Article

Stock Market Capitalisation and Economic Growth in Nigeria (1991 – 2021)

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Abstract
The study examined the relationship between Stock Market Capitalisation and economic growth in Nigeria. Specifically, the study aimed at examining the effect of stock market corporate bond on gross domestic product in Nigeria, examining the effect of government securities on gross domestic product in Nigeria and determining the effect of equities on gross domestic product in Nigeria. Secondary data from 1991 to 2021 were sourced from the Central Bank of Nigeria Statistical Bulletin. Multiple Regressions were used to analyse the data collected and Minitab statistical package were used to present the results. Findings revealed that there was a negative correlation between dependent and independent variables. Findings revealed that there was an overall significant relationship between the dependent and independent variables. The study therefore recommends that Stock Exchange Market should encourage Nigerian Investors to have the habit of investing greatly in Government Securities; this will have a good effect on Gross Domestic Product. Nigerian Exchange Group should make the Investors know the beauty of Corporate Bonds. Investors should be encouraged by the stock exchange market to invest greatly in Equities in order to have a high impact on the value of Gross Domestic Product

Keywords
Market capitalisation, economic growth, corporate bond, government security, equities.

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Introduction

The achievement of a highly sustainable level of economic growth and development has been the main objective of many countries (Aali-Bujari, Venegas, Martinez & Perez-Lechuga, 2017). There have been many lessons on factors affecting economic growth. Economists tend to focus on factors like capital, labour and technology as the only thing that matters in economic growth. As a result of recent developments in economic growth, new forms of economic growth have emerged such as social capital, intellectual events, macroeconomic societies, political stability, economic development rather than cultural factors, capital, labor and technology (Mhadhbi, 2014). The recent financial crisis between 2007 and 2008 has shown that there is a severe economic impact of the financial system. The financial market in any country remains one of the most important pillars for long-term economic growth and development (Oluwatoyin & Gbadebo, 2009).

The financial market caters for a wide range of customers, including different levels of government, corporate bodies and individuals inside and outside the country. The stock market is a financial market, including enterprises that operate cheaply with securities for more than a year. Nigerian Exchange Group as part of Financial Market has an important role to play in the long-term equity market of the Nigerian Exchange Group. The main purpose of any financial system is a vision of a conducive environment for transferring funds from the economy to additional security (Maxwell, Happiness, Alice & Chinedu, 2018).

For sustainable economic growth, funds must be effectively mobilized and allocated to enable businesses and the economies to harness their human, material, and management resources for optimal output (Oluwatoyin & Gbadebo, 2009). Hence, the stock market is an economic institution, which promotes efficiency in capital formation and allocation. It can be stated that Economic growth occurs when there is a steady increase in the economic activities of a nation and it can be measured by Gross Domestic Product (GDP) of the nation (Ologunwa & Sadibo, 2016). A growing economy is said to experience development when factors that causes economic growth are recognized. The provision of funds for long-term investment is one of such economic factors that determine the development of a nation (Yadirichukwu & Chigbu, 2014).

The stock market is prone to weaknesses, including market failures and unpredictable changes, as well as a small percentage of market participants and the general public. These forces and market values affect the markets. For this reason, traditional schools of thought development say that there is no

connection between investment and financial development due to the existence of level effect (Omoke, 2010).

Predictability of the stock market returns has been important over long multi-year horizons. On the other hand, according to some studies, the predictability ratio has decreased for the last two decades (Lewellen, 2004; Cochrane, 2008). The predictability amount is generally strong at the quarterly return horizon. Therefore, the available quarterly data for this research may present more powerful pictures. Stock market returns are predictable from a variety of financial and macroeconomic variables and has long been an attraction for equity investors. Recently increasing attention has shifted to the All-share Index as a method of measuring a section of the Stock Market. All-share Index is regarded as an important indicator by the investing public at large and can be used as a benchmark by which investor or fund manager compares the returns of their own portfolio (Senol, 2012).

The accuracy in forecasting the stock market prices or at least predicting the trend correctly is of crucial importance for any future investment in a dynamic global economy. Over the years, economists and finance analysts have consistently maintained that an unregulated market price is the best yardstick reflecting the true scarcity or worth of a commodity. One can easily evaluate the Nigerian Exchange Group formally called the Nigerian Stock Exchange (NSE) performance by the use of All-share Index.

