Capital Market Performance And Economic Growth In Nigeria

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ABSTRACT
This study investigated the impact of the capital market on economic growth in Nigeria between 1980 and 2016. Data were collected from CBN statistical bulletin 2016 edition. Real Gross domestic Product (RGDP) was proxy for economic growth and dependent variable while Market Capitalization (MCAP), Volume of Shares Traded (VST), Government Expenditure on Health (GCEH) and Government Capital Expenditure on Education (GCEE) were proxies of capital market performance and independent variable. The data were tested for unit root using the Augmented Dickey-Fuller technique, the results showed all the variables were stationary at first difference. The Johansen Co-integration test showed the existence of long-run relationship among the variables. Our findings revealed that Market Capitalization (MCAP) impacts positively on Nigeria’s economic growth in the long-run but showed no significant impact in the short-run, Volume of Shares Traded (VST) had positive and significant impact on the economy in the short-run but inversely impacted on the economy in the long-run. Government Capital Expenditure on Health (GCEH) showed positive and significant effect on economic growth in the long-run but not significant in the short-run, while Government Capital Expenditure on Education had negative and statistically significant impact on economic growth both in the short-run and in the long-run in Nigeria. On the overall, with a low ECM (-1) of 20% speed of convergence to equilibrium in the long run we conclude that capital market has the potentials to contributing to economic growth in Nigeria. Thus, the study recommends among others that the Securities and Exchange Commission (SEC) should evaluate and operationalize the ease of doing business act to identify and resolve bottlenecks in share floatation, low dividends resulting to declining public confidence, fall in market capitalization and fluctuations in foreign portfolio investments in the stock exchange market with a view to stimulating long run effect of the market on real growth of the Nigerian economy.

Keywords: Capital Market Performance, Economic Growth, Ordinary Least Square

INTRODUCTION
The establishment of the Nigeria stock exchange as the Lagos stock exchange in 1960 served as a boost to the Nigerian capital market and the overall growth of the Nigerian economy. The capital market has been identified as an institution that contributes meaningfully to the socio-economic growth and development of emerging and developed countries. The creation of liquidity has remained the major channel through which the stock market affects economic activities. It is noteworthy that many profitable enterprises require long-term capital, but investors are often reluctant to relinquish control of their savings for long periods. Therefore, the stock exchange market as a veritable avenue for investors and businesses to achieve their goals has not been without impediments over the years. The market enables government and industry to raise long term capital for funding new projects, expand and modernize industrial concerns. Apart from liquidity creation function, the stock market helps in risk diversification which enables it to stimulate economic growth through the process of international integration. By facilitating risk
diversification, the stock market encourages a shift to high-return projects (Obsfield, 1994). It is important to note that the direct and indirect activities of the stock exchange market help stimulate economic growth. The Nigerian stock exchange needs to play a pivotal role as an enabler for transforming the Nigerian economy, by becoming the first point of call for domestic savings and foreign investors (Oteh, 2010). The inadequacy of long-term fund has posed the greatest challenge to economic growth and development in most African states including Nigeria. According to Ojo (1998) investment in securities has remained a viable medium of transforming savings into economic growth and development and a notable feature of economic development in Nigeria since independence has been contributed to the expansion of the stock market which facilitates trading in shares and stock. It follows that a nation requires much domestic and international investment to attain sustainable economic growth and development. Hence, the capital market provides the required avenue through which this can be achieved. Undoubtedly, the Nigerian capital market should serve as a veritable channel for providing mechanisms for the mobilization of long-term private and public savings as well as channeling such funds for investment purposes. Policy and financial analysts have viewed the Nigerian capital market as being shallow due to the very small size of the market measured by the ratio of securities on the market to the total listed securities outstanding. Over time the market has failed to provide a spectrum of investment alternatives, new trading instrument with which investors can hedge their risk and a more transparent environment. These pervasiveness have constrained the market’s ability to efficiently allocate the required resources to the productive sectors to stimulate economic growth and development. In the light of the above, this study shall appraise the effectiveness of capital market operations in enhancing the growth of the Nigerian economy. In recent times there has been a growing concern on the role of capital market in economic growth and thus the capital market has been the focus of economic policies and policy makers because of the perceived benefits it provides for the economy. The capital market provides the fulcrum for stock market activities and it is often cited as a barometer of business direction. An active capital market may be relied upon to measure changes in the general level of economic activities (Obadan, 1998). Deducing from the extensive studies on the theoretical expectations on the role of capital markets on economic growth which have formed the core of normative economics, the capital market is expected to contribute to economic growth through the transmission mechanisms of savings mobilization, creation of liquidity, risk diversification, improved dissemination and acquisition of information, provision of long-term, non-debt financial capital which enables companies to avoid over-reliance on debt financing, and enhanced incentive for corporate control amongst others. However, an x-ray on the path of “positive economics” which is concerned with “what is” rather than “what should be” reveals that the argument in the literature on the growth effects of capital market has not been adequately resolved. The inconclusive nature of these theoretical and empirical studies provides the basis for a further empirical investigation on the role of capital market in economic growth. Hence, this study was needed. The main objective of this study is to investigate the impact of the capital market on economic growth in Nigeria. Thus, the paper is guided by the following research hypotheses: (i) Market capitalization has no significant impact on economic growth in Nigeria and (ii) The volume of shares traded has no significant impact on economic growth in Nigeria. The study covers the period between 1980 and 2016. This time period is chosen to allow for a brief evaluation of the pre-structural adjustment programme era and the structural adjustment programme effect on the capital market in Nigeria. Also, the time period chosen for this study is considered large enough to allow for the normality of the time series data required for the ordinary least square technique of analysis. Thus, the structure of the paper is as follows. After the introduction part, section 2 provides a brief review of the literature on capital market performance and economic growth in Nigeria. Estimation strategy and model specification are describe in section 3. Section 4 discussed the empirical results in the study and section 5 and 6 is the policy implication and recommendation and conclusions.
Brief Review of Relevant Literature

