

IMPACT OF CAPITAL MARKET REFORMS ON ECONOMIC GROWTH: The Nigerian Experience

OKE, MICHAEL OJO. (Ph.D) (Corresponding Author)

Department of Banking and Finance

Faculty of Management Sciences

Ekiti State University, P.M.B 5363, Ado Ekiti, Nigeria

okemike2001@yahoo.com

ADEUSI S.O. (Ph.D)

Department of Banking and Finance

Faculty of Management Sciences

Ekiti State University, P.M.B 5363, Ado Ekiti, Nigeria

ogamisa2005@yahoo.com

ABSTRACT

This study examines the impact of capital market reforms on the Nigerian economic growth between 1981 and 2010. The prevailing challenges in the World financial markets; especially the capital market justifies the various forms of reforms going on around the World. The ordinary least square method of regression and the Johansen co-integration analysis were employed to analyse the secondary data sourced from the Central Bank of Nigeria statistical bulletin, the Nigeria Stock Exchange Fact book and the Nigeria Security and Exchange Commission Reports. The results show that capital reforms positively impact the economic growth. The study recommends among others that government should objectively evaluate enacted laws and reforms agenda in a manner that will enhance economic growth rather than considering political issues before embarking on reforms.

Keywords: *Capital Market, Reforms, Regression, Co-integration analysis, Capital Accumulation, Consolidation*

1.0 INTRODUCTION

Economic development is regarded as the major goal of national policy in any economy, while capital accumulation or formation is also seen as a potent factor in the process of economic development. It is regarded as the core process by which all other aspect of growth is made possible and feasible. However, the rate of economic development is always limited by shortage of productive factor and if any scarce factor associated with development should be singled out, it will be finance (capital).

A major engine of economic growth and development of a nation is its capital. It impacts positively on the economy by providing financial resources through its intermediation process for the financing of long term projects. The projects could be promoted by government or private sector institutions. They are usually in such areas as infrastructure, agriculture, solid minerals, manufacturing, banking and other financial services and other real sector areas. Hence without an efficient capital market, the economy may be starved of the required long-term fund for sustainable growth.

In Nigeria, the capital market has over the years been performing its traditional role. However, the efficiency and effectiveness in this regard have greatly being limited by various factors notable among which is the structure of the economy; which is dominated by oil production. Yet the oil producing companies are not fully listed on the stock exchange. Also the capital market has been identified as an institution that contributes to the socio-economic growth and development of emerging and economies. This is made possible through some of the vital roles played such as channeling resources, promoting reforms to modernize the financial intermediation capacity to link deficit to the surplus sector of the economy and a veritable tool in the mobilization and allocation of savings among competitive uses which are critical to the growth and efficiency of the economy (Alile, 1984). It helps to channel capital or long-term resources to firms with relatively high and increasing productivity thus embracing economic expansion and growth (Alile, 1997)

Ekundayo (2002) argues that a nation requires a lot of local and foreign investment to attain sustainable economic growth and development. The capital market provides a means through which this is made possible. However, the paucity of long-term capital as posed the greatest predicament to economic development in most African countries including Nigeria. Capital provides the impetus for the effective and efficient combination of factors of production to ensure sustainable growth and development. Moreover, it is the effective utilization of productive resources

accumulated over time that will determine the pace of growth of an economy. Growth in productive activities and its distribution determines the social well-being of the population. Capital formation can only be achieved through conscious effort and savings mobilization and accumulation of resources by both public and private savers.

The Nigeria capital market which is supposed to be an avenue for sourcing long-term funds to finance long-term projects is not as developed as her foreign counterpart. It has therefore not been able to judiciously perform its primary obligation of meeting long-term capital needs of the deficit sectors, through efficient accumulation of capital or mobilization of funds from the surplus unit of the economy, and effectively channel mobilized funds for more economic use. A critical study of both the real and service sector will elucidate this fact.

Institutional frameworks of the capital market to effectively carry out its core purpose of its establishment have to be put in place to ensure that the expectations of both the lenders and users of funds are adequately met to induce savings and optimal investment necessary to economic growth and development. Emenuga (1998) for instance believed that the stock market is illiquid and blamed the ownership structure in the Nigeria stock market. He concluded that the stock market is small and has few listed companies, low capitalization and low volume of transactions. Ariyo and Adelegan (2005) contend that the liberalization of the capital market has contributed to the growth of the market, but that its impact has not been felt at the macroeconomic level of the nation.