The market in Nigeria is described as shallow; this is because it floats to a smaller market and is measured by the proportion of storage in the market to total inventory volume. The next challenge is to be able to increase and retain as many of our investors and companies as possible and simultaneously attract foreign investors to the Nigerian Stock Market (Maxwell et al., 2018). The stock marketplace is also characterized by the unmistakable nature of the market, one of which is asymmetric, in which one party goes into business with less information than the other party (Otieno, 2017). The expansion of the phenomenon greatly shortens the effectiveness of financial markets as a process for allocating money. Since geography and traditional eyebrows confiscate information, asymmetric information is universal. Although changes in asymmetric information are minimized but not eliminated, so they capture sharp reactions, unsatisfactory marketing and problem solving can occur when accurate information in the financial markets behaves unsteadily (Sylvester & Enabulu, 2011). As a result, in the absence of sufficient information investors tend to enter and exit the markets listening to rumors.

Capitalization of the stock market and its effect on the overall domestic product has been a subject of study among researchers. Although, it has been difficult to affirmatively identify the factors that are responsible for variations in share price and the resultant effect on Gross Domestic Product. The major factors in existing literatures to be responsible for stock price movement are company performance, top management changes, and creating new assets, dividends, earnings. However, there has never been a consensus among scholars

on market capitalization and Gross Domestic Product. It is in the light of this existing gap that this study is geared towards examining market capitalization and its effect on Gross Domestic Product in Nigeria. The questions formulated to guide this study are (1) what is the effect of stock market corporate bond on Gross domestic product in Nigeria? (2) To what extend does stock market government security impacted on Gross domestic product in Nigeria? (3) How do stock market equities have effect on Gross domestic product in Nigeria? The broad objective of this study is to examine the effect of market capitalization on economic growth in Nigeria. Specifically, the study aimed to measure the effect of stock market corporate bond on Gross domestic product in Nigeria, investigate the effect of stock market government security on Gross domestic product in Nigeria, and examine the effect of stock market equities on Gross domestic product in Nigeria. The study hypothesized in a null form that Stock market corporate bond has no significant effect on Gross domestic product in Nigeria, Stock market government security has no significant effect on Gross domestic product in Nigeria, and Stock market equities have no significant effect on Gross domestic product in Nigeria

Literature Review

Economic Growth

Economic growth means an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth is a process by which a nation's wealth increases over time. The most widely used measure of economic growth is the rate of growth in a country's total output of goods and services gauged by the gross domestic product (GDP). Economic growth can also be referred to as the increase of per capita gross domestic product (GDP) or other measures of aggregate income, typically reported as the annual rate of change in the real GDP. Economic growth is primarily driven by improvement in productivity, which involves producing more goods and services with the same inputs of labour, capital, energy and materials (Wikipedia).

Economic growth is a positive change in the level of production of goods and services by a country. Economic growth is usually brought about by increase in activities of the stock market, advancement in technology and improvement in the quality and level of the capital market's performance. All these are considered to be the principal causes of economic growth. For the purposes of this study, the Nigerian economic growth is represented by the Gross Domestic Product (GDP). The gross domestic product is the market value of all goods and

services produced in a country at a specific period of time such as one year for example (Okpara, 2006).

Okpara (2006) opined that economic growth is the increase in the number of goods and services produced in an economy which is measured by positive changes in a country's gross domestic product. Economic growth is the increase in national income, as reflected in the capacity of production of goods and services regardless of whether the increase is on a larger or smaller population growth rate (Anyanwu, 1996). According to Robert Solow, cited in Adebiyi (2005) economic growth is a positive change in the level of production of goods and services by a country over a certain period of time. Overall, economic growth is the increase in a country's productive capacity, as measured by increase in capital stock, advancement in technology and improvement in the quality and level of literacy.

