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EMPIRICAL ANALYSIS ON THE RELATIONSHIP BETWEEN CAPITAL MARKET AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

Capital can be categorized into human and material capital, the latter in its liquid form helps in the allocation and mobilization of savings. This study investigates the relationship between capital market and performance of Nigeria economy, gross domestic product was used to proxy performance of Nigeria economy while capital market was proxied by market capitalization, all share index and total value of transaction. Time series data between the period of 1985 to 2017 was sourced from Central Bank of Nigeria, and statistical bulletin 2018. The study made use of descriptive statistics, Phillip Peron, unit root test, Johansen Co-integration, granger causality test and vector error correction estimate. Based on the findings of the vector error correction estimate, the study, therefore, recommends that there is a need for the free flow of information, this can be achieved by increasing the publicity of market information, as this will increase the volume of transactions in the market.

Contribution/ Originality: This study contributes to the existing literature by examining the relationship between capital market and economic growth in Nigeria

1. INTRODUCTION

Capital market is an avenue that creates a market for the sale of long-term equity and debt, the financial market is charged with the duty of mobilizing and channeling long-term funds to profitable investments, it also acts as an intermediary in fund mobilization and distribution. Ali and Yap (2016), this market also helps in boosting economic transactions in the country, in this market, stock and bond are sold by private individuals and government respectively in order to raise capital to finance ideas and innovation. This market mobilizes and harnesses long-term funds from the surplus economic spenders, making it readily available to the deficit economic unit in the economy. A well-functioning stock exchange market is a prerequisite for the active participation of foreign investors in the capital market reasons being that they help in fast-tracking liquidity and capital allocation in any economy (Block & Hirt, 1992). Mohtadi and Agarwal (2004) opined that the

larger the stock market the lesser the cost of mobilizing savings, moreover firms raise capital for expansion in this market, while Sule and Momoh (2009) opined that this market helps in distribution of scarce resources effectively to productive use in the diversification and securitization of risk. Abbas, Pei, and Rui (2016), Chinwuba and Amos (2011), Nowbutsing and Odit (2009) blamed underdevelopment of stock market to inadequate infrastructural facilities in developing country, while Oluwatosin, Adekanye, and Yusuf (2013) and Maduka and Onwuka (2013) pointed out factors such as misuse of funds, illiquidity, low market capitalization and low absorptive capacity has resulted to the failure identified in Nigeria capital market. Notwithstanding the contributions of this market, it is perceived that high risk, low liquidity, high-interest rate, high inflation rate and poor governance practices is imbedded in the growth of the capital market, for there to be growth certain level of development in the capital market needs to be attained. This research work, therefore, investigates capital and Nigeria economic growth. Government involvement has made the capital market to lose its independence and the frequent fluctuations in the economy made the investment return to be very low and thus made the capital market not to be productive as it should be, this research work, therefore, investigates the capital structure and Nigeria Economy.

2. THEORETICAL REVIEW

2.1. Finance Led Growth Hypothesis (Supply)

Goldsmith (1969), Mc Kinnon (1973) & Schumpeter (1912) all support this theory which states that the financial system of a country is a major determinant of growth in any country, this theory assumes a supply leading position, which means the financial sector provides the needed finance to the deficit unit, via their intermediation process, which thus enables growth.

2.2. Efficient Market Hypothesis (EMH)

This theory simply states that the price of any security at any given point in time reflects its performance and investors in the market can take advantage of it in order to trade and make profit from it. Fama (1965) attests to this by simply saying that the performance of any market can be reflected by the prices of security in the market.

2.3. Growth Led Finance Hypothesis (Demand)

This theory posits that there is a need for an increase in the services provided by financial institution as a result of increase in economic growth that is economic growth is a major determinant as to how financial services should be provided; the higher the economy grows in terms of productivity the more financial services that will be required. In another word, a spur in economic output demands a simultaneous increase in the services provided for by financial institutions, in other words, financial institutions grow simultaneously in line with how the economy grows.