Every nation view economic growth and development to be the focus of their government as no nation wants to be behind in terms of development pace. This is why all policies including fiscal and monetary centres on resource allocation distribution aiming at improving the channeling process of gearing savings into investment. Since the capital market is the medium for long-term fund acquisition, therefore its activities and performance requires stringent study to enhance improvement and encourage or foster economic growth and development.

In view of the above, the paper seeks to examine the effect of capital market reforms on economic growth in Nigeria. The study will be useful to scholars of financial discipline, the government of this nation, participants or operators in the capital market and other stakeholders as it will provide policy recommendations on the basis of its findings. The study is limited to Nigeria and spans for a period 1981 to 2009. Section two provides the review of relevant literatures, section three deals with the methodology, section four presents the data analysis and interpretation of results, and section five provides summary, conclusion, and recommendations.

2.0 LITERATURE REVIEW

The capital market has been identified as an institution that contributes to the socio-economic growth and development of emerging and developed countries (economies). This is made possible through its vital role in intermediation process in those economies. Osaze (2000) sees the capital market as the driver of any economy to growth and development because it is essential for the long term growth capital formation.

The Nigeria capital market provides the necessary lubricant that keeps turning the wheel of the economy. It is not only providing the funds to projects of best returns to fund owners. This allocation function is critical in determining the overall growth of the economy. The functioning of the capital market affects liquidity, acquisition of information about firms, risk diversification, savings mobilization and corporate control (Anyanwu, 1998). Therefore, by altering the quality of these services, the functioning of stock markets can alter the rate or pace of economic growth (Equakan, 2005). Okereke-Onyuike (2000) posits that the cheap source of funds from the capital market remain a critical element in the sustainable development of the economy. She enumerated the advantages of capital market financing to include no short repayment period as funds are held for medium and long term period or in perpetuity, funds to state and local government without pressures and ample time to repay loans.

In 1986, Nigeria embraced the international Monetary fund (IMF)- World Bank structural Adjustment Programme (SAP) which influenced the economic policies formulated and implemented by her and led to various reforms in the capital market since then.

2.1 The Nigeria Capital Market Reforms

Financial reforms and attendant policy prescriptions are aged long phenomena. They represent the various transformations and policies adjustments and overhaul that are directed at the art, practice and activities of financial institutions and market overtime in response to nominal need for operational improvement and growth of both the institutions and economy as a whole. They could be internal or external in nature, reflecting critical comprehensive amendment, restructuring and/or additions to the existing body of laws, guidelines and policies (Chinedu and Muoghalu, 2004).

In Nigeria, the ability of the financial sub-sector to play its role has been periodically punctured by its vulnerability

to systematic distress and macro-economic volatility and policy fine tuning inevitability (Kama, 2006). Consequently, the financial reforms were focused on further liberalization of banking business; ensuring competition and safety of the system and proactively positioning their interrelation with the capital market to boost financial intermediation with the hope to serve as a catalyst to economic growth and development.

In many emerging markets, including Argentina, Brazil and Korea, financial reforms have also become prominent as banks strive to become more competitive and resilient to shocks as well as reposition their operations to cope with the challenges of the increasing globalized banking system. Starting in 1986, Nigeria's financial system began to be deregulated and by 1992, substantial changes had taken place.

Capital market reforms are predicted upon the need for reorientation and repositioning of existing status quo in order to attain an effective and efficient state. Okeke (2009) posits that reforms are deliberate actions by the government to fast track, jump start and consolidate specified sector of the economy to achieve desired objectives.

Also, financial reforms, according to Ebong (2006) are deliberate policy response to correct perceived or impending financial crises and subsequent failure. Reforms in the capital market are aimed at addressing issues such as government, risk management and operational inefficiencies. Like other emerging economies, Nigeria has been involved in financial reforms on a regular basis aimed at responding to the challenges posed by some factors and developments such as system crises, deregulation, globalization and technological innovations (2005).

In Nigeria, financial sector reform was a component of the Structural Adjustment Programme (SAP) which kicked off in 1986. The introduction of the programme was on the heels of the rejection of IMF loan packaged with conditionality, a decision that rejected the consensus of a national debate. Some of the reforms created for the money market indirectly affected the capital market activities simultaneously. These include deregulation of interest rates, exchange rate, entry/exit into the banking business, establishment of the Nigeria Deposit Insurance Corporation (NDIC) strengthening the regulatory and supervisory institutions, upward review of capital adequacy, sectorial credit guidelines, capital market deregulation and the introduction of direct monetary policies instruments (Nnanna, Englama, and Odoko, 2004). Some of the reforms put in place by the Nigerian Government within the period covers by this study according to Nnanna 2002 are examined below:

i Establishment of the Nigeria Deposit Insurance Corporation (NDIC)

Deposit insurance systems are largely established to protect the banking system against possible bank run (unrestricted demand for cash savers) that can cripple the financial intermediation process, disrupt the payment system and have severe macro-economic effects (Mass and Tally, 1990). Its establishment was informed by economic circumstances under SAP, especially policies relating to banks shareholders support, and the bitter experience of previous bank failures in Nigeria.

