Econometric Analysis on the Impact of Capital Market Performance on the Nigerian Economy

Okwuchukwu Odili¹, Ikenna Jude Ezeudu²

Abstract
This study investigates the impact of stock market performance on economic growth in Nigeria. Time series data from 1980-2002 on market capitalization, value of shares traded, all share index, average prime lending rate, inflation rate, national savings and Gross domestic product, proxy for economic growth were sourced from Central Bank of Nigeria statistical bulletin and Nigerian Stock Exchange Fact book various issues. The data were analysed using ordinary least square (OLS) regression techniques. The error correction mechanism (ECM) was employed to determine the short-run and long-run effects of stock market performance on economic growth in Nigeria. The results show that stock market has positive and significant effect on economic growth in Nigeria. It also revealed that market capitalization has negative but significant relationship with gross domestic product. It was recommended amongst others that there is a strong need for policy makers to focus on policies that will deepen and strengthen the stock market to increase its liquidity and attract foreign investors. The need for appropriate policy measures that will guide fund allocation by capital market operators to ensure that long term funds are channeled towards long-term investments is imperative.

Keywords: Nigerian stock market, gross domestic product, error correction model, fund mobilization and allocation.

1. Introduction
Capital market is a network of specialized financial institutions, series of mechanisms, process and infrastructure that in various ways, facilitate the bringing together of suppliers and users of medium to long-term capital for investment in developmental projects, (Al – Faki, 2006). The main function of the capital market therefore, is to raise medium and long-term capital and allocate such fund to productive uses for a sustainable economic growth and development.

The capital market is expected to accelerate economic growth, by providing a boost to domestic savings and increase the quantity and the quality of goods and services. The capital market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Companies in countries with well-developed capital market are less dependent on bank financing which are mostly short and medium term financing thereby reducing the risk of credit crunch. The capital market therefore is able to positively influence economic growth through encouraging savings among individuals and providing avenues for corporate fund mobilization (Kizito, 2012). The inability of the capital market to perform this function deprives the economy of much needed financial resources for investment and production of goods and services, (Ewahet al., 2009).

Equity markets in developing countries until the mid-1980s generally suffered from the classical defects of bank dominated economies characterized by shortage of foreign institutional investors, and lack of

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investors’ confidence in the stock market (Adebiyi, 2005). Corporate savings were then, the most important component of gross resource mobilization by the private corporate sector and reliance on external resource was limited. The capital market was therefore constituted or established to facilitate the mobilization and channeling of funds into productive investment. The Nigerian stock Exchange (NSE) is the centre point of the capital market while the Securities and Exchange Commission (SEC) serves as the apex regulatory body. To enable small as well as large-scale enterprise gain access to public listing, the NSE operates the main Exchange for relatively large enterprises, and the Second – Tier Security Market (SSM) where listing requirements are less stringent for small and medium scale enterprises.

Governments across the world have continued to pursue policies that encourage growth in the capital market, since the capital market is perceived as a vital economic unit of the financial sector for economic development (Okereke, 2006). Some of the policies and programmes pursued in Nigeria were aimed at facilitating capital market growth and development. These programmes include, the introduction of structural Adjustment programme (SAP) in 1986 and its attendant’s deregulation of the economy, the Bureau for Public Enterprises charged with the responsibility of disinvesting government interest in some key industries; consolidation and capitalization of the financial sector especially the banking industry.

In spite of these policies and programmes, there have been concerns by individuals and even corporate bodies alike as to whether the Nigerian capital market is actually achieving this laudable goal of capital market – led – development (Ozurumba and Chigbu, 2013).

The important functions of mobilizing long-term funds from the surplus unit and allocating same to the deficit unit of the economy by the capital market have not been empirically investigated thereby creating a research gap. This studytherefore seeks to evaluate the impact of capital market performance in mobilizing and allocating financial resources for economic advancement and growth in Nigeria.

This study is structured for purposes of logical sequence and presentation into introduction, conceptual framework, theoretical underpinning, review of related empirical literature, methodology, results and discussion of, conclusion and recommendations.

2. Conceptual Framework

The Nigerian capital market needs to play the role of an enabler for the transformation of the Nigerian economy, by becoming the central point for domestic savings and for international investors (Oteh, 2010). The stock market is therefore expected to accelerate economic growth by providing a boost to domestic savings and increasing the quantity and quality of investment. Liquid stock markets could improve the allocation of capital and enhance prospects for long-term growth. McKinnon-Shaw (1973) theories on finance and development criticized the dominant neoclassical monetary theories and the Keynesian counter arguments. The neo-classical monetary growth models postulate that high-positive interest rate have a direct impact on savings and investment. Within this school of thought money is regarded as a substitute for physical assets and productive investments which will lead to increase in economic activities and economic growth. Keynesian economists on the other hand agree that low-interest rate increases investment, income and eventually national savings.