2.4. Conceptual Review

2.4.1. Brief history of Nigeria Capital Market

In an attempt to finance the capital developmental project, the colonial masters floated local loan stock worth N600,000 in 1946 with an interest of 3¼% having a maturity between 10-15 years, this stock was subscribed for by over 1 million participants who were still appallingly poor. As at 1961 the operation of Nigeria capital market kicked up when the ACT of 1961 established Lagos stock exchange, which in december1977 later changed to Nigeria Stock Exchange after a critical review of the country's financial system, in 1973 capital issues commission (CIC) was established to regulate the activities of Lagos stock exchange, seven years after the Securities and Exchange Commission (SEC) was established under the SEC Act of 1979 but went into full operation in 1980 which took over the operation of (CIC). The capital market is a fundamental prerequisite for economic growth to take place, this market is categorized with various participants such as; regulators, security and exchange commission (SEC), intermediaries, brokers, jobbers. This market accommodates different companies and individuals, corporate organizations, the source for long term capital (tenure of 2 years above) in this market. The capital market is divided

into two markets; the primary market and secondary market, the latter is the market for new issues of shares *(initial public offer)* while the former is market for existing share, the latter provides an avenue for private individuals, corporate bodies and government to raise huge amount of capital for infrastructural/capital project on a long-term basis while the latter is a market for sales of existing shares.

2.4.2. Indicator in Nigeria Capital Market

In order to ascertain the level of development in any market there are some key indicators this includes; New Issues (NI): This refers to the total initial public offer (IPOs) that are floated in the market by companies for the first time, NI does not necessarily mean IPO it also comprises of the total summation of additional funds companies tries to raise to keep operation in process, this is dependent on factors such as free entry and exit, accessibility, adaptability and confidence. Market Capitalization: Reflects the size of issued and paid-up capital which is reflected in equity quoted market price, this is a strong indicator of how viable and reliable the capital market is, it also reflects the aggregate stock value. Transaction Volume: Shows the various moves/trend in the market, the fluctuation in this move shows the strength. liquidity; the capital market can be said to be liquid when investors buy and sell the stock with ease.

2.4.3. The Characteristics of the Nigerian Stock Exchange

a) Nigerian Stock Exchanges are in no way more than mere equity exchange due to the non-existent of the bond market. To this effect, the stock exchange is been dominated by Equity markets for as much as 98 percent. The reasons are not far-fetched for one thing; Government stocks with their notoriety for dormancy constitute the major segment of the bond market.
b) It is perceived to be an unsafe institution for investment due to the country's high debt profiles, hence, only buyers who are compelled by law to invest in securities for example insurance companies and pension funds are mostly found in the market for government bonds.
c) The interest rates in Nigeria sometimes tends to be low in comparison with returns from equity investments.
d) Inflation rates also have worsened the problem of eroded incomes from investment in bonds. Companies in Africa have also found it more profitable and cheaper to raise funds by floating equities in African capital markets than through borrowing. Policy inconsistency and the rather unstable governments also create a lack of confidence in government securities by investors.
e) Another characteristic of the Nigerian stock market is that they are very small compared with other emerging markets of the world.

2.4.4. Advantage of Being Listed on the Nigerian Stock Exchange

There are some advantages that accrue to companies that are listed on the stock exchange which include but not limited to the following.

2.4.5. Access to Growth-Enabling Capital

It gives listed companies the opportunity of raising capital for strategic expansion both as a newly admitted member and as an existing member of the Nigerian Stock Exchange, thereby leading to stability in the achievement of its growth aspiration.

2.4.6. Increase Diversification of Financing Options

Companies that are listed on the Stock exchange enjoy a broader range and different options of raising funds and access to the different capital structures which in turn gives rise to an enormous pool of public funds for growth financing. It also gives companies the opportunity or access to sourcing investors globally. Such companies' quoted shares can also be used as currency to back acquisition, merger and growth objectives.

- *Access to Long Term Financing at Competitive Rates*

Of course, we cannot at this point overemphasize the fact that it gives companies competitive financial pricing in terms of strategic growth and capital expansion.

- *Higher Public Profile and Visibility*

Being listed on the stock exchange gives a company a very high reputation in terms of merger and acquisition. This is because of the increased attention from research analysts, investment banks, the media and investors, as well as potential inclusion in market indexes.