The NDIC was established by decree no 22 of 1988 and charged with the following responsibilities:

- (a) Insuring all deposit liabilities of licensed banks and such other financial institutions operating in Nigeria so as to engineer confidence in financial transactions
- (b) Giving assistance in the interest of depositors such as taking over the management of a distress bank or by merging a distress bank with a strong one.
- (c) Assisting monetary authorities in the formulation and implementation of banking policies so as to ensure sound banking practice.

ii Bank Consolidation Programme in 2005

The two major elements of the reform agenda are the requirement for Nigerian banks to increase their shareholders funds to minimum of N25 billion by the end of December 2005 and consolidation through merger and acquisition. The consolidation of the Nigerian banking system started after the announcement on July 6, 2004 Central Bank of Nigeria's 13 point agenda of banking sector reforms. This exercise led the numbers of banks in Nigeria from 89 to 25 banks; now 24 banks after the merging of Stanbic and IBTC. This affected dealings in the stock market as banks raised their required minimum capital through the capital market by issuing new securities.

iii Pension Reform

Prior to the pension reform act in 2004 and the setting up of the National Pension Commission (NPC), the situation was such that:

- There were significant outstanding pension liabilities
- Most scheme in existence were under-funded
- Majority of workers in the private sector were not covered by any retirement benefit arrangements.

iv Establishment Of Debt Management Office (DMO)

- This was established to provide a one stop shop for clearing all Nigerian government debts
- To transfer Nigeria's portfolio into an asset for growth and development
- To build a world class DMO of making Nigeria's debt sustainable by 2006

v. Anti-Corruption Drive

This reform focused on reducing the negative impact of corruption on the nation's economy. The government set up Economic and Financial Crimes Commission (EFCC) to tackle financial and related crimes while the Independent Corrupt Practices and other related offences Commission (ICPC) was set up to fight corruption in public office. Also the due process office was set up to oversee and demand that standard process be followed in the execution of government activities. This is to ensure the elimination of financial sharp malpractices in the capital market of Nigeria.

vi Establishment of Second-Tier Securities Market (SSM)

This was established in 1985. The establishment of this market was essentially a deliberate attempt to streamline the role of the Nigeria Stock Exchange and adapt the market to cater for more of the prevailing institutional arrangements.

Primarily, it was intended to assist small and medium sized indigenous enterprise to gain access to the resources at the capital market for expansion and modernization.

vii The Central Securities Clearing System (CSCS)

The central securities clearing system rests on the concept which provides an integrated central depository, clearing (electronic entry transfer of shares from seller to buyer) and settlement (payment for bought securities) for all stock market transactions. It was incorporated as a subsidiary of the Nigeria Stock Exchange to obviate the inherent bottlenecks in the transaction process in the capital market and commenced operations in 1997. To this end, the CSCS is to implement a computerized Stock Exchange Management System (SEMS), which emphasizes immobilization of share certificates in the central depository and elimination of the bottlenecks between registrars and company executives in issuing new certificates to investors. All securities listed on the NSE and their registers of members are under the custody of CSCS limited. This arrangement enables all securities transactions on the NSE to be processed and concluded within five (5) working days in electronic book entry form. In carrying out this important function, the CSCS limited constantly updates the register of members of all listed companies and issues statement on their holdings. Such updated registers are made available to the registrars of companies from time to time.

viii Establishment of More Discount Houses

In order to facilitate the development of a secondary market for government dependence on the CBN in terms of trading debt instrument, three discount houses were licensed in 1992. In addition to intermediating funds among financial institutions, the discount houses were also expected to promote primary and secondary markets for government securities.

ix. The Nigeria Investment Promotion Commission in 1995

This commission among other things is charged with the responsibility of encouraging, promoting and coordinating investment activities in Nigeria. It was empowered to initiate and support measures which would enhance the investment climate in Nigeria for both citizens and foreign investors. The commission is also empowered to register any enterprise in which foreign participation is permitted and to allow foreign enterprises to buy shares of any Nigerian enterprises in any convertible foreign currency. Prior to 1995, non-Nigerians were prevented from investing directly in any sector of the Nigerian economy until the promulgation of Nigerian Investment Commission Decree (now Act), except on the list set out in section 31; production of arms and ammunition, production of and dealing in narcotic drugs etc.

