fuller (ADF) test status. The I(0) and I(1) outcome of the ADF necessitated the Autoregressive Distributed Lag (ARDL) analysis with a proof of the study's series through diagnostic and stability tools of serial correlation and cumulative sum (CUSUM) test. This is further re-affirmed with the Error Correction Mechanism [ECM] long run estimates. Outcome provides a proof that economic growth is capital market spurred in the short-run but with a caveat of insignificant outcome and minor relationship in the long run. As such, the intertwining foundational a priori surmise of the role that the capital market plays on economy growth is further confirmed in Nigeria. Introduction and availability of tailored-made instruments dedicated to nominated economic growth is raised as recommendation.

1. Introduction

Global market integration has come to stay. As a consequence, financial transactions can now be performed at a click of a button. Little wonder that this innovation have made nations become more susceptible to plausible global shocks owing to economic interdependence. The implication is that, no matter the economic system in place, any triggered event in a major global market nearly and almost has a trickle-down effect, especially on developing economy like Nigeria. A trace of such in Nigeria has been inescapably linked to the financial system of which the capital market is an integral part. For instance, when long term financing is needed for growth, the capital market often provides avenues through which it can be raised ([1,2,3,4,5,6]. As such, capital market serves as the driver of the economy. It is the path through which government tiers and private corporations, source long term finance for investment and expansion purposes [7,8,9,10,11,12]. However, the question that arose therein is that, has capital market spurred growth in the country? As at December, 2018 the market has only two hundred and eighty-eight (288) listed securities comprising of: seven (7) premium board equities, one hundred and fifty three (153) main board equities, nine (9) ASeM securities and Exchange Traded Funds (ETF) respectively, sixty-one (61) FGN bonds, twenty-two (22) corporate bonds, twenty-three (23) municipal bonds, and two (2) supranational bonds; from its initial ninety-one (91) listed in 1980 as noted by Central Bank of Nigeria [13,6,14]; compared with 469 in South Africa, 574 in Egypt and 3,671 in NYSE. Without equivocation, the objective of the study shall be to proof or provides surmise to the assumption of whether capital market indeed can spur growth economically. Structurally, the study is arranged in four main headings including the introduction. Following this is the

literature review. This is followed by the methodology, result and analysis; while conclusion ends the study.

2. Literature review

2.1 The Capital Market

Ab initio, capital market is the market for the sales and purchas of medium-term and long-term securities [6,7,10,11]. To acces the capital, you come through the Stock Exchange floor. Capita market activities/transactions are perfected on the floor. Th stock in trade in the market is the various instruments mad available by different market segments. Unlike the mone market that deals with short term funds and have lendin instruments that lapse between 0 – 91 days, 12 months and c 24 months such as the treasury bills and the certificates c deposit; the capital market instruments maturity usually spa beyond these periods and include instruments such as th shares/stocks, debentures, debt, bonds, equities [11,12 Majorly, capital markets serve as a channel through whic funds can be harnessed for business and economic expansion i the long-term. Obviously, since investment fundin requirement needed to consummate basic expansion often spa beyond (i.e., more than one year) what the regular commercia banking lending function can accommodate, the capital marke simply provide such avenue and serves as a veritable sourc through which such funds can be raised via suited instruments.

2.2 Capital Market Instruments

Basically, the instruments of transaction in the capital market are of varying forms. They also have varying degree of usage and, most are perpetually available depending on the holder in due course. Some of these instruments are listed below.

As mentioned above, equity (shares/stocks/ ordinary/preference), debenture and bonds are some of the instruments traded in the floor of the capital market. Shares or common stock represent ownership shares held in corporations, while bond is not. Also, an equity holder holds the right of ownership by purchasing the securities known as stocks. Bond simply represents a fixed income generating instrument to the creditor unlike shares, who income is not fixed

i. **Shares or common stock:** these represent ownership shares held in corporations by investors who have bought into the business activities hence, becoming part owners. Specifically, an equity holder holds the right of ownership by purchasing the securities known as stocks. On one hand, the business owners (corporation) seek business expansion and, it then sort investors to invest in this stake. On the other hand, investors seek possible investment opportunities with which his/her surplus funds can be placed with the expectation that it will be preserved or increase in value. Such investor simply buy into the companies shares or stock. The attendant implication of

