

**GLOBAL ECONOMIC MELTDOWN AND THE NIGERIAN CAPITAL MARKET
PERFORMANCE**

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UNIVERSITY OF BENIN

BENIN CITY

JANUARY, 2024

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**BEING A PROJECT WRITTEN AND SUBMITTED TO THE DEPARTMENT OF
BANKING AND FINANCE, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY
OF BENIN IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
AWARD OF A DEGREE OF BACHELOR OF SCIENCES IN BANKING AND
FINANCE OF THE UNIVERSITY OF BENIN, BENIN CITY.**

JANUARY, 2024

DECLARATION

I declare that:

1. This project work is based on the study undertaken by me in the Department of Banking and Finance, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Dr. A. O. IZEKOR.
2. This work has not been submitted for the award of degree elsewhere.
3. All ideas and views are product of my personal research and where the views of others have been expressed, they have been duly acknowledged.

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Date

CERTIFICATION

This is to certify that the research project was submitted by Joan Blessing OAIKHENA with matriculation number MGS1611485 to the Department of Banking and Finance, Faculty of Management Sciences, University of Benin, Benin City, in partial fulfillment of the requirement for the award of Bachelor of Science (B.sc) Degree in banking and finance.

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DEDICATION

This project is dedicated to the Most High God, for His undeserved kindness, love, and wisdom for the success of this work. I also dedicate this work to my father, Mr. Simeon Oaikhena for giving birth to me.

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ABSTRACT

This study attempts to empirically examine the impact of the global economic meltdown on the Nigerian capital market performance. The study used financial deepening as proxy for economic meltdown, exchange rate, inflation rate and market capitalization as proxy for the Nigerian capital market. This study made use of Secondary data. The data were sourced from the Central Bank of Nigeria statistical bulletin for the period 2007 to 2022. Descriptive statistics and Granger causality test were adopted for analyses. It was found that financial deepening during the considered period has no significant causality effect on the Nigerian capital market performance. It was also observed that during the considered period, exchange rate has no significant causality effect on the Nigerian capital market performance, while inflation rate has no significant causality effect on the Nigerian capital market performance. The study recommends that, government and regulatory authorities should implement policies to improve the declining market capitalization by injecting more funds into the market and encouraging more foreign investors to participate and invest into the market.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Capital market refers to financial institutions that grant medium and long term loans, which trades on government securities, corporate bonds, and the utilization of long term funds for development (Ologunde, Elumilade & Asaolu, 2006). Murinde (2006) opined that capital markets are markets for trading long term financial securities, including ordinary shares, long term debt securities such as debentures, unsecured loan stock and convertible bonds. The capital market synchronizes the different portfolios preferences of investors and financial intermediaries, which is vital for the acceleration of economic development across the globe (Oladipupo, 2010; Okafor & Arowoshegbe, 2011; Idolor & Erah, 2011; Ogege & Ezike, 2012 & Otto, Ekine & Ukpere, 2012). Ologunde, Elumilade and Asaolu (2006) asserted that, most government pays reasonable attention to the activities of the market since it is not only crucial, but also central to the entire capital mobilization process which gives room for the creation of goods and services meant for the satisfaction and well-being of the citizens of any country. Akingbola (2009) asserted that, the withdrawal of overseas funds from the market has impacted negatively on lending to the real sectors of the economy and that sustainable economic growth and development cannot thrive under this circumstance. The effect of the economic melt-down can

be described as a dynamic system which changes with time and regularly demands updated information.

1.2 Statement of the Problem

The global economic meltdown had posed a great challenge to developing countries, especially Nigeria which is highly vulnerable to the global world, as most of the commodities consumed in the country are imported from international market. According to Mtango (2008), foreign direct investment and equity investment have come under pressure due to the global economic meltdown. Literature from previous studies (Adamu, 2009; Okonjo-Iweala, 2009; Olokoyo & Ogunnaike, 2012; Ngele, Ononogolu & Nwoga, 2015; Dophine & Chappell, 2010) showed emphases on the impact of global economic meltdown on the Nigeria financial sector, oil revenue and foreign direct investment, while few literature had emphasized on the impact of global economic meltdown on the Nigerian capital market. Hence, creating a gap in literature. Consequently, this research intend to add up to the existing literature on economic meltdown as it affect the Nigerian capital market performance.