There have been the growing concerns and controversies on the role of the Stock markets on economic growth and development (Oyejide 1994; Levine and Zervos 1996; Demirgue-Kunt and Levine 1996; Nyong 1999; Obadan 1998; Sule and Momoh 2009; Ewah, Esang and Bassey 2009). There have been mixed results; while some are in support of a positive link, some negative link and others do not find any empirical evidence to support such conclusion. Oteh (2010) found in a cross-country study of stock market development and economic growth of 40 countries from 1980 to 1988 that there was a significant correlation between the average economic growth and stock market capitalization. Levine and Zervos (1996) examined whether there was a strong empirical relationship between stock market development and long-run economic growth. They found a strong correlation between overall stock market development and long-run economic growth. Demirgue-Kunt and Levine (1996) using data from 44 countries for the period 1986 to 1993 found that different measures of stock exchange size are strongly correlated to other indicators of activity levels 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, Demirgue-Kunt and Vlaksimovic (1998) have shown and re-emphasized the complementary role of the stock market and banks that they were not rivals or alternative institutions using 30 countries from 1980 to, 1991. Levine and Zervos (1998) used pooled cross-country time series regression of 47 countries from 1976 to 1993 to evaluate whether stock market liquidity is related to growth, capital accumulation and productivity. They toed the line of 'Demirgue-Kunt and Levine (1996) by conglomerating measures such as stock market size, liquidity and integration with world market, into index of stock market development. The rate of Gross Domestic Product (GDP) per capita was regressed on a variety of variables designed to control for initial conditions, 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 does not seems to correlate to economic growth. Nyong (1997) developed an aggregate index of capital market development and used it to determine its relationship with long-run economic growth in Nigeria. The study employed a time series data from 1970 to 1994. Four measures of capital market development- ratio of market capitalization to GDP, ratio of total value of transactions on the main stock exchange to GDP, the value of equities transactions relative to GDP and listing were used. The four measures were combined into one overall composite index of capital market development using principal component analysis. The financial market depth was included as control. It was found that the capital market development is negatively and significantly correlated with the long run growth in Nigeria. Demirgue, Kunt and Maksimovic (1998) as cited in Henry (2000) found a relationship between economic growth and the stock market activity in the field of transmissions of security (secondary market) more than in funds channeling (primary market).