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this is translated into economic expansion and, ultimately, economic growth.

ii. Bond/Debenture: these are simply debt instruments. They are also available for investment purpose in the capital market. Simply put, bonds are debts instruments that are issued by the governments. Similarly, debentures are debt instruments that are issued by private joint-stock-companies.

iii. Economic Growth: specifically, economic growth is measured in terms of productive capacity of a nation in relation to its income from such production. Expectedly, in a free economy, where the private sector owns the productive factor, the capital market serves a vital organ through which scarce funds can be raised in a long term for productive and expansion purposes. When this happens, economic growth will be visible and, [14,15,16,5,9,6], propositions on the role the capital plays on economic growth, would have been realized. Often economic growth is measured by gross domestic product (GDP), which represents the total monetary value of all goods and services produced in a country yearly. Likewise, when this value is deflated then, it becomes the real gross domestic product (RGDP). The latter is used in this study.
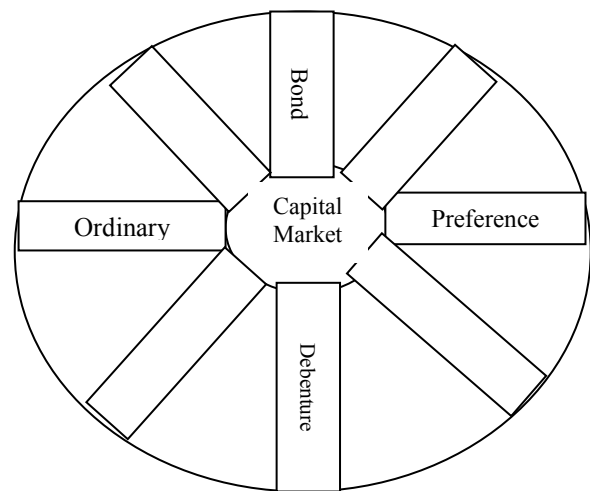

Figure 2. Conceptual Framework

3. Theoretical Review

There are varying theories that have explained the role and importance of the capital market in the literature. For instance, one of the earliest works is that credited to Schumpeter around 1911 [5]. Accordingly, the interlink between capital market and economic activities are constantly changing to the level where economic growth is achieved in the long run. This is also true of Markowitz 1952, Sharpe and Trenor 1966, Jensen 1967, and Ross 1976's capital market behavioural propositions. There is

also the McKinnon and Shaw 1973 proposition where emphasis was on how emerging economies can benefit from a robust and sophisticated capital market. In their words, the capital market is an embodiment of activities that can launch a country into economic growth through policy direction. [17,18,19,20]); are some other contributors to the debate of capital market and economic growth. At one point, some emphasized credit rationing potential that capital market can render for economic expansion. Others simply developed further earlier theorized assertion that capital market is an essential link through which economic growth can be measured. Similarly, [21,22] also confirmed that the capital market act as a boost to economic growth through its intermediation activities. [17] also corroborated earlier writers by attesting to the intermediation role of capital market and its importance in growing the economy. Summarily, from the traditional, technical and fundamental approach, to Portfolio Theory (PT), capital asset pricing model CAPM, efficient market hypothesis (EMH) and arbitrage pricing theory, capital market theory simply seeks to establish the intertwining linkages between investment, expansion and ultimately, economic growth

3.1 Brief Synopsis of the Nigeria Capital Market

Like most emerging capital markets, the Nigeria capital market birth is dated back to the era of the colonial master in 1960 when there was an attempt at establishing one in the country. However, it started as a commission in 1977 without legal framework until its present status. It currently has a floor in Lagos, Kaduna, Abuja, Port Harcourt, and Kano. From its humble beginning, the market has helped organisations raised the capital necessary for expansion for ultimate economic benefits. From about 3.1 billion in stocks and securities, 1.9 billion in equities in total market capitalization in 1981, to 7,236.2 and 12,960.0 billion respectively in 2019 [14]. Inspite of the recession the market capitalization witnessed a 42 percent growth of about 23.1 billion in total assets, 120 percent turnover and; the capital market is acclaimed the third global best-performing exchange in the world in 2017 [14].