1.3 Objectives of the Study

The broad objective of this study is to examine the effect of the global economic meltdown on the Nigerian capital market performance. The specific objectives are:

1. To examine the causality effect of financial deepening on the Nigerian capital market performance.
2. To ascertain the causality effect of exchange rate on the Nigerian capital market performance.
3. To determine the causality effect of inflation rate on the Nigerian capital market performance.

1.4 Research Question

The following research questions in this study were derived from the earlier identified research problems:

1. What is the causality effect of financial deepening on the Nigerian capital market performance?
2. Does exchange rate has causality effect on the Nigerian capital market performance?
3. What causality effect inflation rate has on the Nigerian capital market performance?

1.5 Research Hypotheses

Hypothesis 1

Ho: Financial deepening have no causality effect on the Nigerian capital market performance.

Hypothesis 2

Ho: Exchange rate has no causality effect on the Nigerian capital market performance.

Hypothesis 3

Ho: Inflation rate has no causality effect on the Nigerian capital market performance.

1.6 Scope of the Study

This study covers a period of 16 years between 2007 to 2022. The choice of 2007 as the base year was because the global economic meltdown became evident beginning from the year 2007. This period of study is unique because it was the period in which Nigeria also felt the impact of the global economic meltdown, as well as other economies. The period as well coincided with the time when general changes were introduced by the Central Bank of Nigeria and the ministry of finance on the operations of the Nigerian Capital Market.

1.7 Significance of the Study

The importance of the capital market to any economy cannot be overemphasized. It has been discovered that there is a direct linkage between the capital market of a nation and its economic growth (Olowookere & Osunubi, 2007; Kalu, 2009; Nwachukwu, 2009). It is a noted fact that for any meaningful economic transformation of a country to take place, her capital market must be effectively active. It has also been an identified fact that economic strength of any nation is measured according to the activeness of her capital market.

This study will therefore be of immense benefit to the government and the Securities and Exchange Commission as they are aware of the problem confronting the Central Bank of Nigeria and remedies to grappling these problems.

The study will also be significant to institutional operators of the market especially the Nigeria Stock Exchange (SEC) as the study provides detail causes of the problem and ways to correct the existing abnormalities.

The study will also be beneficial to researchers who want to go into further research in this area as it will serve as a good reference material. This study will be of interest to investors who have been at the receiving end of the financial economic crisis as this study will enlighten them on the causes of the problem and the efforts of SEC in protecting their investments.

1.8 Limitation of the Study

One major limitation encounter in this study is the variables used. To adequately measure the effect of the economic meltdown as proxy by financial deepening on the Nigeria capital market. The entire factors/indicators needs to be used, but this study make use of only few indicators which cannot give an accurate measurement of the Nigerian economy. Moreover, the variables used for economic meltdown, such as financial deepening, exchange rate and inflation rate are not all the required variables, and this study cannot make use of all the variables, so the study only make use of some of the factors that are affecting capital market which may not adequately

measure the effect of the economic meltdown on the Nigeria capital market in terms of market capitalization.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview of the Global Economic Meltdown

Global economic meltdown refers to the transmission of negative market stocks from one country or region to another either directly or indirectly, which is a process that impacts exchange rates, stock prices, sovereign and foreign direct investment (Osadume & Mbachu, 2017). Financial development at the long run supports economic growth and poverty reduction as financial systems are vulnerable to systemic banking crises, cycles of booms and financial volatility (Schmukler, 2008). The effect of economic meltdown that began in the U.S. was both internal and external induced. The initial global economic meltdown affected mainly the U.S. and the European countries. However due to the connectivity of the financial system also known as the contagion effect, most economies were affected and the impact of the crisis became visible in the year 2007 with the fall in the price of major stock. The economic meltdown which manifested itself globally in the form of liquidity and credit crunch, lack of confidence in banking and other sector, weak consumer demand, fall in world output and low capita income affected Nigeria both through financial and non financial aspect. The lack of diversification in the Nigerian economy and the high dependence on export of mineral resources such as crude oil as well as foreign capital inflow worsen the contagion effect of the global economic meltdown (Nijiathaworn, 2010).