Interest rate is a financial price for credit and affects resource allocation, production levels, prices and profitability. Fluctuations in the interest rates reflect in share price. For instance, lowering of interest rate on demand and savings deposits will improve returns to investing on the stock market relative to investing in deposit money banks (DMBs) holding factors such as risk, transaction cost constant. This will therefore increase the demand and share price of affected equities on the stock exchange thereby affecting its performance (Akingunola et al., 2012). The prime lending rate also has significant effect on stock market prices much in the same way as interest rate. Agenor (2000), captures these views by stating that interest rate, high inflation rate, large fiscal deficits and real exchange rate over-valuation are often key symptoms of macro-economic instability which constraints private sector investment and savings and thereby results in efficient allocation of resources on the stock exchange and hence affect the capital market performance. The
Nigerian capital market role as a financial intermediary is therefore to provide a mechanism for mobilizing private and public savings and make such funds available to investors for productive purposes through the stock exchange.

3. Theoretical Underpinning

The theoretical underpinning for this study is therefore based on Harrod-Domar model, which emphasized the key role of investment in economic growth process. It describes the economic mechanism by which more investment leads to more growth. According to Harrod (1960) and Domar (1946), investment creates income (demand effects) and increases capital stock for expansion of productive base. The model explains a long-run steady state of capital – output and savings – investment flow equilibrium for economic growth. The model holds that national saving(s) mobilization and capital formation (1) in one period (t) is the source of output (y) in the next period ((t+1). i.e., capacity of the economy for increased productivity in future. Harrod-Domar model draw from the experience of Keynesian growth model, while the Keynesian growth model is a short-run analysis, the Harrod-Domar model is a long-run analysis. The demand for invisible financial resources from the capital market is a derived demand for the production of goods and services in the economy.

According to Levine (2004) cited in Kwame (2012), the financial system is capable of influencing savings rates, investment decisions, technological innovation, and subsequently long-run growth. Well – functioning stock markets allows private and public firms to raise capital by selling equity through an initial public offering (I.P.O) or a secondary offering respectively. The primary advantage of the stock market is to create liquidity. Liquid stock markets increases the incentive to invest and the efficient allocation of capital, improve corporate governance and reduce the principal agent problem, reduce the risk of investing, and diversify portfolio risk (Beck, 2013). Through stock ownership, liquid markets enhance corporate control by aligning the interest of managers and owners (Jensen and Murphey, 1990). Additionally, the value of an underperforming listed company can be appraised through the market value of its stocks in consideration of a takeover, and its acquisition through stock purchases. Levine (2004) suggested that liquidity, which is the ability to quickly sell off investments to raise cash, is a key factor in attracting investors.

Magnusson and Wydick (2002), contended that the stock market is expected to accelerate economic growth by providing a boost to domestic savings and increasing the quality and quantity of investment. Stock markets therefore are able to positively influence economic growth through encouraging savings amongst individuals and providing avenues for firm financing. Liquid stock markets could improve the allocation of capital and enhance prospect for long-term growth.

4. Review of Related Empirical Literature

Historical validation has provided empirical evidence on the impact of capital market on Economic growth of developing and advanced economies. Adam and Sanni (2005) examined the role of stock market on Nigeria economic growth using Granger causality test and regression analysis. They discovered a unidirectional causality between GDP growth and market capitalization and bidirectional causality between GDP growth and market turnover ratio.

Osei (2006) investigated both the long- run and the short- run relationships between the Ghana stock market and macroeconomic variables. The results of the short- run dynamic analysis revealed evidence of co-integration. This indicates that there are both short-run and long-run relationships between the macroeconomic variables and the stock market index in Ghana. In terms of Efficient Market Hypothesis (EMH), the study establishes that the Ghana stock market is inefficient in market information, particularly with respect to inflation, treasury bills and world gold price.

Alajekwu and Achugbu(2012) studied the role of stock market Development on Economic Growth in Nigeria using a 15 year time series data from 1994-2008. In their study, the stock market capitalization ratio
was used as a proxy for market size, while value traded ratio and turnover ratio were used as proxy for market liquidity. The results shows that market capitalization and value traded ratios have a very weak negative correlation with economic growth while turnover ratio has a very strong positive correlation with stock turnover ratio. This result implies that liquidity has the propensity to speed up economic growth in Nigeria and that market capitalization influences market liquidity.