4. Empirical Review

The issues relating to capital market is well established in the literature. Quite a number of the writers opined that effective and efficient capital market spurs growth. For instance, [21,22] study confirms the existence of positive and significant relationship between market interaction and economic growth. They asserted that, with proper, adequate and functional capital market, the economy [23] explained how the provision of liquidity through the capital market helps in the lubrication of the wheel of the economy. They opined that since companies' expansion is hinged on availability of liquidity, the capital market is a channel through which this can be achieved hence; firms' operations is sin-qua-non to market liquidity.

Conversely, [24] summation is that little cause and effect relationship is visible between capital market and economic growth in developing economies. This was tested on the premise of Granger causality and result assert to the fact that it is so.

[25] study concluded that the potency of macroeconomic variables and government interaction with the market are real in exerting pressure on economic growth. Accordingly, government synergy with the system can be a panacea to spurring growth. A proof of the existence of how capital market can spur growth was what [26,4], examined in Nigeria. To them, a tripartite benefit is visible in the area of technology if only the country can leverage seamless operations between capital market and economic system. [27], study also proved that capital market spur economic growth. With the aid of autoregressive distributive lag (ARDL) regression model, the proof was established.

[2,5,6,9,28] are some other contributors to the debate that capital market is indeed a path leading to economic expansion and growth.

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5. Methodology

The data employ in this study is mainly time series from the bulletin of the apex banking institution and the Capital Market annual of various issues. The series span a period of thirty-four years, that is, 1981 to 2019. Variables treated are real gross domestic product (RGDP) as proxy for economic growth and, it is the dependent variable. The reason behind the choice of GDP is the fact that it has incorporated inflation such that, expected outcome will be produce real outcome other than nominal outcome. Also, total market capitalization (TMcap) and all share index (ASI) are the study's independent variables which serves as the proxy for the capital market. To achieve the aim of the study, the descriptive statistic will be determined to affirm the normality of the series. Likewise, the ADF unit root test will be confirmed. However, based on the outcome of the unit root test, which turned I(0) and I(1), the Autoregressive Distributed Lag model is specified having specified the lag selection criteria automatically. This methodological process stem from that of [4,9].

5.1 Model Specification

In the general form of the linear regression model, the dependent variable Y is assumed to be a function of an independent variable χ. And upon [4,9] model, we specify with modification, thus;

That, we have χ independent variables that is…. χ_1 and χ_2

Hence, $Y = f(\chi_1 \chi_2)$………1

That is: $RGDP = f(Tmcap \text{ and } ASI)$……….2

Thus,

$RGDP = \alpha_0 + \beta_1 Tmc + \beta_2 ASI + \mu_t$ …… 3

Where Tmc = total market capitalization, AI = all-share index

In specifying the ARDL model (ρ, φ_1, φ_2….φ_n) based on equation i outcome, we specify;

$$\Delta\mathcal{J}_t = \delta_0 + \sum_{i=1}^{n} \delta i \Delta\mathcal{J}_t - 1 + \sum_{i=0}^{n} \eta i \Delta\zeta_t - i + M_1\mathcal{J}_{t-1} + M_n\zeta_{t-1} + \mu_t$$
………….4

Where: $\sum_{i=1}^{n} \delta i \Delta\mathcal{J}_t - 1 + \sum_{i=0}^{n} \eta i \Delta\zeta_t - i$ is the short run model and $M_1\mathcal{J}_{t-1} + M_n\zeta_{t-1}$ represents the long run model expectation.

That is, $\delta_1…\eta_1$ represents the short-run coefficients in the model; while $м_1..мn$ represents the Autoregressive distributed lag model long-run coefficients and μ_t is stochastic term.

6. Result

6.1 Descriptive Statistic

Table 1. Descriptive Statistic Result

	GDP	ASI	MKTCAP
Mean	30794.20	185092.7	5643.425
Median	9733.197	130901.7	713.7000
Maximum	127762.5	605096.4	21904.04
Minimum	192.2733	1407.400	6.600000
Std. Dev.	38661.73	178482.5	7433.337
Skewness	1.125664	0.735693	0.962486
Kurtosis	2.936081	2.543361	2.380886
Jarque-Bera	7.186132	3.362455	5.792491
Probability	0.027514	0.186145	0.055230
Sum	1047003.	6293152.	191876.4
Sum Sq. Dev.	4.93E+10	1.05E+12	1.82E+09
Observations	34	34	34