- *Enhanced Transparency and Integrity*

Because of the rigorous disclosure and strict governance standard that is required of listed companies, it, therefore, gives them credibility in the eyes of business partners, customers and even employees.

- *Enhanced Share Liquidity and Valuation*

Being publicly quoted gives a company the opportunity to objectively place value on its business and to create an available market for showcasing the company's shares in order to unlock value.

- *Business Sustainability and Continuity*

Going public brings about good corporate governance and good business practice which enhances the going concern principle of the firm.

2.5. Empirical Review

In Malaysia, Ali and Yap (2016) examine how the capital market has impacted on productivity, they discovered that this market cannot be avoided because of their ability to mobilize capital for economic development. Abbas et al. (2016) use of 11 data point time series data to examine if relationship exists between Dar-es-Salam Stock Exchange (DSE) and Tanzania economy, the result showed that R^2 was <50 meaning the explanatory variable chosen in his study were not able to capture the explained variable, reduction was identified in the participation of foreigners in DSE because of the bridge in the flow having involving the compulsory permission from Bank of Tanzania, it was discovered that Market capitalization has a negative -2.502.852 and insignificant relationship -5094.804 with growth but turnover ratio has a positive 333.3326 and significant relationship with GDP, for there to be growth in DSE market, turnover is a vital instrument needed to forestall growth in both the economy and the market, in line with this IPOs should be reinvigorated instated of bank loans and policies that guide the operation of foreigners should be reviewed on time to increase their participation. A comparative analysis was investigated by Mukherjee (2007) between Indian Stock Market and other foreign market which include National Stock Exchange of Indian Limited (NSE), New York Stock Exchange (NYSE), Tokyo Stock Exchange (TSE), Russian Stock exchange (RSE), Hong Kong Stock exchange (HSE), Korean Stock exchange (KSE) and Bombay Stock exchange (BSE), this analysis was carried out in two different eras it was discovered that the Indian markets is strongly integrated with other foreign market. Using Bound Test approach, Okodua and Ewetan (2013) examined if stock market is a requirement for economic growth to take place, upholding the discovering Mishra, Mishra, Mishra, and Mishra (2010) in India, it was discovered that a long run relationship was identified between the variables under investigation but Oluwatosin et al. (2013) and Yadirichukwu and Chigbu (2014) discovered a contrary opinion in the case of Nigeria. In a bid to access factors that support development in Nigeria, Donwa and Odia (2010) investigate the role of the capital market, the use of ordinary least square technique was employed in the analysis, the study made use of data from 1981 to 2008, the report from the study showed that the indices that was used did not support the program because the stakeholders' confidence is not strong and does not support the activities in the stock market, while Adefeso, Egbetunde, and Alley (2013) made use of Vector Error Correction Model (VECM) they discovered that activities in the banking sector and stock market support growth. In a similar investigation by Okonkwo, Ogwuru, and Ajudua (2014) a substantial association was identified

between market capitalization and value of turnover ratio while the opposite direction was identified between total value of transaction but the VECM causality test shows that reinforcement relationship exists between real GDP and number of listed security, this arose as a result of an enabling/permitting environment identified. Similarly, in Malaysia Chee, Yusop, Law, and Sen (2003) discovered the same causality. Ben and Ghazouani (2007) examine the effect of 11 Arabic countries stock market and their financial system, the study made it obvious that the banking system has a major role to play in the growth process of the countries under investigation if and only if the financial system is developing alongside. In Nigeria, Muhammed, Nadeem, and Liaquat (2008) in Taiwan, Liu and Hsu (2006) support that the development of the financial system is a pre-requisite for growth in their country, but Nyong (2003) discovered that the Romanian capital market has been unproductive.