Taylor (2007) argues that in the United States, the demand for housing is sensitive to money market interest rate and the accommodative policy of the Federal Reserve from 2001 and this contributed to the global economic meltdown, which occurred in 2007/2008. The global economic meltdown refers to the period of extreme stress in the global financial market system. During the global economic meltdown, a downturn in the U.S housing market was a catalyst for a economic meltdown that spread from the United States to the rest of the world. Agbonifoh and Osagie (2010) defines global economic meltdown as the continuous and dramatic drop in all economic variables over a relatively short period of time leading to corporate failures, especially failures of financial institution which provide the lubricant of the economy, unemployment, poverty, inflation rate and low per capita income. The effects of the global economic meltdown had a dramatic negative effect on unemployment, poverty, inflation rate, and per capita income in Nigerian economy. The global economic meltdown is a generalized recession which has severe implications for various sectors and sub-systems of the economy such as the stock market, unemployment, poverty, inflation rate and per capita income (Agbonifoh & Osagie, 2010).

2.1.1 Causes of the Global Economic Meltdown

The global economic meltdown which started initially in 2007, became a global issue and no country seemed to have been spared from the contagion effect. The global economic meltdown as earlier noted was caused by liquidity distress in August 2007 by the U.S Subprime crisis. Before the beginning of the meltdown, many business journals published commentaries warning

about the financial stability of some leading U.S. and European investment banks, insurance firms and mortgage bank prior to the subprime mortgage crisis (Owobu, 2011). The global economic meltdown were due to the collapse of a global house bubble, which started in the U.S. in 2006, caused the value of securities to fall and this led to the global economic meltdown. This eventually reduced investors' confidence in the global stock market, which suffered a huge loss in 2008. Housing prices was at its peaked in 2005 and 2006 with high default rate on subprime and adjustable rate, mortgage began to suffer a major setback as house prices would not go up but interest rate go higher. The crisis was the easy credit conditions, which was as a result of current account deficit experienced in international trade, the USA depended on foreign funds to finance consumption or to bid up the prices of housing and financial assets. There was an expansion of sub-prime lending (Umeanieche, 2011). The market imbalances that was particularly created by the U.S whose large current account deficits as accumulated over the years. The surplus current account nations, lent to an invested in the U.S and as the market imbalances persistent increased (Reddy, 2009). The deficiency in aggregate demand coupled with excessive financing of the economy and excessive leverage during the years of economic expansion in the U.S, and the high rate of return on investment pushed the investors to find investment that will generate higher rate of return, using money to go after higher risk investment. Precisely, subprime mortgages in the U.S increased interest rates and this began to trigger defaults in subprime mortgage loans (Stratfor, 2009).

2.2 The Financial System

The financial system play a key role in the mobilization and allocation of savings for productive use, provide structures for monetary management, as well as providing a basis for managing liquidity in the system. It also assists in the reduction of risks faced by firms and businesses in their productive processes, improvement of portfolio diversification and the insulation of the economy from the vicissitudes of international economic changes (Nzotta & Okereke, 2009). The Nigerian financial system according to Nzotta & Okereke (2009), can be broadly divided into two sub-sectors, the informal and formal sectors. The informal sector has no formalized institutional framework, no formal structure of rates and comprises the local money lenders, thrifts, savings and loans associations and all forms of 'isusu' associations. The formal sector, on the other hand, comprises of the money market and capital market institutions. While the money market deals on short term instruments and funds, the capital market deals on long-term funds and securities. The regulatory institutions in the financial system are the Federal Ministry of Finance, the Central Bank of Nigeria as the apex institution in the money market, the Securities and Exchange Commission (SEC) as the apex institution in the capital market, Nigerian Deposit Insurance Corporation, (NDIC), National Insurance Commission (NAICOM) and the National Pensions Commission (PENCOM).