The descriptive outcome as in the table above explains the normality distribution of the series used in the study. As a test, all series are tested on common characteristics since there are no missing observations. The normality of the series is first confirmed using the Skewness statistics. Its outcome shows that the asymmetry distribution around its means is positive and normally distributed for all the series. Except that Gross domestic product (GDP) has a long right tail while all share index (ASI) and total market capitalization (Mktcap) has a long left tail. Similarly, the Kurtosis falls within acceptable region of normality. For instance, Gross domestic product (GDP) and all share index (ASI) are mesokurtic (=3) while market capitalization is platykurtic (<3). The Jaque-Bera shows that the series are acceptably significant having been fall within the acceptable region.

6.2 Stationarity Testing

Table 2. ADF Unit Root Result

	Critical Values	ADF	Prob	Order
D(RGDP)	1% = -2.639210	2.656893	0.007	1(0)
	5% = -1.951687			
	10%=-1.610579			
D (ASI)	1% = -2.641672	-5.397526	0.0000	I(1)
	5% = -1.952066			
	10%=-1.610400			
D(TMCap)	1% = -2.639210	-5.379310	0.0001	I(1)
	5% = -1.951687			
	10%=-1.610579			

As it is customary of most economic variables to undergo stationarity test validity, so it is with this study. The essence is to determine the order of integration or otherwise of the variables so as to know the route to tread for further analysis. The aim is to prepare ground for ultimate data analysis and prediction should the series display an inverse status of stationarity. Basically, from the Augmented Dickey Fuller (ADF) test outcome in Table 2, it shows that the series – D(RGDP) did become stationary at level. By implication, it means this series is integrated at level. However, the series - all share index D(ASI) indicated that it did not become stationary at order but, when it was differenced, the variable became stationary. As such, it means also that this series is integrated of order one. Similarly, total market capitalization depicted – D(TMcap) also showed that it did not become stationary at level. However, when it was differenced, it became stationary. By implication, it means this series is equally integrated of order one. As such, this outcome informed the use of the Autoregressive distributed lag (ARDL) regression path to further confirm the presence of a short-run or long-run relationship subsisting between the dependent and independent variable of the study. This is done with the error correction mechanism assumption of the series converging in the long-run, having specified the lag-selection automatically [29,30].

6.3 Lag Selection Criteria

The Autoregressive Distributed Lag model follows the path of vector autoregressive regression (VAR) specification where the standard errors and t-statistics VAR estimates are determined. Similarly, it uses the method of ordinary least square (OLS) technique for its estimations with recourse to other technique. The study used the restrictive VAR because it treats all variables with common characteristics. However, it is essential that lag specification is identified to allow for treatment adjustments prior the ARDL.

Table 3. Lag Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-277.1520	NA	14413802	19.32083	19.46228	19.36513
1	-258.4436	32.25588	4254355.	18.09956	18.28815	18.15863
2	-257.0797	2.257482	4156014.	18.07446	18.31021	18.14830
3	-257.0677	0.019050	4460564.	18.14260	18.42549	18.23120
4	-251.5764	8.331730*	3284396.*	17.83285*	18.16289*	17.93622*

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

Table 3 is the vector autoregressive regression (VAR) lag selection criterion outcome which is automatically determined

by system selection procedure based on lag adjustments appropriated but not arbitrarily fixed by the researcher. Here, five criterions are set at the sequential modified LR test statistic at 5 percent: the FPE – final predictive error, AIC- Akaike information criterion, SC – Schwarz information criterion and HQ- Hannan – Quinn information criterion. The rule of thumb suggests that lag selection should be based on common characterized features to all series. Judging by the outcome of the table, lag (-4) (*) is common to all series hence, it is selected.