Levine and Zervos (1996) applied regression analysis to the data compiled from 41 countries for the years 1976 through 1993 to see the relationships between financial deepening and economic growth. One of the financial deepening indicators used in the analysis was the level of the development of stock exchange measured by a composite index combining volume, liquidity and diversification indicators. Economic growth indicator selected, on the other hand, was the real growth rate in per capita GDP. Their findings report a very strong positive correlation between stock market development and economic growth. The most interesting aspect of this study was the decrease in the statistical significance of other financial deepening variables after stock market development index was included in the regression equation. According to the authors this was a proof that stock market development was more influential than other financial deepening indicators on the growth of the economy. Ndikunama (2000) demonstrated that a rising stock price raises the wealth of the economy by encouraging increase in investment. Ewan et al (2009) appraise the impact of the capital market efficiency on the economic growth of Nigeria using time series data from 1961 to 2004. They found that the capital market in Nigeria has the potential of growth inducing but it has not contributed meaningful to the economic growth of Nigeria because of market
capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others. Harris (1997) did not find hard evidence that stock market activity affects the level of economic growth. Adjasi and Biekpe (2006) study the effect of stock market development on economic growth in 14 countries in a dynamic panel data modeling setting. The results indicate a positive relationship between stock market development and economic growth. Further investigations, based on the level of economic development and stock market capitalization reveal that the positive influence of stock market development on economic growth is significant for countries classified as upper middle Income economies. The general trend in results shows that low Income African countries and less developed stock markets need to grow more and develop their markets to achieve economic gains from stock markets. According to Xu (2000), the relationship between the development of the Ivorian stock market and the country's economic performance is positive. The result also reveal that gross domestic product and stock market development are cointegrated when the control variables are included in the analysis. Moreover, there is a unidirectional causality running from stock market development to economic growth. In principle a well-developed stock market should increase savings and efficiently allocate capital to productive investments, which leads to an increase in the rate of economic growth. Stock markets contribute to the mobilization of domestic savings by enhancing the set of financial instruments available to savers to diversify their portfolios. Hence, they provide an important source of investment capital at relatively low cost (Dailami and Akin, 1990). From a monetary growth perspective, a well-developed stock market provides a means for the exercise of monetary policy through the issue and repurchase of government securities in a liquid market. Also, well-developed and active stock markets alter the pattern of demand for money, and booming stock markets create liquidity and, hence, spur economic growth. Garcia and Liu (1999) examined the macroeconomic determinants of stock market development in a sample of Latin American and Asian countries. The results show that GDP growth, domestic investment, and financial intermediary sector development are important factors. Ndaku (2007) finds that a percentage point increase in financial intermediary sector development tends to increase stock market development In Africa by 0.6 point controlling for macroeconomic stability, economic development, and the quality of legal and political institutions.

Mordi (2008) investigates the relationship between stock market growth and economic growth, financial liberalization, and foreign portfolio investment in 40 emerging markets between 1980 and 2000. The result shows that economic growth, financial liberalization policies, and foreign portfolio investments were the leading factors of the emerging stock markets growth. Levine (1991) and Benchivenga, et al. (1996) emphasize the positive role of liquidity provided by stock exchanges on the size of new real asset investments through common stock financing. Investors are more easily persuaded to invest in common stocks, when there is little doubt on their marketability in stock exchanges. This, in turn, motivates corporations to go to the public when they need more finance to invest in capital goods. Although some contrary opinions do exist regarding the impact of liquidity on the volume of savings, arguing that the desire for a higher level of liquidity works against propensity to save (Benchivenga and Smith, 1991, Japelli and Pagano, 1994), such arguments are not well supported by empirical evidence. The second important contribution of stock exchanges to economic growth is through global risk diversification opportunities they offer. Saint-Paul (1992), Deveraux and Smith (1994) and Obstfeld (1994) argue quite plausibly that opportunities for risk reduction through global diversification make high-risk-high return domestic and international projects viable and, consequently, allocate savings between investment opportunities more efficiently. Deveraux and Smith (1994) note that whether global diversification will reduce the rate of domestic savings seems to be a weak argument as it is not very obvious. Capasso (2006) using a sample of 24 advanced OECD and some emerging economies investigates the linkage between stock market development and economic growth covering the period 19882002. The finding shows a strong and positive correlation between stock market development and economic growth and later concludes that stock markets tend to emerge and develop only when economies reach a reasonable size and with high level of capital accumulation.
Carporale, et al. (2005) based on the endogenous growth model study the linkage between stock market, investment and economic growth using vector autoregression (VAR) framework. It uses quarterly data covering the period 1971q1 - 1998q4 for four countries: Chile, South Korea, Malaysia and Philippines. The stock market variables are measured through the ratio of market capitalization to GDP and ratio of value-traded to GDP. The overall findings indicate that the causality between stock market components, investment and economic growth is significant and in line with endogenous growth model. It shows also that the level of investment is the channel through which stock markets enhance economic growth in the long-run.