N’zue (2006) investigated the relationship between the development of the Ivorian stock market and the country’s economic performance. His empirical results suggested that gross domestic product and stock market development were co-integrated when the control variables were included in the analysis. That is, there is a long-run relationship between these variables taken together. The result also indicated a unidirectional causality running from stock market development to economic growth.

Riman et al., (2008) examined the link between stock market performance and economic growth in Nigeria. The researchers used the Johansen’s Vector Error Correction Model (VECM) on a time series annual data from 1970 to 2004. The empirical results suggest that a long-run relationship does exist between stock market and economic growth as indicated by the significance of the Error correction model (ECM). The result further establishes a unidirectional causality that runs from stock market to economic growth.

Kolapo and Adaramola(2002) measured stock market liquidity by the total value of shares traded at the stock exchange as a share of the GDP, claimed a link between stock market liquidity and economic growth but succinctly asserted that this ratio varies with the relative ease of trading. A study by Ohiomu and Enabulu (2011) using ordinary least square regression (OLS) on data from 1989 to 2008 revealed a positive relationship such that an increase in value traded ratio led to 1.85 increases in growth rate of the GDP was found.

Ihendinihu and Onwuchekwa (2012) investigated the impact of stock market performance on economic growth in Nigeria using a time series data from 1984 to 2011. The study employed ordinary least square (OLS) Technique in analyzing the data. The results indicate that about 88% of the changes in economic growth could be explained by change in the stock market capitalization (MKTCAP), value of Transaction in the market (VALTRAN) and All share index (ALLSVI) are significant predictors. The long-run effect is shown to stand at 95% with MKTCAP and ALL SVI as having significant influences. The Error correct Model coefficient of -0.39 sequel 1.5 show speed in operators ability to adjust to shocks in stock market performance and in restoring investors’ confidence in such circumstances.

Ewah et al. (2006) examined the impact of capital market efficiency on economic growth in Nigeria, using time series data on market capitalization, money supply, interest rate, total market transaction and government development stock that ranges between 1961 to 2004. The result of the study shows that the capital market in Nigeria has the potentials of growth inducing, but it has not contributed meaningfully to the economic growth of Nigeria, due to low market capitalization, low absorptive capacity, illiquidity, misappropriation of funds among others. The empirical test indicates that the variables except total transactions and money were statistically significant. The capital market therefore remains one of the mainstreams in every economy that has the potential to influence economic growth and development.

5. Methodology

The study was designed to analyze and provide empirical evidence on the impact of capital market performance on economic growth in Nigeria. The secondary data were collected from the Central Bank of Nigeria statistical bulletin and Nigerian capital market statistical bulletin. The study employed the ordinary least square (OLS) estimation technique to assess the short run impact of the independent variables on the dependent variable (GDP) using annual time series data from 1986 to 2011, a period of 25 years.

The augmented Dickey fuller unit root test is used to test the stationarity of the data and Johansen’s co-integration test to ascertain the long-run effects among variables in the model. The Error correction model (ECM) was employed to correct possible problem of non-stationarity of data.
Model Specification

The model needed in this research work is based on Oke and Adeusi (2012) with some modifications. They investigated the impact of stock market performance on economic growth in Nigeria. Their model specified that gross domestic product (proxy for economic growth) is significantly influenced by the capital market indices (market capitalization, All share index, value of Transactions, Number of deals and inflation).

In this study the model is specifically stated as:

\[
\text{GDP} = F (\text{MCAP}, \text{VST}, \text{ASI}, \text{AVPLR}, \text{INFR}, \text{NS}) \tag{1}
\]

where,

\[
\text{GDP} = \text{Gross domestic Product (Proxy for economic growth)}
\]

\[
\text{MCAP} = \text{Market capitalization}
\]

\[
\text{VST} = \text{Value of shares traded}
\]

\[
\text{ASI} = \text{All share index}
\]

\[
\text{AVP.LR} = \text{Average Prime Lending Rate}
\]

\[
\text{INFR} = \text{Inflation Rate}
\]

\[
\text{NS} = \text{National Savings}
\]