6.4 ARDL Estimation

Table 4. ARDL Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	469.3266	496.1023	0.946028	0.3544
D(GDP(-4))	-0.044818	0.417801	-0.107272	0.9155
D(ASI(-4))	0.000295	0.005188	0.056953	0.9551
D(MKTCAP(-4))	0.167619	0.267691	0.626166	0.5376
GDP(-4)	0.161814	0.103996	1.555971	0.1340
ASI(-4)	0.015331	0.004684	3.273233	0.0035
MKTCAP(-4)	-0.530844	0.406287	-1.306573	0.2049

R-squared	0.874503	Mean dependent var		4391.148
Adjusted R-squared	0.840276	S.D. dependent var		4039.896
S.E. of regression	1614.564	Akaike info criterion		17.81802
Sum squared resid	57349962	Schwarz criterion		18.14806
Log likelihood	-251.3613	Hannan-Quinn criter.		17.92139
F-statistic	25.55041	Durbin-Watson stat		1.778210
Prob(F-statistic)	0.000000			

Having achieved the lag selection for the series, the study went further to perform the ARDL test using the OLS estimation technique. Here, the test of the short run and long run relationship is determined by the coefficient of the series that entered into the ARDL system as specified in the ARDL (OLS) table above individually. Specifically, the double parentheses indicate the short run model of the ARDL output, that is D(GDP(-4)), D(ASI(-4)) and D(Mktcap(-4)); while that of the long run model estimates are in single parentheses, that is, GDP(-4), ASI(-4) and Mktcp(-4). From the table, all series are statistically insignificant in the short-run judging by the corresponding probabilities. This is also the case in the long run except for that of All Share Index, which indicates a probability of 0.00335, which is higher than 0.05 level of significant. Also, the coefficient of market capitalization (Mktcap) indicate an inversely relationship, which suggest a possible convergence in the long run. For validation of this output, the study diagnosed the series of the presence of serial correlation and that of model stability.

6.5 Model Diagnostic

Table 5. Serial Correlation – Breusch-Godfrey LM Test

F-statistic	1.631914	Prob. F(4,18)	0.2096
Obs*R-squared	7.717900	Prob. Chi-Square(4)	0.1025

In an attempt at determining the fitness of the series, the study carried out serial correlation test with the aid of Breusch-Godfrey LM test to validate or invalidate otherwise the fitness of the series. To determine this, Obs*R-squared is often used against the probability of the Chi-square result. As a result, the LM test result above indicates that there is no presence of serial correlation in the study. This is as indicated by the probability value of the Chi-square result of = 0.1025, which is higher than the 0.05 percent level of significant hence, indicate that the null hypothesis of no serial correlation is not rejected. By implication the variables have no serial correlation.
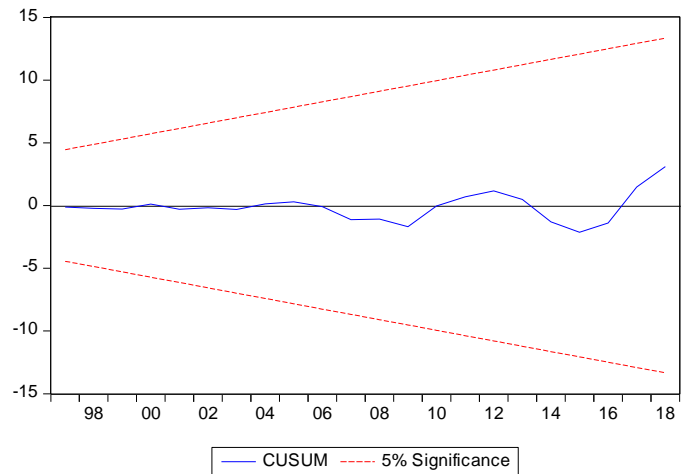
A. Model Stability

Fig. 2. CUSUM Test Result

Having discovered the absence of no serial correlation in the series, the study performed a stability test to determine how stable the series are. This is done using the cumulative sum (CUSUM) test through recursive estimates of the ordinary least square. The cumulative sum helps to affirm change detection of the series whether they wander arbitrary away from the bound line or not with its associated probability. Since the tracking line is within the bound line, it means that the model is statistically significant at 0.05 percent level hence, the model is adjudged stable. This is the case of figure 2.