Osinubi and Amaghionyeodiwe (2003) examine the relationship between Nigeria stock market and economic growth during the period 1980 to 2000, using Ordinary least square regression. The results show that there is a positive relationship between the stock market development and economic growth. They therefore suggested that government should pursue policies that are geared toward rapid development of the stock market. Adam (2009), examines whether stock market development raises economic growth in Nigeria, by employing the Error Correction Approach. The econometric results indicate that stock market development raises economic growth. He however encouraged SEC to facilitate the growth of the market, restore the confidence of stock market participants and safeguard the interest of shareholders by checking sharp practices of market operators. Momoh (2009), appraise the impact of the capital market efficiency on economic growth of Nigeria using time series data from 1963 to 2004. They found that the capital market in Nigeria has potential of growth-inducing, but it has not contributed meaningfully because of low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others. Ariyo and Adelegan (2005) investigate the role of the Nigeria stock market in the light of economic growth. He reported a significant positive effect of stock market on economic growth. Moreover, Agarwal (2001) argues that financial sector development facilitates capital market development, and in turn raises real growth of the economy. Similarly, kolapo and Adaromola (2012) found that Nigerian capital market development has significant relationship with economic growth, just as Abdullahi (2005) agrees that capital market development in Nigeria is an engine to her economic growth. It should be noted, that most of these studies emphasize the importance of stock market in the economic growth process, they do not simultaneously examine the banking sector as a critical factor when considering the effect of stock market and economic growth in a unified framework. In more recent times, in Nigeria more robust studies have emerged investigating the relationship between the financial market and the economy. Karimo and Ogbonna (2017) for instance examined the direction of causality between financial deepening and economic growth in Nigeria for the period 1970–2013. The study adopted the Toda–Yamamoto augmented Granger causality test and results showed that the growth-financial deepening nexus in Nigeria follows the supply leading hypothesis. This means that it is financial deepening that leads to growth and not growth leading financial deepening. Ogunleye and Adeyemi (2015) studied the impact of stock market development on economic growth between 1970 and 2008. Cointegration Analysis and Error Correlation Mechanism were adopted as the estimating techniques to verify the existence of longrun relationship between stock market development and economic growth. Questionnaires were administered to assess the investor’s confidence in the Nigerian stock exchange and to authenticate the impact of stock market development on economic growth in the period under review. The empirical results revealed that there is existence of long-run relationship between stock market development and economic growth in Nigeria. The findings also showed that there is positive relationship between market capitalization and money supply with economic growth while total value traded, turnover ratio and gross capital formation have inverse relationship with the growth. Market capitalization was highly significant and appeared to be the major stock market indicator. Aigboro and Izekor (2015) reinvestigated the finance-growth nexus employing time series econometric techniques (unit root test, co-integration, error correction mechanism and granger causality) over the period of 1980-2011 for Nigeria. Economic growth was proxy by Real Gross Domestic Product (RGDP) while stock market development measures considered include; Market Capitalization (MCAP), Turn Over Ratio (TR), Total Value of Share Traded (VLT), and All Share Index (ASI). The study reveals that turnover ratio (TR) positively and
significantly influences economic growth both in the short-run and long-run while total value of share traded (VLT) and all share index (ASI) were significant in the short-run. Also, all share indexes was observed to have a negative slope coefficient while value of share traded has a positive slope coefficient. Market capitalization positively and significantly influences economic growth in the long-run. The Granger causality test showed that economic growth promotes stock market development, but there is evidence of causality running from stock market development to economic growth. Osakwe and Ananwude (2017) in their study empirically explored the short run and long run relationship between stock market development and economic growth by comparing two leading emerging economies in Africa: Nigeria and South Africa from 1981 to 2015. Growth rate of gross domestic product was used to measure economic growth, while stock market development was surrogated by market capitalization ratio to gross domestic product and stock value traded ratio. The ARDL co-integration divulged equilibrium long run relationship between stock market development and economic growth in Nigeria but not for South Africa. In both short and long run, there was a positive but insignificant relationship between stock market development and economic growth in Nigeria and South Africa. The granger causality analysis deduced that economic growth of South Africa is significantly affected by market capitalization but not so in Nigeria. The variation in economic growth owing to fluctuation in stock market development indices were observed to be insignificant for both Nigeria and South Africa. The study concluded that stock market development is relevant to economic growth as postulated in theoretical literature. Okere and Ndubuisi (2017) in their study investigated the relationship between crude oil price and stock market development and economic growth in one of the OPEC countries with emphasis on Nigeria over the period 1981 to 2014, using the latest methodology autoregressive distributed lag approach (ARDL) to cointegration analysis. Three indicator of stock market development were constructed using principal component analysis. They revealed the dominant role of crude oil price as one of the engine for economic growth in Nigeria. Using inflation and trade openness as a moderator on economic activities in Nigeria, this study found that stock market is insignificant in driving economic growth in Nigeria indicating poor financial sector performance. In general, the results highlight the dominant role of crude oil price and posits the weakness of the stock market in stimulating economic growth through resource mobilization and allocation in Nigeria. Ebun et al., (2018) examined the impact of the Nigerian Stock market development on the nation’s economic growth from 1985 to 2014. The economic growth was proxy by the GDP while the stock market variables considered included: market capitalization and market turnover ratio as proxy for stock market development in terms of size and liquidity. The study utilizes the Johansson’s co integration test in establishing if a long run relationship does exist between stock market development and economic growth in Nigeria. The empirical results suggest that the stock market is significant in determining economic growth in Nigeria using the error correction model and it was found that the stock market has impacted insignificantly on economic growth. Obubu et al., (2016) evaluated the contribution of Nigerian Stock Market on Economic Growth. In order to achieve this, regression analysis and ordinary least square technique was employed. The result indicates a positive relationship between economic growth, all share index and market capitalization with a 99.1% R-square value and a 99% adjusted R-squared value implying that economic growth in Nigeria is adequately explained by the developed model.