Stock Market Capitalization

Market capitalization refers to the market value of trading shares or quantities in the traded item. It also means the value of all the securities secured in relation to their market prices (Nzotta, 2004). Market capitalization refers to the overall value of a company's shares. It can be determined by multiplying the price of a stock by its total number of outstanding shares. For instance, if it sells at $50 per share, the market cap for a 20 million share company is $1 billion. It makes it possible for investors to understand the relative dimensions of one company versus another. Market cap measures what an open market company is worth and the market perception of its future prospects because it reflects what investors are prepared to pay for their stocks. It can be used as a social media platform to consider company value and is a choice in other ways of looking at sales. Pavone (2019) citing Dias (2013) stated that market capitalization is an important market indicator of the value of shares and the value of companies in general.

Market capitalization represents the aggregate value of stock size (Adewoyin, 2004). Market capitalization is the measurement of the size of businesses and corporations which are equal to the market share price times the number of shares in this case shares that have been authorized, issued, and purchased by investors of a publicly traded company (Al-Faki, 2006). Market capitalization is also calculated by multiplying the shares of the company by the price per share. The investment community uses the figure to determine a company's size or worth, as opposed to sales or total asset figures (Olowe, 1997).

In summary, market capitalization refers to the number of shares of a company multiplied by the market share price. In other words, market capitalization is usually considered as reflecting the worthiness of a company used by the investing public to determine the creditworthiness of a firm in terms of investing in such companies. Equity is the term for a total ownership stake in the company – for example, if a company had 10,000 shares, and you owned 1000 of them, you could say that you held a 10% equity stake in that company.

People invest in equities because of their potential for high returns. In your investment portfolio, your "equity exposure" is another way of describing your exposure to the risk that you will lose money if the value of the stocks you own declines. Equity is the ownership interest in a company in the form of common stock or preferred stock. Equity investment generally refers to the buying and holding of shares of stock from a stock market by individuals and firms in anticipation of capital appreciation as the value of the stock rises. Therefore, the more the numbers of listed equities are available in the capital market the better for the economic growth of the nation (Daniel, 2004).

Equity stock is an instrument that signifies an ownership position in a corporation and represents its proportional share in the corporation's assets and profits. Ownership in the company is determined by the number of shares a person owns divided by the total number of shares outstanding (Daniel, 2004). It is the total assets minus total liabilities; it is also called shareholder's equity or net-worth or book value (Afolabi, 1991).

Efficient Market Hypothesis (EMH)

Efficient market hypothesis states that when investors are faced with new set of information some of them could over react while others could under react. This means that investors' reactions are at random and follow a normal distribution pattern. In the words of Jensen (1978), a market is 'efficient' with respect to information set. In an efficient market, it is not possible to generate excess returns on the basis of the available information set. This is due to the fact that prices adjust instantly and in an unbiased manner to new information; leaving no room for investors to make excess returns. This further means that all information available about a stock's expected future cash flows is included in the price of the stock.

Efficient market hypothesis equally states that it is impossible to beat the market. This is because market prices are already integrated and reveal all relevant information. It assumes that all investors perceive all available information in the same manner. Efficient capital market implies a well-informed market. In the words of Pandey (2010, pp. 46), the efficiency of any stock exchange may be defined as the ability of the securities to reflect and incorporate in their prices all relevant information; with speed. Thus, the efficiency of security prices depends on the speed with which the prices adjust to any relevant available information. The more the speed of adjustment, the more efficient will be the security's prices.

Moreover, Fama (1970, pp. 383) categorized capital markets' efficiency into weak, semi-strong, and strong forms. The weak-form is the lowest form of efficiency that defines a market as being efficient if current prices completely reflect all information contained in past prices. This form implies that past prices cannot be used as a predictive tool for abnormal returns by using only the past history of prices. The semi-strong form of efficiency states that the present market prices reflect all publicly available information. These include information on money supply, exchange rate, interest rates, and stock splits among others. If the information is set to incorporate private information, it is not likely for a market participant to earn abnormal profits; then, the market is referred to as having strong form of efficiency. Under the strong form of efficient market, market prices of securities reflect all relevant information, including both public and private information. The strong form of efficient market implies that private information reflects in the shares' prices. Private information may be tough to obtain even though it could prove useful in making abnormal profits.

Methodology

The research design adopted in this study is causal research design. Time series annual data on stock market corporate bond, stock market government security, stock market equities and all share index in Nigeria were extracted from Central Bank of Nigeria Statistical Bulletin (1991-2021).