2.2.1 Overview of the Nigeria Capital Market

The capital market as Sule and Momoh (2009) explain is a network of specialized financial institutions, series of mechanisms, processes and infrastructure that, in various ways, facilitate the bringing together of suppliers and users of medium to long-term capital for investment in socio-economic developmental projects. It embraces all the arrangements that facilitate the buying and selling of securities. The capital market has two segments, the Primary Market and the Secondary Market. The Primary Market provides the avenue through which governments and corporate bodies raise fresh funds through the issuance of securities otherwise known as the new issues market. Fresh funds can be raised through a combination of ways. These include public offers, rights issues and private placements. The secondary market on the other hand, provides investors the opportunity to buy or sell securities that were earlier issued in the primary market. The secondary market can be organized or unorganized. An organized secondary market is a stock market with physical location, trading in designated (quoted) securities, such as The Nigerian Stock Exchange. An unorganized secondary market has no physical trading location but transactions are conducted mainly through telephone calls and the computer. It is called an Over-the-Counter-Market (OTC) which trades mainly in unquoted securities. The distinguishing factor between the two segments is that in the primary markets, the funds raised from investors go to the issuing entity, while in the secondary market; the proceeds from the transaction to investors.

2.2.2 Historical Background of the Nigeria Stock Exchange

The Nigerian Stock Exchange (NSE) was formed in 1960 and was known as the Lagos Stock Exchange. In December 1977, the name was changed to The Nigerian Stock Exchange. Currently, The Nigerian Stock Exchange (NSE) consists of six branches and the Head Office is in Lagos, but has an office in Abuja. The Trading System of the NSE is fully automated. The Nigerian Stock Exchange commenced operations in 1961 with 19 securities enrolled for trading but at present, the numbers of enrolled securities is 282. The Lagos branch was launched in 1961; Kaduna, 1978; Port Harcourt, 1980; Kano, 1989; Onitsha, February 1990; and Ibadan August 1990; Abuja, October 1999 and Yola April 2002. In 1988, the Nigerian Stock Exchange management protested to the government about a report on the reform of the Nigeria's capital market. The capital market is the cornerstone of every financial system since it provides the funds needed for financing not only business and other economic institutions, but also the programme of government as whole. The capital market is essentially a market for long term securities that is stock, debenture and bonds lasting for usually longer than three years. The proper functioning of the capital market was not set up until the establishment of the Central Bank in 1959 and launching of the Lagos stock exchange in 1961 even though securities were floated as far back as 1946. The needs to have an organized stock exchange came up and committee was set up by the government under the chairmanship of Prof. R.W. Barbock to consider the feasibility of having indigenous forum for the purchase and sales of shares and stocks (Suberu, Aremu, & Afonja, 2015).

The Nigerian security and exchange commission (NSEC) is the apex institution for the regulation and monitoring of the Nigeria capital market. The commission was established under the security and exchange commission decree 1979, operating retrospectively from 1st April 1978. Prior to the SEC, two bodies had in succession been responsible for the monitoring of capital market activities in Nigeria. The first was capital issues committee, which operated between 1962 and 1972. It could not be seen as the superintendent of the capital market because its functions were more or less advisory without the force of instruction even through its functions included the coordination of capital market activities. The next body was the capital market issues commission (CIC) which came into being in March 1973. The C.I.C, unlike its predecessor, had full powers to determine the price, timing and volume of security to be issued. Despite this wider power, the CIC could not be seen as the apex of capital market because it concerned itself with public companies alone and its activities did not cover the stock exchange and government securities. The enabling Act of the Securities and Exchange Commission specifies its overriding objectives as investors' protection and development while its functions were divided into two regulatory and development. The functions of the commission are extensively spelt out in Nigeria Securities and Exchange Commission Decree No 29 of 1983 and the Nigerian Enterprises Promotion Decree 1990. According to section (6) subsection (9) to (10) the commission is charged with the following duties and functions among others:

1. Determining the amount of price and time when securities of companies are to be sold to the public whether through offer for sale or subscription.