**Estimation Strategy and Methodology**

In other to achieve the objective of the study, a multiple regression model of ordinary least squares (OLS) is used with Real Gross Domestic Product (RGDP) as the dependent variable and proxy for economic growth while Market Capitalization (MCAP), total volume of shares traded (TVST), government expenditure on health (GCEH) and government capital expenditure on education (GCEE) as proxies of capital market performance and independent variable were employed. The model is specified in the functional form below as:

\[
RGDP = F(MCAP, TVST, GCEH, GCEE) \]

Expressing equation (3.1) in explicit linear econometric model below gives:
RGDP = β0 + β1MCAP + β2TVST + β3GCEH + β4GCEE + μ……………………..(3.2)

Theoretically, from equation 3.2 the expectation is that increase in market capitalization and total value of shares traded leads to increase in economic growth. Also, increase in government capital expenditures on health and education is expected to increase labour productivity required in the industrial sector which eventually would be the recipient of effective and efficient labour. Hence, the expected sign and sizes of their coefficient are as follows: β1 >0, β2 >0, β3 >0, and β4 >0. The data for this paper consists of annual time series from 1981 – 2016, obtained from the Central Bank of Nigeria (2016) Statistical Bulletin.

**Empirical Results**

<table>
<thead>
<tr>
<th>Table 4.1 Descriptive Statistics</th>
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<tbody>
<tr>
<td>RGDP</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Std.Dev</td>
</tr>
<tr>
<td>Probability</td>
</tr>
<tr>
<td>Observations</td>
</tr>
</tbody>
</table>