6.7 Coeeficient Diagnostic

Table 6. Wald Test

Test Statistic	Value	df	Probability
F-statistic	4.921867	(3, 22)	0.0091
Chi-square	14.76560	3	0.0020

Null Hypothesis: C(5)=C(6)=C(7)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(5)	0.161814	0.103996
C(6)	0.015331	0.004684
C(7)	-0.530844	0.406287

Having confirmed the individual significant of the series judging by the result specified in Table 6 above, the study proceeded to proof and provide a surmise to the otherwise of the existence of a long run relationship between capital market and economic growth in Nigeria. This is however tested jointly using the long run coefficient of; c(5)=c(6)=c(7)=0 of RGDP(-4), ASI(-4) and TMcap(-4). In the words of [29,30], unlike the individual confirmation of series significance using the Breusch-Godfrey Serial Correlation LM F-statistic or probability test result, the F-statistic result in Wald coefficient diagnostic does not allow for arbitrary summation without corresponding confirmation from the Bound Test table. Thus, whenever the calculated value of F-Statistic falls below the lower bound [I(0)] of the Bound tabulated, the null hypothesis is not rejected otherwise, if it is higher than the upper bound [I(I)], the hypothesis of no significant relationship is rejected. In this case, since the F-statistic value = 4.921867, which is higher than the upper bound [i.e. I(0) = 2.73 and I(1) = 3.83], at 0.05 percent level of significant is significant thus, the outcome is a proof that jointly, a long run statistically significant relationship exists between Nigeria's economic growth and capital market. By implication, capital market spurs economic growth in Nigeria.

6.8 Error Correction Mechanism

Table 7. ECM Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1042.544	513.5775	2.029965	0.0536
D(GDP(-4))	1.106711	0.126416	8.754535	0.0000
D(ASI(-4))	0.007518	0.005713	1.315894	0.2006
D(MKTCAP(-4))	-0.325263	0.275873	-1.179032	0.2499
ECT(-4)	-0.032627	0.066704	-0.489129	0.6292

Since the series proved the existence of long run relationship between Nigeria economic growth and capital market in Table 7, the study obtain the residuals from the long run model to determine the point of convergence in the long run. This is done using the Error Correction Term [ECT]. In order words, as of a rule, it is expected that if the ECT is inversely related to the target variable and is statistically significant, then it substantiates the long run convergence of the error term. If otherwise, it implies there exists an insignificant convergence to equilibrium in the long run. From the table, the ECT is inversely related and means that whenever the system is moving out of equilibrium in one direction, it's going to pull it back to equilibrium. The implication is that 3 percent departure from long run equilibrium is corrected each period. However, the probability of the correction indicates an insignificant relationship in the long run judging from the long –run residuals. In essence, in spite of the inversely related relationship between gross domestic product and the capital market, its relationship is statistically insignificant in Nigeria. This simply negates the apriori expectation of the role expected of a capital market in an economy. Again, this study is a sharp contrast and radical departure from that of [7,9]. However, the study corroborates certain series in the works of [27,12].

7. Conclusion

The study examined a critical question in the life of Nigeria economy and the role of the capital market. Specially, it sought to know whether Nigeria's economic growth is capital market spurred. As such, the study examined the relationship between total market capitalization – (Mktcap) and All Share Index (ASI). The total value of all government securities/stocks, debts and bonds instruments, Exchange trust fund (ETF) and equities traded on the floor of the Nigerian Stock Exchange (NSE), makes up the total market capitalization. Similarly, the performance of all the market is determined by the indexes of each market segments. Thus, the study used All Share Index as a measure of all stock market performance. Also, real gross domestic product at current basic price (RGDP), makes up the measure for Nigeria's economic growth. More importantly in the study is the deployment of a robust analysis technique to determine a proof and provide otherwise, a surmise, of the question at hand. Having carefully examined the stationarity status of the variables, determined lag suitability, tested the model diagnostic validity and stability, performed the autoregressive distributed lag (ARDL) regression with confirmation from the LM and Bunds Test, and affirm the outcome using the Error Correction Mechanism (ECM); the study concludes that there exists only a microscopic proof of Nigeria's growth spurred by the capital market

8. Recommendation

A depth of the understanding of the conclusion of the study reflects in general terms the performance of the country as a whole. Even though the capital market essentially is an avenue to expand business activities whilst, by reward, brings economic expansion, it is saddled with a myth beyond comprehension judging by the minor contribution in the long-run to the economy as explained by the result. Since this study has reviewed this non-convergibility in the long run, it espouse the fact that basic fundamentals necessitating the link between capital and economic growth should be provided. Most importantly, the introduction and availability of tailored-made instruments dedicated to nominated economic growth is further suggested as recommendation

Acknowledgment

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