The linear regression equation based on the above functional relationship is thus:

\[
\text{GDP} = a_0 + a_1 \text{MCAP} + a_2 \text{VST} + a_3 \text{ASI} + a_4 \text{AVPLR} + a_5 \text{INFR} + a_6 \text{NS} + \mu \tag{2}
\]

where,

\[
a_0 = \text{intercept of relationship in the model / constant.}
\]

\[
a_1 - a_6 = \text{coefficient of each of the independent variables.}
\]

\[
e = \text{stochastic Disturbance (Error term)}
\]

By long linearizing, the model becomes:

\[
\log(\text{GDP}) = a_0 + a_1 \log(\text{MCAP}) + a_2 \log(\text{VST}) + a_3 \log(\text{ASI}) + a_4 \log(\text{AVPLR}) + a_5 \log(\text{INFR}) + a_6 \log(\text{NS}) + e \tag{3}
\]

where:

\[
\log = \text{Natural log}
\]

from equation 3, the model can be specified in a time series form as:

\[
\log(\text{GDP})_t = a_0 + a_1 \log(\text{MCAP})_t + a_2 \log(\text{VST})_t + a_3 \log(\text{ASI})_t + a_4 \log(\text{AVPLR})_t + a_5 \log(\text{INFR})_t + a_6 \log(\text{NS})_t + e
\]

\[
\tag{4}
\]

A Prior Expectation: \[a_1, a_2, a_3, a_4, a_6 > 0 \text{ while } a_5 < 0.\]

6. Results and Discussion

Unit Root Test

Non-stationary data produces spurious regression, hence the result may be misleading. The Augmented Dickey-Fuller (ADF) unit root test is used to establish stationarity of data. Table 4.2 presents the results of Augmented Dickey-Fuller at levels and at first difference.
The unit root test at first difference shows that all the variables are stationary. Their respective ADF statistics are greater than Mackinnon critical value at 5%. National savings was not stationary at 5% but was stationary at 10%. The result also shows that the variables are co-integrated in the same order.

**Co-Integration**

Table 4.3 depicts the results of the co-integration status of the models employed in this study. Co-integration test is carried out to ascertain if a long-run equilibrium relationship exist among variables of the model. The trace statistic (likelihood ratio) must be greater than 5% critical ratio at one Hypothesized (none **).

<table>
<thead>
<tr>
<th>Eigen value</th>
<th>$\lambda_{trace}$</th>
<th>5% CV</th>
<th>1% CV</th>
<th>$\lambda_{max}$</th>
<th>5% CV</th>
<th>1% CU</th>
<th>Hypothesized No of CE’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.885631</td>
<td>143.37467</td>
<td>124.24</td>
<td>133.57</td>
<td>57.80174</td>
<td>45.28</td>
<td>51.57</td>
<td>None*</td>
</tr>
<tr>
<td>0.756235</td>
<td>106.53433</td>
<td>94.15</td>
<td>103.18</td>
<td>48.79415</td>
<td>39.37</td>
<td>45.10</td>
<td>At most 1*</td>
</tr>
<tr>
<td>0.550748</td>
<td>78.78325</td>
<td>68.52</td>
<td>76.07</td>
<td>39.66835</td>
<td>33.76</td>
<td>38.77</td>
<td>At most 2*</td>
</tr>
<tr>
<td>0.545297</td>
<td>55.20112</td>
<td>47.21</td>
<td>54.46</td>
<td>28.93143</td>
<td>27.07</td>
<td>32.24</td>
<td>At most 3*</td>
</tr>
<tr>
<td>0.376273</td>
<td>23.14314</td>
<td>29.68</td>
<td>35.65</td>
<td>18.34568</td>
<td>20.97</td>
<td>25.52</td>
<td>At most 4*</td>
</tr>
<tr>
<td>0.202397</td>
<td>8.30467</td>
<td>15.41</td>
<td>20.04</td>
<td>6.45307</td>
<td>14.07</td>
<td>18.63</td>
<td>At most 5*</td>
</tr>
<tr>
<td>0.0157450</td>
<td>0.89316</td>
<td>3.76</td>
<td>6.65</td>
<td>0.89316</td>
<td>3.76</td>
<td>6.65</td>
<td>At most 6*</td>
</tr>
</tbody>
</table>

Trace and max Eigen value tests indicates 4 co-integrating equation at the 0.05 level.

*denotes rejection of the null hypothesis at the 0.05 level. The first row of the trace test shows a statistic of 143.37467 which considerably exceed the critical value at 95 percent and so the null of no co-integrating vectors is rejected. This continues, until we do not reject the null hypothesis of at most four co-integrating vectors at 5% level. The maximum test confirms this result.