X The Foreign Exchange (Monitoring and Miscellaneous Provision) Decree (now Act) was also promulgated in 1995 inter alia allowing the free importation and exportation of foreign currencies up to the sum of \$5000. Sums above that were to be declared upon importation or exportation on prescribed forms "for reasons of statistics only". More importantly, section 15 of the law allows the investment of foreign currencies and capital in enterprises or securities in Nigeria, if the foreign currency or capital is imported through an authorized dealer. The legislation goes a step further in liberalizing transactions in foreign exchange. Any person may repatriate funds in a foreign exchange from the country without further approval, provided the funds are purchased from an autonomous foreign exchange market.

xi The Privatization and Commercialization Act of 1988

The Act defined privatization as the relinquishment of part or all the equity and other interests held by the Federal Government or any of its agencies in enterprises whether wholly or partly owned by the Federal Government. From the definition above, three things are clear. First for privatization to take place there must be in existence public enterprises. Secondly, there is the reasoning that private ownership or control or management would be better than public ownership. And finally, Privatization is premised on the fact that there is part and parcel of a reform agenda to turn around these enterprises so that they can deliver goods and services more efficiently, and effectively.

xii Introduction of Structural Adjustment Programme (SAP) in 1986

In July 1986, Nigeria embarked on the Structural Adjustment Programme (SAP). Its major objectives were to stimulate domestic production, diversify the economic base, fiscal and balance of payments viability, reduce the size of government expenditure as well as improve its efficiency and enhance the growth potentials of the economy.

SAP was an international designed and endorsed economic reform package, which suffered from low degree of ownership and participation and has widespread public resistance. It is a neo-liberal development strategy devised by international financial institutions to incorporate national economics into the global market. One of the main objectives of SAP was therefore to pursue deregulation and privatization leading to removal of subsidies.

2.2 Review of Empirical Studies

There have been growing concern and controversies on the role of the stock markets on economic growth and development (Oyejide, 1994; Levine and Zervos, 1996; Demirgüç-kunt and Levine, 1996; Nyong, 1998; Sule and Momoh, 2009; Ewah, Esang and Bassey, 2009). There have been mixed results; while some are in support of a positive relationship, some negative relationship and others do not find any empirical evidence to support such conclusion. For instance, Atje and Jovanovic (1993) found in a cross country study of stock and economic growth of 40 countries from 1980 to 1998 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 those phenomena.

Demirgüç-kunt and Levine (1996) using data from 44 countries for period 1986 and 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 fund. They concluded that countries with well-developed stock markets tend to also have well developed financial intermediaries. Again, Demirgüç-kunt and Maskimovic (1998) have shown and re-emphasized the complementary role of 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 towed the line of Demirgüç-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 capital 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 seem 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 in Nigeria. The study employed a time series data from 1970 to 1994. Four measures of capital market development ratio of market capitalization of GDP (in %), ratio of total value of transaction on the main stock exchange to GDP (in %), 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. Demirgüç-kunt and Maskimovic (1998) cited in Henry (2000) found a relationship between economic growth and stock market activities in the field of transmission of security (secondary market) more than in funds channeling (primary market). Barlett (2000) demonstrated that a rising stock price raises the wealth of the economy (wealth effect) by encouraging increase in consumers' consumption and increase in investment.

Ewah et al; (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 the potential of growth inducing but it has not contributed meaningfully to the economic growth of Nigeria because of low 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.

Also authors like Shiller (1989), Summers (1988), Fama and French (1988) and others argued that information technology made capital market more efficient as attendant stock prices now reflect important information and investors perception of stocks more swiftly. In their contention, ICT has made the capital market more effective and efficient in its quest to foster economic growth and development through resource mobilization and re-distribution.

3.0 METHODOLOGY

The study aims at providing empirical evidence on the effect of capital market reforms on the economic growth of Nigeria. The data were sourced from the Central Bank of Nigeria statistical bulletin. The study hypothesized that capital market reforms does not have a significant effect on the economic growth of Nigeria. The study employed annual time-series data from 1981 to 2009. The study employed Augmented Dickey-Fuller unit root test, Johansen Co-integration test, and Error Correction Mechanism (ECM).

Specification of the Empirical Model

The model is used in this research work is based on Demirgüç-kunt and Levine (1996). They investigated the linkage between stock market and economic growth. Their model specified that socio-economic development (proxy by Gross Domestic Product) is significantly influenced by the capital market indices (market capitalization, total listing, new issues and value of transaction).