Source: Author’s Computation using E-view 9

From table 4.1 above Nigeria’s Real Gross Domestic Product (RGDP) averaged ₦32,839.10 billion, the maximum RGDP was ₦69,023.93 billion, minimum RGDP was ₦14,953.91 billion in 36 years (1981 – 2016). Market capitalization (MCAP) averaged ₦4331.683 billion, had a maximum of ₦19,077.40 billion and a minimum of ₦6.60000 billion within the said period of time. Volume of shares traded (VST) had an average of 265,914.9 billion, the maximum VST was 912,096.3 billion while the minimum VST for the period under study was 1,407.400 billion. Government Capital Expenditure on Health within the period under study averaged ₦11,264.63 billion, the maximum expenditure was ₦26,432.60 billion, while the minimum expenditure on health was ₦56.2000 billion. Government Capital Expenditure on Education averaged ₦15,480.23, the maximum was ₦39,090.60 and the minimum was ₦180.7000 billion within 1981 and 2016. The probabilities showed that only MCAP was significant at 5% among all the variables.

Table 4.2 shows that at 5% level of significance the variables were all integrated at first difference I(1). Theoretically, a variable is said to be stationary if the test statistics in absolute terms is greater than the critical value. The next test in order to establish whether the non-stationary variable could be co-integrated after identifying the order of integration is co-integration test. The co-integration of two time series data suggests that there exist a long-run relationship between them. The Johansen co-integration test was employed to examine the relationship among the variables. The results obtained showed the existence of a long run relationship as it indicates one co-integrating equation at 5% significance level (see table 4.3) below.
Table 4.3: Johansson Co-integration Test Result  Date: 04/27/18   Time: 08:00   Sample (adjusted): 1991-2015   Included observations: 21 after adjustments   Trend assumption: Linear deterministic trend

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.116053 0.010216</td>
<td>11.35941</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(GCEH)</td>
<td>0.082080 0.012575</td>
<td>6.527125</td>
<td>0.0001</td>
</tr>
<tr>
<td>D(GCEH(-1))</td>
<td>0.039274 0.012164</td>
<td>3.228629</td>
<td>0.0103</td>
</tr>
<tr>
<td>D(GCEH(-3))</td>
<td>-0.017140 0.008781</td>
<td>-1.952051</td>
<td>0.0827</td>
</tr>
<tr>
<td>D(GCEE)</td>
<td>-0.084466 0.012405</td>
<td>-6.809164</td>
<td>0.0001</td>
</tr>
<tr>
<td>D(GCEE(-1))</td>
<td>-0.133848 0.017124</td>
<td>-7.816221</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(GCEE(-2))</td>
<td>-0.035259 0.009575</td>
<td>-3.682304</td>
<td>0.0051</td>
</tr>
<tr>
<td>D(MCAP)</td>
<td>0.099764 0.018298</td>
<td>5.452336</td>
<td>0.0004</td>
</tr>
<tr>
<td>D(MCAP(-2))</td>
<td>-0.048324 0.024180</td>
<td>-1.998531</td>
<td>0.0767</td>
</tr>
<tr>
<td>D(MCAP(-3))</td>
<td>-0.103821 0.022425</td>
<td>-4.629642</td>
<td>0.0012</td>
</tr>
<tr>
<td>D(VST)</td>
<td>-0.075511 0.018967</td>
<td>-3.981132</td>
<td>0.0032</td>
</tr>
<tr>
<td>D(VST(-1))</td>
<td>-0.041392 0.017584</td>
<td>-2.353998</td>
<td>0.0430</td>
</tr>
<tr>
<td>D(VST(-2))</td>
<td>0.053466 0.021436</td>
<td>2.494243</td>
<td>0.0342</td>
</tr>
<tr>
<td>ECM(-1)</td>
<td>-0.200801 0.048074</td>
<td>-4.176916</td>
<td>0.0024</td>
</tr>
</tbody>
</table>

R-squared   0.923974   Mean dependent var 0.051488
Adjusted R-squared 0.814159   S.D. dependent var 0.036327
S.E. of regression 0.015661   Akaike info criterion 5.196227
Sum squared resid 0.002207   Schwarz criterion -4.505057
Log likelihood 73.75661    Hannan-Quinn criter. -5.022400
F-statistic 8.413920     Durbin-Watson stat 2.124561
Prob(F-statistic) 0.001561