3. METHODOLOGY

3.1. Research Design

This research work adopts ex-post factor research design or near experimental research design, time-series data for the study were gathered from CBN statistical bulletin which ranges from 1985-2017. The model for this study Yadirichukwu and Chigbu (2014) and Oluwatosin et al. (2013), the exogenous variable is gross domestic product (GDP) while that of the endogenous variables are; Market Capitalization; used to access the worth of the company which is calculated as price per share multiply by company share. All Share Index; an indicator that shows the performance of Nigeria capital market this can be mathematically measured by summing the quoted average share price of stocks traded within a stipulated point in time. Value of Deals this is the summation of the value of transaction traded by government, industrial loan, bound and equity and second tier security. Transaction Volume: This is qualitatively measured by totaling the number of shares that changes hand between the seller and the buyer in the market within a specific period of time.

3.2. Model Specification

3.2.1. Functional Model

$$GDP = F(MKTCAP, ASI, TOV) \quad (1)$$

Key: The Equation 1 simply shows that Gross Domestic Product (GDP is a function of Market Capitalization (MKTCAP), All Share Index (ASI) and Total Value of Transaction (TOV), while (t) stands for time series, (Ui) Error term, for estimation purpose the Econometric Model can be specified thus, in this model below we incubate the intercept and the error term in the Equation 2:

$$GDP_t = a_0 + a_1 MKTCAP_t + a_2 ASI_t + a_3 TOV_t + Ui \quad (2)$$

$$\text{Apriori Expectation} = >0_{a1,} >0_{a2} >0_{a3}$$

4. ANALYSIS OF DATA

4.1. Descriptive Statistics

To access the underlying trend amongst the employed data, the study employs the Descriptive statistics as a form of Univariate Analysis is presented in Table 1. Results of Descriptive Statistics of Gross Domestic Product D(GDP), Market Capitalization D(MKTCAP), All Share Index D(ASI) and Total Volume of Transactions D(TOT) in Nigeria over the period of 1985 to 2017 *(₦'B)*.

From the result of the descriptive statistics in Table 1 the; Mean; The overall average of Gross Domestic Product D(GDP) is seen as 25.17277 billion which started at its lowest value 192.2700 billion and progressed to its highest value of 101489.5 trillion after which the total average of market capitalization D(MKTCAP) is also seen as 4651359% with its minimum value of 6.6%, while it experienced its peak at 1907740%. Total Value of Transaction D(TOT) is also seen to have progressed over the year with slight fluctuation with its overall average of 3987640 billion with its highest value of 2350876 billion. All Share Index D(ASI) with an all-time average as 1513968 with it a maximum value of 9537.050 billion.

Table-1. Descriptive statistics.

	D(GDP)	D(MKTCAP)	D(ASI)	D(TOT)
Mean	25172.77	4651.359	15139.68	398764.0
Median	7515.810	567.4000	9537.050	42918.45
Maximum	101489.5	19077.40	57990.20	2350876.
Minimum	192.2700	6.600000	127.3000	225.4000
Std. dev.	32147.19	6445.045	14929.05	595027.1
Skewness	1.163072	1.065430	0.873195	1.610588
Kurtosis	2.956595	2.553318	3.181482	5.069917
Jarque-Bera	7.217110	6.320119	4.110415	19.54738
Probability	0.027091	0.042423	0.128066	0.000057
Sum	805528.6	148843.5	484469.7	12760447
Sum sq. dev.	3.20E+10	1.29E+09	6.91E+09	1.10E+13
Observations	32	32	32	32

Standard deviation: from the Table 1, it shows that all variable employed are susceptible to the large differences in the values of their mean and standard deviation.

Skewness: Following the rules of skewness, the following values of the above variable are highly skewed GDP (1.163072), MKTCAP (1.065430), TOT (1.610588), while ASI is moderately skewed (0.873195).

Kurtosis: Gross Domestic Product D(GDP) is platykurtic in nature because the kurtosis value is less than 3 indicating a thin tail compared to standard normal distribution. Indicating that market D(GDP) and D(MKTCAP) produces less extreme outliers, which means the returns that follow these variables tend to have less major fluctuations while the Total Value of Transaction D(TOT) which is higher than the normally distribution is said to be leptokurtic, which produces more outliers than the normal distribution while All Share Index D(ASI) is of a univariate normal distribution of 3. Jarque-Bera; In this light, it can be inferred that GDP, MKTCAP and TOT amongst all variable is normally distributed as it possesses p-value <0.5, while another variable is >0.05.