But in this study, the model will be;

$$GDP = F(MCAP, ASI, VTS, ND, INF)$$

$$GDP = a_0 + a_1MCAP + a_2ASI + a_3VTS + a_4ND + a_5TNI$$

By log linearization the equation becomes:

$$\log GDP = a_0 + a_1 \log MCAP + a_2 \log ASI + a_3 \log VTS + a_4 \log ND + a_5 \log INF$$

Where:

GDP = Gross Domestic Product

MCAP= Market Capitalization

ASI = All Share Index

VTS = Value of Transactions

ND = Number of deals

INF= Inflation

A Prior Expectation

As earlier stated the variables include Gross Domestic Product, which is taken as the dependent variable, MCAP, ASI, VTS, ND and INF which are the independent variables. It is expected that all the explanatory variables except inflation will have a direct relationship with the dependent variable. That is a unit increase in any of these variable will lead to an increase in the dependable variable. But an increase in INF will enhance GDP decrease.

This can be expressed mathematical as: $a_1, a_2, a_3, a_4 > 0$ while $a_5 < 0$

4.0 DATA ANALYSIS AND INTERPRETATION OF RESULTS

This section provides in detail the analysis of data used in the study and interpretation of the empirical results. The unit root test was performed to confirm the stationarity of data; the co-integration test was used to establish the existence of a long-run equilibrium relationship among the variables while the error correction mechanism shows the speed of adjustment of the dependent variable to changes in the independent variables.

Unit Root Test

Non-stationary data produces spurious regression; hence the result may be misleading. Therefore, it is cognizant to establish the stationarity of data. This is carried out using the Augmented Dickey-Fuller (ADF) unit root test. The decision rule is that the ADF test statistic value must be greater than the Mackinnon critical value at 5% and at absolute value.

The table below shows the summary of unit root test conducted on the parameter at level.

Table 4.1: UNIT ROOT TEST AT LEVEL

Variables	ADF Test Statistic Value	Mackinnon critical Value at 5%	Remark
GDP	-0.6768	-2.9750	Non-stationary
MCAP	-0.1389	-2.9750	Non-stationary
ND	-0.4797	-2.9750	Non-stationary
VTS	-0.0049	-2.9750	Non-stationary
ASI	-2.4315	-2.9750	Non-stationary
INF	-3.5764	-2.9750	Non-stationary
TNI	0.4209	-2.9750	Non-stationary

From the table above, it can be deduced that all the variables are non-stationary because they have their Augmented Dickey Fuller (ADF) statistics less than Mackinnon critical value at 5%. This led to the testing for stationarity at first difference.

Table 4.2: UNIT ROOT TEST AT FIRST DIFFERENCE

Variables	ADF Test Statistic Value	Mackinnon critical Value at 5%	Remark
GDP	-3.2977	-2.9798	Stationary
MCAP	-4.2045	-2.9798	Stationary
ND	-3.9203	-2.9798	Stationary
VTS	-3.5451	-2.9798	Stationary
ASI	-3.9625	-2.9798	Stationary
INF	-5.9794	-2.9798	Stationary
TNI	-4.9109	-2.9798	Stationary
ECM	-4.3858	-2.9798	Stationary

All the variables are stationary at first difference because they have their respective ADF statistics greater than Mackinnon critical value at 5%. It also shows that the variables are co-integrated in the same order.

Co-Integration

The essence of co-integration test is to ascertain if a long-run equilibrium relationship exist among variables of the model.

Decision rule; the traced statistics (likelihood ratio) must be greater than 5% critical ratio at None Hypothesized (None **)

Table 4.3: PRESENTATION OF JOHANSEN COINTEGRATION RESULT

The table below shows the summary of result from analysis conducted on the specified model.

Series: GDP MCAP ND VTS ASI INF TNI

Lags interval: 1 to 1

7 Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized No. of CE(s)
0.917548	193.7842	124.24	133.57	None **
0.868525	126.4045	94.15	103.18	At most 1 **
0.618984	71.62320	68.52	76.07	At most 2 *
0.479762	45.57055	47.21	54.46	At most 3
0.432149	27.92689	29.68	35.65	At most 4
0.320403	12.64767	15.41	20.04	At most 5
0.078891	2.218772	3.76	6.65	At most 6

From the table above, it could be deduced that the log likelihood ratio of 193.78 is greater than 5% critical value of 124.24. This shows the existence of a long-run equilibrium relationship among the variables.