2. Registering all securities proposed to be offered for sale to or for subscription by the public. The Nigerian Stock Exchange As one of the constituencies of the capital market, the exchange is a private, non-profit making organization, limited by guarantee.
3. It was incorporated via the inspiration and support of businessmen and the federal government. Own by about 300 members. The membership includes financial institution, stockbrokers and individual Nigerians of high integrity, who have contributed to the development of the stock market and Nigerian economy. The Nigerian stock exchange started with the incorporation of the then Lagos stock exchange in 1960 (Suberu, Aremu, & Afonja, 2015).

2.2.3 Regulations of the Capital Market

The Federal Ministry of Finance

The Federal Ministry of Finance owes its origin in part to the Finance (Control & Management) Act, Cap.144 of 1958. The enactment of this Act created the ministry as a replacement for the then Finance Department and conferred on it the responsibility for the control and management of Public Finances of the Federation. The Act became operational from July 31, 1958. The broad functions and responsibilities of the Ministry as provided by the Act fall into the following categories:

1. General supervision and control of public funds of the Federation, including Development and Contingencies Funds;
2. Management and control of Consolidated Revenue Fund;
3. Securing and managing the investments of the Federation;
4. Preparation of Annual (budgetary) estimates in Appropriation Bill including Supplementary and Unexpected votes;
5. Control and management of public expenditures;
6. Control and management of external finances of the federation (SEC Report, 2009).

The Central Bank of Nigeria (CBN)

The Central Bank of Nigeria began operations on July 1, 1959. Some of its roles are to:

1. Establish the Nigerian currency.
2. Control and regulate the banking system.
3. Serve as banker to other banks in Nigeria.
4. Carry out the government's economic policy in the monetary field.

The government economic policies included control of bank credit growth, credit distribution by sector; cash reserve requirements for commercial banks, discount rates-interest rates the Central Bank charges commercial and merchant banks, and the ratio of banks' long-term assets to

deposits. Consequently, the government, through the central bank, has been actively involved in building the nation's money and equity centers, forming securities regulatory board and introducing treasury instruments into the capital market (SEC Report, 2009).

The Securities & Exchange Commission (SEC)

The SEC is the apex regulatory body in the Nigerian capital market and is supervised by the Federal Ministry of Finance. In 1962, the CBN established a Capital Issues Committee in order to regulate public issues of securities. Its mandate was to examine applications from companies seeking to raise capital from the market and to recommend the timing of such issues. The Committee, however, had no legal backing, but operated unofficially as a capital market consultative and advisory body within the CBN. An increase in the level of economic activities, after cessation of the civil war hostilities, coupled with the promulgation of the Nigerian Enterprises Promotion (Indigenization) Decree in 1972 which mandated minimum Nigerian equity participation in some classes of enterprises broadened public participation in the stock market and significantly increased capital market activities. To provide stronger institutional support to the securities issuance process, primarily to regulate the pricing and timing of securities to be offered to the public, necessitated the creation of another body, the Capital Issues Commission in March 1973 to take over the activities of the Capital Issues Committee (SEC Report, 2009).

The growth in market activities received a further boost from the promulgation of the Nigerian Enterprises Promotion Decree 1977, the second indigenization exercise, which expanded mandatory local equity participation in Nigerian enterprises. It is historically significant that like the Committee, the Commission had on its Board representation from The Lagos Stock Exchange. Neither the Committee nor the Commission was conceived as the apex regulatory agency for the market. These were the precursors to the Securities and Exchange Commission (SEC). As a result of this historical antecedents, The Lagos Stock Exchange (now the NSE) has been perceived as the premier capital market institution (SEC Report, 2009).

Following the acceptance of the recommendations of the Financial System Review Committee led by Dr. Pius Okigbo in 1976, the Federal Government endorsed the establishment of the SEC to supersede the Capital Issues Commission. The SEC was established in 1979 by the Securities and Exchange Commission Act 1979 (re-enacted as Decree No. 29 1988) and became the apex regulator for the market with a mandate to:

1. Regulate and develop the Nigerian Capital Market
2. Determine the prices of securities, and
3. Set the basis of allotment of securities

2.2.4 The Role of the Capital Market in Economy Development

Al-Faki (2006), stated that the capital market is a network of specialized financial institutions, series of mechanisms, processes and infrastructure that, in various ways, facilitate the bringing

together of suppliers and users of medium to long term capital for investment in socioeconomic developmental projects”. The capital market is divided into the primary and the secondary market. The primary market or the new issues market provides the avenue through which government and corporate bodies raise fresh funds through the issuance of securities which is subscribed to by the general public or a selected group of investors. The secondary market provides an avenue for sale and purchase of existing securities.