4.2. Unit Root Test

Time series data are not free from error of spuriousity the (PP) test will be used to ascertain the trend of data in the model, Table 2 shows the Phillip Peron (PP) unit root output.

The Table 2 shows that the data under investigation are all stationary at level one (1) this means the Critical Values are greater than the PP statistics. We then went further to conduct the co-integration test. Note: D(GDP), D(MKTCAP), D(ASI) and D(TOT) represent the differenced values of Gross Domestic Product (GDP), Market Capitalization (MKTCAP), All Share Index (ASI), Total Volume of Transactions (TOT) and Value of Government Bonds (VGBC) over the stipulated study period. The usability test output (unit root) as seen in Table 2 shows that all were 1(1). Further, for each, the absolute PP test is (greater >) than all the corresponding Mackinnon's (C) values at the 1, 5 and 10 percent significance levels. All are at order one i.e. I (1). They are consequently ascertained as suitable for employment in the further analysis without any significant spurious effects.

4.3. Serial Correlation

In order to fulfill the Classical Linear Regression Model assumptions (CLRM) there is a need for the absence of serial correlation in the model, this makes us conduct the Breusch-Godfrey Serial Correlation test presented in Table 3.

Table-2. Unit root output (Phillip Peron).

Variables	PP-statistic	Test critical values	Order of integration	Prob.
D(GDP)	-9.473470	1% level = -3.679322 5% level = -2.967767 10% level = -2.622989	I(1)	0.0000
D(MKTCAP)	-5.535005	1% level = -3.670170 5% level = -2.963972 10% level = -2.621007	I(1)	0.0001
D(ASI)	-13.75953	1% level = -3.679322 5% level = -2.967767 10% level = -2.622989	I(1)	0.0000
D(TOT)	-33.62338	1% level = -3.679322 5% level = -2.967767 10% level = -2.622989	I(1)	0.0001

Table-3. Breusch-godfrey serial correlation LM test.

F-statistic	2.290915	Prob. F(2,26)		0.1212
Obs*R-squared	4.794303	Prob. Chi-Square(2)		0.0910

From the result in Table 3 it can be seen that the null hypothesis of no serial correlation can be accepted since the Prob. F (2,46) 0.1212 and Prob. Chi-Square (2) 0.0910 is above the criteria range of 0.05%, this makes our model adequate and suitable for prediction purposes.

4.4. Co-Integrating Test

Table-4. Johansen's co-integration test.

Series: GDP MKTCAP ASI TOT				
Lags interval (in first differences): 1 to 1				
Unrestricted cointegration rank test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical value	Prob.**
None *	0.849078	99.10541	47.85613	0.0000
At most 1 *	0.601670	42.37572	29.79707	0.0011
At most 2	0.250706	14.76147	15.49471	0.0643
At most 3 *	0.184069	6.102771	3.841466	0.0135
Trace test indicates 2 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon, Haug, and Michelis (1999) p-values				

It can be seen from Table 4 that there is just two co-integrating equation which is noticeable in the table above, this means there is long run association "*mutual stochastic trend*" between the variables under investigation because the trace statistics is higher than the critical value at 5%, we therefore accept the alternative hypothesis which is, a long association can be seen, following Gujarati (2004) he stated that if one co-integrating equation is identified then we can conduct the Vector Error Correction Model (VECM) which is used to check the speed of adjustment between short and long term, but before then we need to ascertain the predictive capability of one variable on the other using granger causality test.

4.5. Short Run Multiple Regression

Table-5. Short run multiple regression.

