PDF - The role of capital market on economic growth in Nigeria (1985 - 2014) - researchcub.infoThis paper seeks toexamine the impact of the Nigerian capital market on its economic growth fromthe period of 1990-2010. This means that the performance of the stock market isan impetus for economic growth and development. The economic growth was proxiedby Gross Domestic Product (GDP) while the capital market variables consideredinclude; Market Capitalization (MCAP), Total New Issues (TNI), Value ofTransactions (VLT), and Total Listed Equities and Government Stocks (LEGS).Applying Johansen co-integration and Granger causality tests, results show thatthe Nigerian capital market and economic growth are co-integrated. This impliesthat a long run relationship exists between capital market and economic growthin Nigeria. The causality test results suggest a bidirectional causationbetween the GDP and the value of transactions (VLT) and a unidirectionalcausality from Market capitalisation to the GDP and not vice versa. The Fstatistics is significant at 5 percent using a two-tailed test. On the otherhand, there is no “reverse causation” from GDP to market capitalization.Furthermore, there is independence “no causation” between the GDP and total newissues (TNI) as well as GDP and LEGS. This is a clear indication of therelative positive impact the capital market plays on the economic growth of thecountry. The evidence from this study reveals that the activities in thecapital market tend to impact positively on the economy. It is recommendedtherefore that the regulatory authority should initiate policies that wouldencourage more companies to access the market and also be more proactive intheir surveillance role in order to check sharp practices which underminemarket integrity and erode investors’ confidence.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The growth and development of the capitalmarket in Nigeria can be traced to 1946 with the floating of N600,000 (morethan 300,000 pounds sterling) worth of government stocks. However, an organizedmarket for the secondary trading of issued stocks was lacking. In 1959,following the establishment of the Central Bank of Nigeria (CBN) a yearearlier, a N4 million (2 million pounds sterling). Federal Government ofNigeria development loan stock was issued in line with its role of fosteringeconomic and financial development. In 1986, Nigeria embraced the InternationalMonetary Fund (IMF) Structural Adjustment Programme (SAP) which influenced theeconomic policies of the Nigerian government and led to reforms in the late1980s and early 1990s. The programme was proposed as an economic package torapidly and effectively transform the Nigeria economy within two years (Yesufu,1996). government to judiciously implement some of its policy measures (Oyefusiand Mogbolu, 2003).

However, until SAP wasabandoned in 1994, the objectives were not achieved due to the inability of Thenotable reforms include monetary and fiscal policies, sectoral reforms such asremoval of oil subsidy in 1988 to the tune of 80%, interest deregulation fromAugust 1987, financial market reform and public sector reform which entails thefull or partial privatization and commercialization of about 111 public ownedenterprises.

The Nigeria stockexchange was to play a key role during the offer for sale of the shares of theaffected enterprises (World Bank, 1994; Anyanwu et al, 1997; Oyefusi andMogbolu, 2003). The introduction of SAP in Nigeria has resulted in significantgrowth of the financial sector and the privatization exercise which exposedinvestors and companies to the significance of the stock market (Alile, 1996;Soyode, 1990).

Ariyo and Adelegan(2005) contend that the liberalization of capital market led to the growth ofthe Nigerian capital market, yet its impact at the macro-economic level wasnegligible. Again the capital market was instrumental to the initial twentyfive Banks that were able to meet the minimum capital requirement of N25billion during the banking ector consolidation in

2005. The stock market hashelped government and corporate entities to raise long term capital forfinancing new projects, and expanding and modernizing industrial/commercialconcerns (Nwankwo, 1991). We use econometric techniques the relationshipbetween capital market performance and economic growth. Given the roles thecapital market has played during the privatization of public owned enterprises,recent recapitalization of the banking sector and avenue of long term funds tovarious governments and companies in Nigeria, the objective of this studytherefore is to evaluate the level of development of the capital market and howit has impacted on her economic growth.

1.2 OBJECTIVES OF THE STUDY

The objectives of the studyare:

1. Toevaluate the performance of Nigerian capital market on the economic growth.
2. Toassess the roles of Nigerian capital market on the economic growth.
3. Todetermine the extent at which the capital market has impacted on the economicgrowth in Nigeria.
4. Toidentify the major constraints hindering the operations of Nigerian capitalmarket
5. Tomake suggestions on how the performance of Nigerian capital market on theeconomic gowth.

1.3 STATEMENT OF THE PROBLEMS

Nigeria is a country withincreasing labour force. She lacks capital as well as foreign investment intothe country as a result of political instability and other reasons. Therefore,a proper and efficient way of utilizing her scarce other resources must befound in order to reduce unemployment and increase economic growth. it must be noted that unemployment is not onlyan economic problem but also a social problem. This means, it does not onlyunder growth, it also gives room for social problems such as robbery, arson,suicide etc.