Sule and Momoh (2009) found that the secondary market activities have impacted more on Nigeria per capita income by tending to grow stock market earnings through wealth than the primary market. The roles of the capital market in the development of the economy include:

1. It provides opportunities for companies to borrow funds needed for long-term investment purposes.
2. It provides avenue for the marketing of shares and other securities in order to raise fresh funds for expansion of operations leading to increase in output/production.
3. It provides a means of allocating the nations real and financial resources between various industries and companies. Through the capital formation and allocation mechanism the capital market ensures an efficient and effective distribution of the scarce resources for the optimal benefit to the economy.

4. The reduces the over reliance of the corporate sector on short term financing for long term projects and also provides opportunities for government to finance projects aimed at providing essential amenities for local investors.
5. The capital market can aid the government in its privatization program by offering her shares in the public enterprises to members of the public through the stock exchange.
6. The capital market also encourages the inflow of foreign capital when foreign companies or investors invest in domestic securities, provides needed seed money for creative capital development and acts as a reliable medium for broadening the ownership base of family-owned and dominated firms.

2.2.5 The Global Economic Meltdown and the Nigeria Capital Market

The Nigerian capital market has performed fairly despite the numerous challenges and problems some of which include: the buy and hold attitude of Nigerians, massive ignorance of a large population of the Nigerian public of the nature and benefits of the capital market, few investment outlets in the market, lack of capital market friendly economic policies and political instability, private sector led economy and less than full operation of recent developments like the automated trading system, central securities clearing system, On-line and remote trading, trade alerts and capital trade points of the Nigerian Stock Exchange (Akaninyere & Ezenduka, 2015).

2.2.6 The Nigerian Capital Market Crash: Causes and Consequences

The meltdown of the Nigerian capital market according to Nwude (2012) in collaboration with the views of Olisaemeka (2008) is attributable to the following:

1. **Global economic meltdown:** That the world is indeed a global village and the world economies interrelated is very evident in the global economic meltdown of 2007-2009. During this meltdown, many stock markets of countries, from USA to Europe, from Asia, Russia, and others were in serious trouble because of this interrelatedness, any development in any part of the world affects other parts as well. Consequently, the Nigerian capital market was not insulated from this global malignant cancer. The upward trend in the stock market which resulted in the market capitalization peaking at an all-time high of N13.5 trillion in March, 2008 was slowed down by massive decline in the global economy to less than N4.6 trillion by the second week of January 2009.
2. **Pull-Out of Various Foreign Investors:** The shrink in the foreign economies orchestrated capital flight from the Nigerian capital market as most foreign investors sought to make up for the deficits in their home countries. These pull-out by foreign investors that already have troubles in their home economies from the Nigerian stock market led to the dumping of shares beyond the ability of domestic investors to contain. In consequence of this, supply of equities overwhelmed demand which led to price fall.

3. **Pronouncements by Regulatory Bodies:** The apex regulator of the Nigerian stock market, the Securities and Exchange Commission, prior to the crash of the market had alleged publicly that stock market prices were being manipulated and it announced that it was probing some quoted companies, such as Dunlop Nig. Plc, Eternal Oil Plc, Capital Oil Plc, and so on. Following the publication, investors became afraid that such statements coming from the principal regulator evidenced the existence of unrealistic prices of all stocks, thus provoking panic selling of stocks among investors. This contributed to the crash of the market. Unfortunately till date, not much has been heard of the outcome of the SEC investigation that transmitted shockwaves down the spines of investors.
4. **Exorbitant operating cost:** Basic Infrastructures like good roads, power supply, water supply, security of lives and property among others are lacking, leading to high cost of doing business. Many companies like Dunlop Nigeria plc and Michelin Nigeria have closed down their production plants as a result of exorbitant operating costs. Most of the textile industries have also stopped production, leading to the crash of their share prices. The shares of some of the companies now trade at nominal value of 50kobo per share. Therefore, evidently, high operating costs impact negatively on the share prices.
5. **Enforced regulations:** The influx of capital flow in the capital market can be traced to some previously enforced regulations. For example, on July 6, 2004 the Central Bank of