Dependent variable: GDP				
Variable	**Coefficient**	**Std. error**	**t-statistic**	**Prob.**
C	5025.405	1986.826	2.529364	0.0173
MKTCAP	6.465627	0.556588	11.61654	0.0000
ASI	-0.341134	0.171867	-1.984869	0.0570
TOT	-0.011942	0.005868	-2.035030	0.0514
R-squared	0.948465	Mean dependent var		25172.77
Adjusted R-squared	0.942943	S.D. dependent var		32147.19
S.E. of regression	7678.841	Akaike info criterion		20.84679
Sum squared resid	1.65E+09	Schwarz criterion		21.03001
Log likelihood	-329.5487	Hannan-Quinn criter.		20.90752
F-statistic	171.7736	Durbin-Watson stat		1.487367
Prob(F-statistic)	0.000000			

The short-run relationship is investigated in the Table 5, the model is fit at 95% while the Durbin-Watson statistics is 1.487367 this suggest the absence of multicollinearity in the model specified above, it was also discovered that ASI and TOT has a negative (-0.341134 and -0.011942) positive relationship is identifiable between them and GDP in Nigeria based on 5% confidence level. Market Capitalization (MKTCAP) has a positive (6.465627) and significant relationship (0.0000) with GDP, this means that for every one percent increase in MKTCAP it leads to about 6.465627% increase in GDP, this result adheres to our apriori expectation, and it also accepts the findings of Ifionu and Omojefe (2013) and negates the findings of Abbas et al. (2016) in Tanzania. It was also seen that the P-Value is less than the critical value at 0.05%, this means that there is a significant relationship with gross domestic product. Secondly all-share index (ASI) has a negative and significant relationship with GDP in the short run, this result is contrary to our apriori expectation, that is for every one percent increase in ASI there is a reduction of about -0.341134% in GDP, this implicitly suggest that the null hypothesis should be accepted and the alternate should be dislodged. Finally, total value of transaction (TOT) has a negative (-0.011942) but significant relationship with P- value of 0.0514 this means for every one percent increase in TOT, GDP has a reduction of about -0.011942%, this result adheres to our apriori expectation.

4.6. Pairwise Granger Causality Tests

This test is conducted in order to ascertain if one variable can cause a change in another. The result is presented below.

Table-6. Pairwise Granger causality tests.

Pairwise Granger causality tests				
Null hypothesis:	**Obs**	**F-statistic**	**Prob.**	**Decision**
MKTCAP does not Granger cause GDP	30	0.43737	0.6506	H_0
GDP does not Granger cause MKTCAP		14.4535	0.0205	H_A
ASI does not Granger cause GDP	30	1.15197	0.3322	H_0
GDP does not Granger cause ASI		4.12549	0.0283	H_A
TOT does not Granger cause GDP	30	0.00423	0.9958	H_0
GDP does not Granger cause TOT		7.74517	0.0024	H_A
ASI does not Granger cause MKTCAP	30	0.11610	0.8909	H_0
MKTCAP does not Granger cause ASI		0.23957	0.7888	H_0
TOT does not Granger cause MKTCAP	30	2.26587	0.1246	H_0
MKTCAP does not Granger cause TOT		5.53396	0.0097	H_A
TOT does not Granger cause ASI	30	1.01843	0.3757	H_0
ASI does not Granger cause TOT		9.40376	0.0009	H_A

Table 6 shows the causality effect between performance indicator in capital market and how it affects growth in the country. Following the results above at 5% confidence level decisions were made and it can be seen that MKTCAP does not granger cause GDP, but GDP granger cause MKTCAP, this means past values of GDP can predict MKTCAP, this finding dislodged Majid (2008), Deb and Mukherjee (2008) result which states that causality flow both ways, it was discovered that ASI does not cause a change in GDP but GDP cause a change in ASI, this means past values of GDP causes a change in ASI, meaning causality flow one and past values of GDP causes a change in ASI but TOT does not cause a change in GDP but GDP cause a change in TOT, this means one way causality flow form GDP to TOT, also uni-directional relationship exist between them. ASI does not cause a change in MKTCAP, likewise MKTCAP does not cause a change in ASI this suggest that there is neither uni-nor bi-directional association existing between them. It can be accepted that TOT does not cause a change in MKTCAP but MKTCAP cause a change in TOT, this means a bi-directional causality is noticeable. Finally, TOT does not cause a change in ASI but ASI cause a change in TOT this means one-way causality is visible between ASI and TOT because the P-Value (0.0009) is less than 5%. Having establish this relationship we further conduct the Vector Error Correction Model (VECM).