Method of Data Analysis

To estimate the data generated for the study, the inferential technique of regression analysis was used to analyzed the data. The Statistical package used to present the result is Minitab.

Dependent Variable

Gross Domestic Product: This is the monetary value of all finished goods and services made within a country during a specific period. GDP provides economic snapshot of a country used to estimate the size of an economy and growth rate.

Independent Variables

Stock market corporate bond: corporate bond is a type of debt security that is issued by a firm and sold to investor. Corporate bond are issued by corporations and usually mature within 1 to 30 years. The bonds usually offer a higher yield than government bonds but carry more risk.

Companies issue corporate bonds to raise money for capital expenditure, operations and acquisitions.

Stock market government security: government security is a type of debt obligation that is issued by government with a promise of repayment upon the

security s maturity date. Government securities are usually considered low-risk investments because they are backed by the taxing power of government.

Stock market equities: equities are simply shares in the ownership of a company. when a company offers equities, it's selling partial ownership in the company. Investing in equity share is popular among individuals because they are highly returned investment option.

Model Specification

To achieve the objectives of this study, the study adopted the following model;

Market Capitalisation Equation

$GDP = a + \alpha_1 CB + \alpha_2 GS + \alpha_3 ME + e$

Where:

GDP = Gross Domestic Product

CB = Stock market corporate bond

GS = Stock market government security

ME = Stock market equities

a = Constant;

α_i- α_4 = Regression Coefficients;

e= Error term

Results

From the results of Market Capitalisation equation**,** the correlation coefficient (R) of Government Securities to Gross Domestic Product was 0.00137, the correlation coefficient (R) of Corporate Bonds to Gross Domestic Product was 0.000984, and the correlation coefficient (R) Equities to Gross Domestic Product was 0.0006623. This means that there is a negative correlation between Corporate Bonds, Government Securities and Gross Domestic Product. Secondly, there is a very weak correlation between Equities and Gross Domestic Product.

The coefficient of determination (R-Squared) was 25.9%. This means that 25.9% variation in the dependent variable was explained by the independent variable and 74.01% of the variation in the dependent variable is explained by

the disturbance term or error term. The Durbin-Watson result was 2.077996 which indicated that there is no autocorrelation in the model.

Testing for the statistical significant at 5%

Decision

t0.05 at (31 – 4) 27 degrees of freedom was statistically significant because analysis of variance (ANOVA) P – value < 0.05; p - value = 0.042. Therefore, H_0 is rejected and H_1 is accepted. There was significant relationship between the dependent and independent variables.

Regression Analysis: GDP versus CB, GS, ME

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The regression equation is
GDP = 4.20 - 0.000984 CB - 0.00137 GS + 0.000662 ME

Predictor         Coef     SE Coef       T       P    VIF
Constant        4.1999      0.9166    4.58   0.000
CB          -0.0009841   0.0003490   -2.82   0.009  7.996
GS           -0.001370    0.001843   -0.74   0.464  1.508
ME           0.0006623   0.0003009    2.20   0.036  9.264

   R-Sq = 25.9%   R-Sq(adj) = 17.6%
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Analysis of Variance

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Source           DF      SS     MS     F      P
Regression        3  112.17  37.39  3.14  0.042
Residual Error   27  321.60  11.91
Total            30  433.77

Durbin-Watson statistic = 2.077996
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Findings

The correlation coefficient (R) Government Securities, Corporate Bonds and Equities to Gross Domestic Product was -0.0009841, -0.001370 and 0.0006623. This means that there is a negative correlation between Corporate Bonds, Government Securities and Gross Domestic Product and weak correlation between Equities and Gross Domestic Product. It means that Corporate Bonds and Government Securities was found as a decreasing function of Gross Domestic Product and this reduces the value of aggregate production in Nigerian within the period of analysis. Equities was found as a low value function of Gross Domestic Product as it was a weak correlation and this reduces the value of aggregate production Nigeria within the period of analysis.

The coefficient of determination (R-Squared) measures the strength of the relationship or cause effect relationship between dependent and independent

variables. The coefficient of determination was 25.9%. This means that 74.1% variation in the dependent variable was not well explained by the independent variable and 74.1% of the variation in the dependent variable is explained by the disturbance term or error term. This disturbance terms are inflation, economic meltdown, low productivity, low profitability, non-performing loans etc. In other words, 25.9% variation in dependent variable was explained by variation in independent variables. 74.1% variation in the dependent variable was well explained by variation of the variables excluded from the model.