The co-integration equation for the model tested is specified below:

$$\text{GDP} = 10.41467 - 1.24\text{MCAP} + 1.15\text{VST} + 413.0\text{ASI}$$

$$(0.4306)$$

$$- 49414.40\text{AVPLR} - 2568.83\text{INFR} + 4613.99\text{NS}$$

$$(69024.95)$$

The standard error statistics are in parenthesis:
The co-integration equation shows that the constant parameter in the long-run is positive. This implied that if all the explanatory variables are held constant, GDP will increase by 10.41467 units. The result also shows that the coefficients of MCAP, AVPLR, INFR are negative (1.24); (49414.40), and (2568.83) respectively. This implied the existence of negative relationship in the long-run between these variables and GDP. The implication of this is that an increase in any of these variables leads to a decrease in GDP. This also implies that Nigeria stock market is inefficient in market information particularly with respect to inflation and lending rate. VST, ASI and NS has positive coefficient of 1.1887, 58.9505, and 4613.99 respectively. The positive coefficients imply that increase in these variables will lead to increase in GDP. Multiple correlation coefficient $R^2$ of 0.992675173 indicates a strong positive linear relationship between the independent variables and the dependent variable since the value is very close to 1, it indicates that about 98.54% of the variance in the dependent variable (GDP) can be explained by variations in the independent variables – MCAP, VST, ASI, AVPLR, INFR And NS.

From the $F$ – distribution table, the critical value obtained at $\alpha = 0.05$, d.f.N = 6, and d.f.D = 22 is 2.55. Since $F_{cal} = 180.0299$) is greater than the critical value (=2.55), and also since, the $P$ – value (0.000) is less than $\alpha$ (0.05), the null hypothesis is rejected. The result shows that there is a significant relationship between the dependent variable GDP and the six independent variables.

### Error Correction Model (ECM)

The existence of at least one co-integrating equation permits us to estimate over – parameterized and parsimonious error correction mechanism (ECM). The tests are shown in tables 4.4 and 4.5 below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std Error</th>
<th>T-Statistic</th>
<th>Pob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>D(GDP(-1), 2)</td>
<td>0.5457</td>
<td>0.52156</td>
<td>1.04628</td>
<td>0.0091</td>
</tr>
<tr>
<td>D(MCAP 2)</td>
<td>-0.7889</td>
<td>0.3360</td>
<td>-2.34792</td>
<td>0.0002</td>
</tr>
<tr>
<td>D(MCAP(-1), 2)</td>
<td>0.4368</td>
<td>0.2388</td>
<td>1.82945</td>
<td>0.0850</td>
</tr>
<tr>
<td>D(VST 2)</td>
<td>2.0112</td>
<td>0.2974</td>
<td>6.76261</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(VST(-1), 2)</td>
<td>1.0792</td>
<td>0.2558</td>
<td>4.2195</td>
<td>0.0006</td>
</tr>
<tr>
<td>D(ASI 2)</td>
<td>-1.5353</td>
<td>0.3365</td>
<td>-4.5624</td>
<td>0.0003</td>
</tr>
<tr>
<td>D(ASI (-1), 2)</td>
<td>0.4063</td>
<td>0.2342</td>
<td>1.7351</td>
<td>0.1008</td>
</tr>
<tr>
<td>D(AVPLR, 2)</td>
<td>-1.8333</td>
<td>0.3149</td>
<td>-5.8210</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(AVPLR(-1),2)</td>
<td>0.4629</td>
<td>0.1949</td>
<td>2.3755</td>
<td>0.0296</td>
</tr>
<tr>
<td>D(INFR 2)</td>
<td>-1.1194</td>
<td>0.2852</td>
<td>-3.9248</td>
<td>0.0011</td>
</tr>
<tr>
<td>D(INFR(-1), 2)</td>
<td>0.2197</td>
<td>0.2081</td>
<td>1.0559</td>
<td>0.3058</td>
</tr>
<tr>
<td>D(NS 2)</td>
<td>0.5938</td>
<td>0.2203</td>
<td>2.6948</td>
<td>0.0153</td>
</tr>
<tr>
<td>D(NS(-1),2)</td>
<td>1.2420</td>
<td>0.6131</td>
<td>2.0260</td>
<td>0.0588</td>
</tr>
<tr>
<td>ECM (-1)</td>
<td>-0.7816</td>
<td>0.4853</td>
<td>-1.6105</td>
<td>0.0215</td>
</tr>
<tr>
<td>C</td>
<td>10.4146</td>
<td>0.4254</td>
<td>24.4819</td>
<td>0.0423</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.88129</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADJUSTED $R^2$</td>
<td>0.866452</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-STATISTICS</td>
<td>59.39165 (0.000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DURBIN-WATSON</td>
<td>1.87778</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.E OF REGRESSION</td>
<td>964352.1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 4.5: Parsimonious error correction model (ECM)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Statistic</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>D(Gdp(-1), 2)</td>
<td>0.5534</td>
<td>0.8756</td>
<td>0.6320</td>
<td>0.0109</td>
</tr>
<tr>
<td>D(Mcap(-1), 2)</td>
<td>-0.8156</td>
<td>0.4306</td>
<td>-1.8941</td>
<td>0.3473</td>
</tr>
<tr>
<td>D(Vst, 2)</td>
<td>0.9248</td>
<td>0.4993</td>
<td>1.8510</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(Asi, 2)</td>
<td>0.7343</td>
<td>0.8879</td>
<td>0.8270</td>
<td>0.4844</td>
</tr>
<tr>
<td>D(Avplr, 2)</td>
<td>-0.5785</td>
<td>0.1834</td>
<td>-3.1543</td>
<td>0.8845</td>
</tr>
<tr>
<td>D(Infr, 2)</td>
<td>-0.8607</td>
<td>0.9302</td>
<td>-0.9253</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(Ns(-1),2)</td>
<td>0.9045</td>
<td>0.5677</td>
<td>1.5933</td>
<td>0.5461</td>
</tr>
<tr>
<td>Ecm (-1)</td>
<td>-0.7948</td>
<td>0.3108</td>
<td>-2.5573</td>
<td>0.0465</td>
</tr>
<tr>
<td>R²</td>
<td>0.985404</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.979930</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-Statistics</td>
<td>180.0299</td>
<td></td>
<td>(0.000)</td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson Statistic</td>
<td>2.090755</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.E Of Regression</td>
<td>1312716</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aic</td>
<td>29.25889</td>
<td></td>
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Using the error correction model, the long run equilibrium relationship between the stock market variables and economic growth is determined. Thus, the result obtained from the over – parameterized model shows some relationship between GDP and stock market variables. The speed of adjustment on the ECM term is significant at 1% and carries the expected negative sign. The coefficient (λ) shows that 79.48% of the adjustment to equilibrium condition occurs within the first period. This implies that the present value of GDP adjust rapidly to changes in MCAP, VST, ASI, AVPLR, INFR and NS.