Also, in the result of the Johansen co-integration test, the lowest log likelihood ratio is -44.84 and its respective co-integration equation is specified below:

$$\text{GDP} = 11.64 + 0.2\text{MCAP} - 2.47\text{ND} - 0.07\text{VTS} - 0.38\text{ASI} - 1.84\text{INF} + 0.97\text{TNI}$$

$$(0.192) \quad (0.761) \quad (0.152) \quad (0.059) \quad (0.389) \quad (0.341)$$

Note: The standard error statistics attached to each variable are in parenthesis.

It can be deduced from the result that the constant parameter in the long-run is positive. This implies that if all the explanatory variables are held constant, GDP will increase by 11.64 units. The result also indicates that coefficient of MCAP is positive (0.2). This implies that there exists a positive relationship between MCAP and GDP in the long-run. A unit increase in MCAP leads to an increase in GDP by 0.2 units. The coefficient of ASI, INF and VTS are -0.38, -1.84 and -0.07 respectively. This implies that each of these variables share a negative relationship with GDP in the long-run. Any attempt to increase any of these variables in the long-run will enhance a decrease in GDP. Also, ND indicates a coefficient of -2.47. This implies that it exerts a negative influence on GDP in the long-run, and the negative influence in the long-run.

Error Correction Mechanism

The error correction mechanism involves developing two models; the over-parameterized model (ECM1) and the parsimonious model (ECM2). ECM1 involves leading and lagging of the variables while ECM2 introduces short-run dynamism into the long-run equilibrium.

Table 4.4: RESULT OF OVERPARAMATIZED ECM

Dependent Variable: D(GDP,2)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDP(-1),2)	-0.445227	0.242692	-1.834534	0.0915
D(MCAP,2)	-0.029327	0.076305	-0.384338	0.7075
D(MCAP(-1),2)	0.047653	0.078552	0.606635	0.5554
D(ND,2)	-0.062169	0.179834	-0.345704	0.7355
D(ND(-1),2)	0.043962	0.171620	0.256159	0.8022
D(VTS,2)	0.158077	0.103615	1.525628	0.1530
D(VTS(-1),2)	-0.060084	0.097610	-0.615552	0.5497
D(ASI,2)	-0.037785	0.066273	-0.570144	0.5791
D(ASI(-1),2)	0.004950	0.050485	0.098045	0.9235
D(INF,2)	-0.053435	0.077194	-0.692214	0.5020
D(INF(-1),2)	0.097135	0.057805	1.680408	0.1187
D(TNI,2)	0.008272	0.065144	0.126978	0.9011
D(TNI(-1),2)	-0.061097	0.080940	-0.754848	0.4649
ECM(-1)	-0.216398	0.189548	-1.141651	0.2759
R-squared=	0.677452			

Table 4.5: RESULT OF PARSIMONOUS ECM

Dependent Variable: D(GDP,2)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDP(-1),2)	-0.393304	0.197534	-1.991070	0.0611
D(MCAP(-1),2)	0.079167	0.043178	1.833489	0.0824
D(ND,2)	-0.077636	0.121635	-0.638272	0.5309
D(VTS,2)	0.114869	0.069430	1.654465	0.1145
D(ASI,2)	-0.003709	0.029698	-0.124900	0.9019
D(INF(-1),2)	0.100129	0.038866	2.576244	0.0185
D(TNI(-1),2)	-0.028632	0.038675	-0.740324	0.4682
R-squared=	0.539009			

Interpretation of the ECM

The ECM otherwise known as speed of adjustment is significant with the appropriate sign i.e. negative sign. This can be seen on the over-parameterized ECM that shows ECM value of -0.2164. This implies that the present value of GDP adjust rapidly to changes in MCAP, ND, VTS, ASI, INF, and TNI. The lagged value of ECM given as 21.6% indicates a feedback of or an adjustment of 21.6% from the previous period disequilibrium of the present

level of GDP in the determination of causality between the past level of GDP and the present and past level of the explanatory variables.

4.1 IMPLICATION OF FINDINGS

The implication of some of the explanatory variables is to tell their real effect on economic development in Nigeria. For instance, MCAP and TNI are positively related to GDP implying that market capitalization and increase in stock aids economic development. This is so as market capitalization increases as total new issues increases as a result of increased domestic savings channeled into investment to boost economic activities level. This result is line with the view of Levine and Zervos (1996) about long-run economic growth and capital market development.

Secondly, ND is negatively related to GDP. The implication of this is that the drastic increase in transactions in the Nigeria Stock Exchange is largely for speculative reasons rather than long term investment. For instance, ND increased tremendously from 2,615,020 in 2007 to 3,535,631 in 2008, while MCAP decreased by 3,778.4b in 2008. Therefore, it goes without saying that huge increase in ND was as a result of investors' perception after the market crashed in 2008.