The Durbin-Watson result was 2.077996. The Durbin-Watson statistics is a number that tests for autocorrelation. Autocorrelation is a mathematical representation of the degree of similarity between lagged versions of itself over successive time intervals. In other words, it is a situation in which a time series data is influenced by its own historical values. The Durbin-Watson statistics is always between 0 and 4. The general rule states that a value of 2 means that there is no autocorrelation in the samples. Values approaching 0 indicate positive autocorrelation and values towards 4 indicate negative autocorrelation. However, the Durbin-Watson result of this model indicated that there is no autocorrelation since the value is 2.077996.

Testing for the statistical significant at 5% revealed that there was significant relationship between the dependent and independent variables. This means that the overall effect of the independent variables was significant on the dependent variable i.e. the overall effect of Government Securities, Corporate Bonds and Equities s significant on Gross Domestic Product. This means that Government Securities, Corporate Bonds and Equities as a whole increased the value of Gross Domestic Product within the period of analysis.

Conclusion and Recommendations

The conclusions that can be drawn from the findings of this study are that Equities is more relevant to increment in the value of Gross Domestic Product than Government Securities and Corporate Bonds. It means that the Nigerian Investors invest more in Equities than Government Securities and Corporate Bonds and the resultant effect reflected in the aggregate production. Also, the overall effect of Government Securities, Corporate Bonds and Equities increased the value of Gross Domestic Product within the period of analysis. The study therefore recommends that Stock Exchange Market should encourage the Nigerian Investors to have the habit of investing greatly in Government Securities because investors should diversify/spread their investment portfolio and not to concentrate their risks on one security, this will have good effect on the value of Gross Domestic Product. Stock Exchange Market should make the Nigerian Investors to know the investment returns capability of Corporate

Bonds. This will make the Nigerian Investors to invest greatly in Corporate Bonds and it will impact positively on Gross Domestic Product. Investors should be encouraged by the stock exchange market to invest more in Equities in order to have a good performance on the value of Gross Domestic Product.

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APPENDIX

Data Presentation

TABLE 4.1: Gross Domestic Product, Government Securities, Corporate Bonds and Equities of the Nigerian Stock Exchange Market

Years	REAL GDP	Government Securities	Corporate Bonds	Equities
1991	-0.55	3.30	1.40	18.40
1992	2.19	3.20	1.80	26.20
1993	1.57	3.60	2.10	41.80
1994	0.26	3.20	2.10	61.00
1995	1.87	3.20	2.10	175.10
1996	4.05	3.00	3.00	279.80
1997	2.89	2.80	2.80	276.30
1998	2.50	2.70	3.10	256.80
1999	0.52	2.40	3.10	294.50
2000	5.52	2.10	4.10	466.10
2001	6.67	8.30	5.80	648.40
2002	14.60	12.70	3.50	748.70
2003	9.50	25.220	8.40	1,325.70
2004	10.44	178.10	7.90	1,926.50
2005	7.01	366.73	9.83	2,523.50
2006	6.73	890.28	3.49	4,227.13
2007	7.32	2,984.42	16.98	10,180.29
2008	7.20	2,589.11	16.41	6,957.45
2009	8.35	2,031.40	10.05	4,989.39
2010	9.54	1,948.09	56.37	7,913.75
2011	5.31	2,400.49	1,341.29	6,532.58
2012	4.21	4,425.05	1,400.43	8,974.45
2013	5.49	4,457.14	1,394.00	13,226.00
2014	6.22	5,247.14	144.96	11,477.66
2015	2.79	6,942.87	205.89	9,850.61
2016	-1.58	6,942.87	281.97	9,246.92
2017	0.82	7,236.23	276.50	13,609.47
2018	1.91	9,920.63	256.56	11,720.72
2019	2.27	12,559.23	355.82	12,968.59
2020	-1.92	16,994.14	507.76	21,063.17
2021	3.40	19026.13	718.302	22,296.84

Source: CBN Statistical Bulletin (December, 2021)