Source: Author’s computation

Though the variables included in a model may be cointegrated, there may exist short-run disequilibrium between the response variable and the explanatory variables. Thus, the error correction mechanism allows for the correction of any short-run disequilibrium in a dynamic model like ours. Accordingly, an over-parameterized model that lags the variables for subsequent elimination of the insignificant variables is experimented to derive a Parsimonious error correction model. Thus the result of the Parsimonious Error Correction Model is shown in table 4.4.
The estimated parsimonious ECM result reported in table 4.4 above shows the short-run dynamic explanatory variables. The current value of Government Capital Expenditure on Health (GCEH) and the lagged value of GCEH (-1) were positive and significant to RGDP. Whereas, GCEH (-3) was negative and statistically insignificant to RGDP. The implication here is that GCEH in Nigeria tends to be beneficial to the growth of the economy in the long run as indicated by the current level of GCEH being positive and statistically significant to RGDP with the reverse outcome in the short run as indicated by GCEH (-3). Government Capital Expenditure on Education (GCEE) was negatively signed and statistically significant to RGDP both in the current period and lagged values of GCEE (-1) and GCEE (-2). This implies that increase in Government Capital Expenditure on Education (GCEE) decreases RGDP both in the short run and long run as indicated by the lagged values of GCEE (-1) and (-2) as well as current value of GCEE and they were all significant in explaining this behavior as indicated by their respective probability values of less than 0.0500. Current value of Market Capitalization (MCAP) was positively signed and statistically significant, implying that increase in MCAP leads to increase in MCAP in the long run. However, the dynamic behavior of MCAP showed that in the short run the variable is inversely related to RGDP as indicated by MCAP (-2) and MCAP (-3) but while MCAP (-3) was significant, MCAP (-2) was statistically insignificant. Current value of the Volume of Shares Traded (VST) was negatively signed and statistically significant to RGDP implying that VST is inversely related to RGDP in the long run. The lagged values of VST however revealed a mixed outcome as VST (-1) was negatively signed but statistically significant to RGDP while VST (-2) was positively signed and statistically significant to RGDP. This implies that while increase in VST leads to increase RGDP in the short run, the reverse is the case in the long run. However, the ECM coefficient was found to possess the expected sign and significant at 5% with approximately 20% speed of convergence to equilibrium in the long run. This is indicative that short run disequilibrium in the model is reconciled overtime. Evidence of the significance of the entire model is provided by the F-statistic while the coefficient of determination (R²) shows that the model was well fitted with the explanatory variables jointly explaining 92% variations in RGDP. Besides, the residual term is not serially correlated given that the computed Durbin-Watson statistic is more than the upper critical value. It therefore follows that the model is free from autocorrelation thereby making our model appropriate for policy prediction.

POLICY RECOMMENDATIONS
Following the findings of this research, the following recommendations are preferred: (i) The Securities and Exchange Commission (SEC) should evaluate and operationalize the ease of doing business act to identify and resolve bottlenecks in share floatation, low dividends resulting to declining public confidence, fall in market capitalization and fluctuations in foreign portfolio investments in the stock exchange market with a view to stimulating long run effect of the market on real growth of the Nigerian economy. (ii) Government should strengthen the ongoing import substitution strategy by ensuring that the ban on certain consumable and manufactured commodities that are locally produced is sustained so as to encourage domestic firms to grow and expand to go public. That is, to source more funds for expansion through the capital market thereby helping the market to fulfill its role of financial intermediation and capital formation. (iii) The government should reappraise her investments in human capital development especially the reappraisal of the educational curriculum to place more emphasis on technical and
entrepreneurial education designed to enhance labour productivity thereby creating a pool of efficient and employable manpower for self-reliant and knowledge driven growth of the economy. Further studies on the subject matter should examine the determinants of stock market development in Nigeria considering its important role in real sector financing.

CONCLUSION
In this research work, we have empirically verified and discussed the impact of capital market on economic growth in Nigeria. From our data analysis in the preceding chapter, which revealed that GCEH was positive and statistically significant to RGDP in the long run but negative and statistically insignificant to RGDP in the short run? GCEE was negatively related to RGDP both in the short run and in the long run. MCAP showed positive and statistically significant effect on RGDP in the long run but inversely and statistically significant to RGDP in the short run. VST is positive and statistically significant to RGDP in the short run but the reverse is the case in the long run. Also, with the ECM (-1) coefficient of 20% speed of convergence to equilibrium in the long run we conclude that capital market has the potentials to contributing to economic growth in Nigeria.

REFERENCES