4.7. Vector Error Correction Model (VECM)

It can be seen from Table 7 that the lag one (-1) of market capitalization (MKTCA) has a positive (0.488046) but insignificant relationship (0.5277) with GDP, this means for every unit increase in MKTCA there will be an increase of about 0.488% in MKTCA this increase is as a result of the various financial activity that is carried out in the market and how the market responds to the prices of different quoted company share price. This supports the discovery of Ali and Yap (2016) and the "Finance-led Growth theory was accepted because as the market develops so does the economy grow alongside, so for there to be growth in the economy there must be growth in the financial market of that country, it also supports the argument of Goldsmith (1969), Mc Kinnon (1973) and Schumpeter (1912). The lag (-2) has a negative co-efficient of (-2.168957) but the significant relationship (p-value of 0.0051) with GDP taking a critical look at the result we discovered that there is an alteration in the p-value and the co-efficient value between the two lags. It was discovered that the country was exposed to unexpected fluctuation as a result of inflow and outflow portfolio investment which occurred because of the political and economic disruption in the country, making the economy not favorable for foreigners to invest. The negative contribution is as a result of what Abbas et al. (2016) identified it as rigorous/strenuous conditions that prospective investors might face before trading in the market make them abscond. All this makes reallocation of resources very difficult and this pose a problem to the financial system in the country because production capability is not fully engaged. All share index (ASI) has a negative (-0.241336) but significant (0.0099) association is noticeable between ASI (-1) and GDP, this means for everyone percent increase in ASI there is a reduction of -0.241336 in GDP, while on the long run it has a positive (0.194015) but insignificant (0.0723) association exist between ASI in lag (-2) and GDP, meaning 1% increase in ASI will lead to 0.194015% increase in GDP this is in acceptance with that of Nwaolisa, Kasie, and Egbunike (2013). In lag -2 a contrary (opposite direction) result was discovered to that of lag -1. The insignificant relationship identified means that the market has not been fully utilized has it should be and if it is, it will contribute more to the growth of the country. Total Value of Transaction (TOV) has a positive (0.004753) but insignificant relationship (0.2057) with GDP at lag (-1), this means for every one percent increase in TOV it will lead to about 0.0047% increase in GDP. While at lag (-2) a positive (0.004401) and significant relationship (0.0193) existing between TOV and GDP in lag (-2). The positive and significant relationship is traceable to the improvement in Central Securities Clearing System (CSCS) and effective under-writer in the market, TOV was upheld Nwaolisa et al. (2013) findings, because a lot of development have taken place from the time he researched on the market till date. Since foreigner's trade in this market and their participation will increase the volume of transition then there is need to mitigate the ex-ante risk that portfolio investors might likely face in the cause of their transaction.

Table-7. Vector error correction model.