Also other explanatory variables such as VTS, ASI and INF were negatively related to GDP in the long-run. Inflation showed a negative relationship higher than VTS and ASI. This implies that an increase in INF by one unit will enhance 1.8units decrease in GDP compared to less than one unit decrease exerted by ASI and VTS.

Lastly, this result has been able to show that increase in MCAP as a result of improvement in the primary capital market transactions is needed for economic development rather than improved liquidity in the secondary market.

5.0 SUMMARY, CONCLUSION, AND RECOMMENDATIONS

The Nigeria Capital market is a post -independence development and has contributed tremendously to the industrial finances through it funds mobilization activities. Although, these activities has been influenced by various enacted reforms from unstable political environment where it operates. These reforms ranging from indigenization decree of 19972, establishment of the second-tier securities market, SAP (1986), Pension reform (2004), adoption of CSCS to the bank consolidation programme of 2005, were put in place by the government to gear the activities of the market towards achieving her goal.

This study reveals that there is a linkage between capital market reforms and economic growth vis-à-vis market capitalization, total value of transaction, number of deals, all share index and inflation. As it can be observed that market capitalization, value of transaction, total new issue, number of deals are influenced by external polices from the government in attempt to achieve economics goals such as resources re-distribution, increase in per capital income and reduction in unemployment, among others.

In order for Nigeria capital to be a pivotal force in Nigeria socio-economic growth and development, the following suggestions are put forward;

First, improvement in the dealing market capitalization by encouraging more foreign investors to participate in the market, maintain and improve it state of ct of technology like automated trading and settlement practices, electronic fund clearance and eliminate physical transfer of shares.

There is also need to restore confidence to the market by regulatory authorities' activities that portray transparency, fair trading transactions and dealings in the stock exchange. It must also address the reported cases of abuses and sharp practices by some companies in the market. This is necessary to prevent the increase in number of deals and decrease in the market capitalization after the boom recorded in the previous year.

Moreover, the total listing in the NSE is still a far cry compared to other stock exchanges like South Africa and Egypt. Therefore to increase the number of listed companies; which will also lead to increase in total new issues and market capitalization, there is need to ensure stable macroeconomic environment, encourage foreign multinational companies (MNCs) or their subsidiaries to be listed on the Nigeria Stock Exchange relax the listing requirement to the first her market to encourage quotation and also ensure tax rationalization in the capital market to encourage public interest in shareholdings for new issues, increase the minimum equity capital requirement for companies other than banks, insurance companies and other financial institutions ,encourage merger, acquisition and consolidation, discriminatory income tax in favour of public quoted companies and aggressive enlighten programme to increase awareness of the benefits of investing in the stock market and seeking quotation at the stock exchange. Lastly, to boost the value of transactions in the Nigerian capital market, there is need for availability of more investments instruments such as derivatives, convertibles, swaps and option in the market.