VST, ASI and NS are positively and significantly related to GDP. The implication of this is that as the variable, increases, the GDP also increases in the short and long run. This is in line with our prior expectation as increase in savings will ultimately lead to increase in investment in the stock market which in turn will lead to increased productivity and economic growth.

Average prime lending rate (AVPLR) and inflation are negatively but also significantly related to GDP at 5%. This relationship explained the adverse effect of high cost of capital and inflation on loanable funds. Higher interest rate reduces economic activities through its negative effects on investment. On the other hand low cost of capital encourages investment especially in real assets. Similarly, high inflation in the economy increases the cost of investment and therefore adversely affects productivity and profitability.

Market capitalization (MCAP) exhibited significant but negative relationship with Gross domestic product both in short and in the long run. The Implication of this is that an increase in MCAP will lead to decrease in GDP. This is due to the fact that the capital market is under-developed with poor liquidity. It is also an indication that the funds mobilized in the stock market are invested in short-term instead of long-term projects thereby reducing its potential to stimulate economic growth.

7. Conclusion and Recommendations

This study examined the effect of stock market performance on economic growth in Nigeria during 1980-2012, using OLS regression analysis and error correction mechanism (ECM). This study therefore, concluded from the findings that stock market performance have significant influence on economic growth in Nigeria. The market capitalization indicated negative impact. The possible explanation to this is that long term funds are used to finance short-term investment, thereby resulting to increase in market capitalization within the study sample period with a corresponding increase in GDP but instead had a negative effect.
Based on the findings of the study, it is recommended that there should be a strong need for policy makers to focus on policy that will strengthen the structure of the stock market. This will assist in the development of the capital market and improve the liquidity of the stock market.

To ensure efficiency in the performance of the stock market, the need to monitor, supervise and probably control the activities of the stock market operators by the regulatory authorities through appropriate policy measures to manage funds mobilization and allocation to ensure that long term funds are employed in long term investment is imperative.

References