Vector error correction estimates				
Cointegrating Eq:	CointEq1			
GDP(-1)	1.000000			
MKTCAP(-1)	-10.41176			
	(0.27708)			
	[-37.5761]			
ASI(-1)	-0.408495			
	(0.04424)			
	[-9.23345]			
TOT(-1)	0.078028			
	(0.00295)			
	[26.4193]			
C	-1441.605			
Error correction	**D(GDP)**	**D(MKTCAP)**	**D(ASI)**	**D(TOT)**
CointEq1	0.015773	-0.421538	-1.908024	-84.67188
	(0.06166)	(0.09174)	(0.28869)	(5.92105)
	[0.25580]	[-4.59469]	[-6.60923]	[-14.3001]
D(GDP(-1))	0.305529	1.706908	7.271883	224.3739
	(0.22332)	(0.33226)	(1.04552)	(21.4435)
	[1.36812]	[5.13726]	[6.95530]	[10.4635]
D(GDP(-2))	0.881860	-0.530219	-1.909021	-50.09616
	(0.16195)	(0.24096)	(0.75822)	(15.5510)
	[5.44515]	[-2.20047]	[-2.51778]	[-3.22141]
D(MKTCAP(-1))	0.488046	-5.535914	-26.73006	-673.3125
	(0.75857)	(1.12862)	(3.55140)	(72.8392)
	[0.64338]	[-4.90504]	[-7.52663]	[-9.24382]
D(MKTCAP(-2))	-2.168957	0.474669	-1.361028	-204.7555
	(0.68469)	(1.01870)	(3.20553)	(65.7453)
	[-3.16778]	[0.46596]	[-0.42459]	[-3.11437]
D(ASI(-1))	-0.241336	0.420122	1.834094	1.992183
	(0.08428)	(0.12539)	(0.39457)	(8.09262)
	[-2.86353]	[3.35046]	[4.64834]	[0.24617]
D(ASI(-2))	0.194015	-0.476649	-1.581432	-38.91732
	(0.10193)	(0.15166)	(0.47723)	(9.78794)
	[1.90333]	[-3.14286]	[-3.31379]	[-3.97605]
D(TOT(-1))	0.004753	0.018431	0.095293	3.611877
	(0.00363)	(0.00540)	(0.01698)	(0.34827)
	[1.31049]	[3.41545]	[5.61193]	[10.3709]
D(TOT(-2))	0.004401	0.003801	0.019978	1.303900
	(0.00172)	(0.00256)	(0.00806)	(0.16534)
	[2.55576]	[1.48371]	[2.47827]	[7.88626]
C	421.0296	-1009.085	-4323.932	-155328.4
	(324.836)	(483.298)	(1520.79)	(31191.3)
	[1.29613]	[-2.08791]	[-2.84322]	[-4.97986]
R-squared	0.943693	0.707879	0.799534	0.969539
Adj. R-squared	0.917022	0.569506	0.704577	0.955110
Sum sq. resids	17789518	39379100	3.90E+08	1.64E+11
S.E. equation	967.6210	1439.647	4530.109	92912.51
F-statistic	35.38190	5.115735	8.419923	67.19450
Log likelihood	-234.3882	-245.9102	-279.1543	-366.7608
Akaike AIC	16.85436	17.64898	19.94168	25.98350

Schwarz SC	17.32584	18.12046	20.41316	26.45498
Mean dependent	3491.036	557.8448	920.1276	39573.10
S.D. dependent	3359.098	2194.182	8334.631	438531.3
Determinant resid covariance (dof adj.)		2.06E+28		
Determinant resid covariance		3.79E+27		
Log likelihood		-1085.383		
Akaike information criterion		77.88850		
Schwarz criterion		79.96302		

5. SUMMARY OF FINDINGS

This study investigates the capital market and the Nigeria economy, the capital market provides initial seed that facilitates, propels and enable the smooth operation of production factors in the economy. The major findings were discussed above with respect to the model built in this study. Hence, it becomes apparent to draw out conclusions based on these findings. In a more formal way, the conclusions are attempts to show that the objectives of the study are achieved. We introduced the descriptive statistics followed by the unit root, then co-integration, VECM and Granger Causality in processing the time series data and verified the preposition on the series of performance of Nigeria economy proxied by gross domestic product (GDP) and capital market indices. In view of this, we found empirical evidence to conclude that all the explanatory variables which include market capitalization (MCAP), total value of shares issued (TVSI), Total value of new issues (TVNI), all share index (ASI), and value of government bonds in circulation are all useful in predicting Nigeria's economic growth as there is the existence of strong influence emanating from the predictor variables to the growth indicator in the short and long run looking at the VECM result. In three scenarios, it was discovered that causality flow from GDP to ASI, GDP to TOT and from ASI to TOT, this suggests that their past value will predict the occurrence of the other variable, likewise in two cases the TOT can be predicted from the past values of GDP and ASI respectively.

6. CONCLUSION AND RECOMMENDATION

Transparency and favorable investment-friendly environment is needed to improve investors' confidence, this will eventually make companies push out for initial public offerings (IPOs), which will eventually boost the capital structure of companies as well make room for them to diversify and produce quality products because of the long term facility that have been extended to them. For there to be an increase in the flow of funds into the capital market, private companies need to be actively involved in the capital market, this can only be achieved if the laws (*Provisions of Security and Exchange Commission (SEC) Act*) are relaxed which will accommodate more companies that wish to flow their initial public offers, his will make varieties of instruments to be available in the market which will suit various classes of investors.

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