REFERENCES

1. Alile, H.I. (1997). 'Government must divest. *The Business Concord*. December 2, P. 8 Alile HI 2002.Establishing a Stock Market – the Nigerian Experience. *Paper presented at the Conference on Promoting and Development Capital Market in Africa* Abuja, No. 11-13.
2. Anyanwu, J.C. (1998). Stock Market Development and Nigerian Economic Growth,*Nigerian Financial Review*, 7(2), 6-13.
3. Anyanwu, J.C., Oyefusi, S.A., Oaikhenan, H. and Dimowo, F.A. (1997). *Structure of the Nigerian Economy (1960 – 1997)*. Onitsha: JOANEE Educational Publishers Ltd., P. 453.
4. Ariyo, A. Adelegan, O. (2005). Assessing the Impact of Capital Market Reforms in Nigeria:An incremental Approach. *Paper presented at the 46th annual conference of the Nigeria Economic Society in Lagos* in August 2005.
5. Atje R Jovanovic (1993). Stock Market and Development. *European Economic Review*, 37:632- 640
6. Babalola, J. A. and Adegbite, M. A: CBN. *Economic and Financial Review*, 39(1), 1-19.
7. Barlett, M. (2000). Finance and the Source of Growth. *Journal of Financial Economics*, 58, 261-300.
8. Central Bank of Nigerian (CBN) *Statititcal Bulletins* of 2005, 2006 and 2008. Abuja: Central Bank of Nigeria Publication.
9. Chinedu, B.E. and Muoghalu, M.I. (2004). Financial Reforms and Commercial Banks Operators in Nigeria: A comparison of Two Decades. *Union Digest*, 8: 2.
10. Demirguc Kunt A Asli, Levin R (1996). Stock Market, Corporate Finance and Economic Growth: An Overview. *The World Bank Review*, 10(2): 223-239.
11. Demirguc, K. A and Levin, R. (1996). Stock Market Development and Financial Intermediaries: Stylized Facts. *The World bank Economic Review*, 10(2): 241-265.
12. Ebong, B.B. (2006). Banking Sector Reforms: Opportunities and Challenges. *Union Digest*, 10: 12.
13. Ebong, O.H (2006). An Estimation of a Model of Long-term Securities Investment in Nigeria. *Nigeria Economic and Financial Review*, 12: 45-53.
14. Ekundayo, I.K. (2002). Creating a conducive Environment for Investment in the Nigerian Capital Market. *Paper Presented at Public Enlightenment on Opportunities in the Capital Market for industrial Development of Kogi state* ' Lokoja 29th March to1st April, 2002.
15. Emenuga, C. (1998). *The Nigeria Capital Market and Nigeria's Economic Performance in the Capital Market and Nigeria's Economic Development*. Proceedings of the One-day Seminar Held at the Nigerian Institute of International Affairs Lagos by NES.
16. Equakun, C.O. (2005). *The Nigerian Capital Market: Impact on Economic Growth*. Masters Thesis, Unpublished. Benin City University of Benin.
17. Ewah, S.O.E., Esang, A.E.and Basse, J.U. (2009). Appraisal of Capital Market Efficiency on Economic Growth in Nigeria. *International Journal of Business and Management*, December, 219-225.
18. Fama, E. F. (1970). Efficient Capital Markets: A Review of Theory and Empirical Work. *The Journal of Finance*, 25, 383-417.
19. Fama, E. F. (1988). The Behaviour of Stock Market Prices? *Journal of Business*, 38(1), 34 – 105.
20. Henry, P.B. (2000). Does Stock Market Liberalization cause Investment Booms? *Journal of Financial Economics*, 58, 301-334.
21. Kama, U. (2006). Recent Reforms in the Nigerian Banking Industry: Issues and Challenges. *CBN Bullion*, 30: 3.
22. Levine R, Zervos S (1996) Stock Market Development and Long-run Growth. *The World Bank Economic Review*, 10(3), 323 – 339.
23. Levine. R. and Zervos, S. (1998). Stock Market Development and Long–run Growth. *American Economic Review*, 88(3), 537- 558.
24. Mass, R. and Tally, I. (1990). *Money and Capital in Economic Development*. Washington,
25. DC: Brooking Institution.Nigerian Stock Exchange (NSE) Fact Book for 2004 –2009. Lagos: The Nigerian Stock Exchange
26. Nnanna, O.J. (2005). Beyond Bank Consolidation: The Impact on Society. *CBN 4th Monetary Policy Conference*, 3-27.
27. Nnanna, O.J. and Dogo, M. (1998). Structural Reform, Monetary Policy and Financial Deepening: The Nigerian Experience. *CBN Economic and Financial Review*, 36(1), 1 – 29.
28. Nnanna, O. J., Englama, A. and Odoko, F. O. (2004). *Financial Markets in Nigeria*, Central Bank of Nigeria Publication.
29. Nwankwo, G.O. (1991). *Money and Capital Markets in Nigeria Today*. Lagos:University of Lagos Press.
30. Nyong, M.O. (1997). Capital Market Development and Long run Economic Growth: Theory, Evidence and Analysis, *First Bank Review*, December, 13-38.
31. Okereke-Onyiuke, N. (2000). Stock Market Financing Options for Public Projects in Nigeria. *The Nigerian Stock Exchange Fact Book*, 41 – 49.

32. Osaze, B.E. (2000). *The Nigeria Capital Market in the African and Global Financial System*. Benin City: Bofic Consults Group Limited.
33. Oyejide, T.A. (1994). The Financial System and Economic Growth in the Context of Political Transition. *Central Bank of Nigeria Economic and Financial Review*, 32(3), 260-267.
34. Shiller, E. S. (1989). *Financial Deepening in Economic Development*. New York: Oxford University Press.
35. Soludo, C.C. (2006). Can Nigeria be the China of Africa? *Lecture Delivered at the University of Benin Founders' Day*, November 2006. P. 14.
36. Summers, P. (1988). Financial Innovation". In G. Constantinides. *The Handbook of the Economics of Finance*. North Holland: Elsevier.