The key problem facing mostsmall-scale enterprises is lack of finance whether for the establishment of newindustries or to carry out expansion plans. The inability to attract financialcredit or resources has hindered or stifled the growth of small scaleenterprises. The reasons for the lack of fund include the following:

- High rate of inflation that led to the vast depreciation of the naira exchangerate, thus making it difficult for most small and medium enterprises to obtainthe required input for expansion
- Low level of savings in the economy, which leads to low capital formation
- High rate of interest charged on loan, which scares off potential small andmedium scale entrepreneurs

The unwillingness of retailbanks to grant credit to small and medium scale enterprise because of the lowcreditworthiness of these enterprises has also hampered their growth over theyears.

1.4 RESEARCH QUESTIONS

i. Do Nigerian capital market play any role in economicdevelopment?
ii. Do Nigerian capital market contribute to financialgrowth?
ii. what are the major constraints hindering the activitiesof capital market in Nigeria.?

1.5 STATEMENT OF HYPOTHESES

In order to achieve the abovestated objects, the following hypotheses shall be tested:

HYPOTHESIS ONE

Ho: Nigerian capital marketsdo not play significant roles in economic development.

H1: Nigerian capital marketsplay significant roles in economic development.

HYPOTHESIS TWO

Ho: NigerianCapital Market do not play significant roles in financial growth.

H1: Nigerian CapitalMarket play significant roles in financial growth.

1.6 METHODOLOGY OF THE STUDY

The study will base its datacollection on both the primary and secondary sources. The secondary sourceshall include, textbooks, journal, speeches delivered in various seminars,information from Federal Offices of Statistics, CBN Annual Report etc. Theprimary source is through the use of questionnaire, which will be used toobtain information from the respondents that from the sample of the study. Dataobtained through the questionnaires shall be presented through the use ofsimple frequency distribution table. The data shall be analyzed through the useof chi-square distribution, which is the statistical method use to test for thedifference of two independent statistics.

1.7 SIGNIFICANCE OF STUDY

This paper focuses on the issues ofcapital market and how it has impacted on the Nigerian economy. Olawoye (2011)noted that the capital market is an essential agent of economic growth becauseof its ability to facilitate and mobilize savings and investment. The abilityto mobilize and invest lies in the nation's strength in effective resourcemobilization which enables internal wealth generation and domestic savings aswell as inflows of foreign capital. Thus, the consideration of the capitalmarket as the institution for financial management from surplus sectors of theeconomy to the sectors that are seeking to be financed.

1.8 SCOPES AND LIMITATION

This research is aimedat establishing that Capital Market actually impacts on the general economy ofa nation using Nigeria as a case study. We are aware that the economy of a nation to what extent itsproduction, utilization and exportation of goods and services affect thenational income and the standard of living of its people. Good and strongeconomies require strong domestic infrastructure with a good foreignrelationship (Smathers 2014). Strong domestic infrastructures are capitalintensive projects including industries and corporate entities that require goodcapital financing to be able to survive. The research question is that to whatextent can the Nigerian Capital Market impact on the economy of Nigeria? .Theobjective of the study are to examine the impact of the capital market on theeconomy of Nigeria, that is to evaluate the effect of Market Capitalization onthe Inflation rate, Gross Domestic Product (GDP), Total number of New Issues,Transaction Value, Total listing and Foreign Direct Investment (FDI.

1.9 ORGANIZATION OF WORK

The study will be divided intofive main chapters. Chapter one will cover the general introduction into thestudy under which introduction, statement of problems, objectives of the study,statement of the study are discussed. Chapter two will focus on literaturereview, which has to do with a general presentation of views by formerresearchers as well as scholars on the main variables of the study. Chapterthree will contain the structural composition of the study under which thesources of the finance of small scale enterprises are discussed. Chapter fourwill be devoted to data presentation and analysis and chapter 5 will be usedfor summary, conclusion and recommendations.

1.10 DEFINITION OF TERMS

Capital Market: A capitalmarket is afinancial market in whichlong-term debt (over a year) or equitybacked securities are bought and sold. Capital markets channel the wealth of savers to those who can put it tolong-term productive use, such as companies or governments making long-terminvestments.

GDP: Gross Domestic Product (GDP) is the totalmonetary or market value of all the finished goods and services produced withina country''s borders in a specific time period.

ForeignDirect Investment: A foreign direct investment (FDI) is an investment in the formof a controlling ownership in a business in one country by an entity based inanother country. It is thus distinguished from a foreign portfolio investment by a notionof direct control.

Inflationrate: The common measure of inflation is the inflation rate, the annualized percentage change in a general price index,usually the consumer price index, over time. Economists generally believe thatvery high rates of inflation and hyperinflation are caused by an excessive growth ofthe money supply.

Totalnew issues: The market that deals with these *new issues* is called theprimary market, as opposed to the secondary market that deals with existingshares and bonds.*New issues* aredistributed through the primary market, which is a market where companies raiselong term equity capital.

Valueof Transaction: Transaction Value means theaggregate cash and non-cash consideration in connection with the consummationof a Sale Transaction that is paid,payable, distributed, or otherwise available for distribution, to holders ofCompany Shares.

Totallisting: In corporate finance, a listing refers to the company''s shares being on the list (or board) of stock that are officially traded on astock exchange. Some stock exchanges allow shares of a foreign company to be listed and may allow dual listing, subject toconditions.