Nigeria (CBN) mandated all banks to meet a minimum bank capital base of ₦25billion from the ₦2billion subsisting previously. Following the forced capitalization of banks to a minimum of ₦25billion, almost all banks utilized the capital market to raise funds. The banks that competed to recapitalize not only sucked liquidity from the Nigerian financial system but also overheated it. Through enticing marketing strategies, the banks succeeded in their various offers, but left the capital market place bleeding and gasping for breath. The primary market seemed to experience a boom while the secondary market was sucked dry as many investors dumped their shares in the secondary market, in favor of the primary market offers. A total of ₦2.2 trillion was raised through various public offers dominated by the banks in 2008, much of which came through the disposal of shares in the secondary market.

6. **Offers by Private Placement:** A number of private companies floated private placement of their shares at lower prices while they sought or intended to seek quotation of their share at higher values on the Nigerian Stock Exchange, thus making such private placements very attractive. This lured investors to dispose off their shares in the secondary market, purchase the private placement and dispose of same immediately after their listing on the Stock Exchange at higher prices. The Nigerian capital market thus became a battleground as private companies were falling on each other through many of such offers. The regulating bodies were impotent as the investment and securities Act, 2007, does not place private companies and their private placements under their control

as there were a number of companies that did private placement to suck liquidity from the Nigerian capital market, (Tantalizers, Investment and Allied Plc, Globe Reinsurance Plc, Multiverse Ltd, Swap Technologies Ltd, Star comms Ltd, Equity Assurance Plc, Oasis Assurance Plc, HIS Ltd, Indomie Nigeria Ltd, Tetrizzini Ltd, Food Concepts Ltd, Geolfluied Ltd, Goldlink Insurance Ltd, Universal Insurance Ltd, Chams Plc, Fidson Health Care Plc, Reltel Wireless Ltd, MTN Ltd, among others). The Director-General of the Nigerian Stock Exchange, NdiOkereke-Onyiuke in 2008 admitted this fact in her review of the performance of the Nigerian capital market when she observed inter alia that a significant portion of funds that left the stock for private placement market are still locked-in as many of the issues have not applied to the Nigerian Stock Exchange for Listing. Thus so much liquidity was sucked from the Nigerian capital market in favor of private placements of private companies, many of which remain unquoted till date, leading to the lack of funds to trade in the secondary capital market.

7. **Unwholesome practices:** It is worth recalling that as the market reveled in boom, unwholesome practices among which include deceptive price manipulation by banks in subtle agreement with stockbrokers, and sharp practices of some investors, stirred imbalance in the system. Stock prices were greatly overvalued and investors were hoodwinked by the deceptive allurements for profits. This trend was further accentuated and sustained by margin facilities from the newly capitalized banks. Thus with the withdrawal of margin facilities came a reversal to bearish market sometime around April

2008. The bearish trend deepened for seven months with a temporary market bottom out in November, when market capitalization hit ₦7.4 trillion. As at December 2008, the market has lost over ₦6 trillion in total cumulative losses.

8. **Availability of Alternative Investments:** Another factor that is of great threat to the stock market is the availability of other reliable investment frontiers. For instance, investors are being propelled by the huge profits being derived from the real estate market. The current demand for housing units in the Nigerian market indicates a point for profit taking assurance. The situation where rents are measured in foreign currencies, and payments in two years upfront, coupled with other charges, are alluring.
9. **Short-term Speculative Activities:** Between 2006 and 2008 the Nigerian capital market was seen by investors as a market for short term investments. At a time, many individual investors abandoned or sidelined their core lines of business and concentrated on short-term speculative activities of buying and selling equity securities in Nigerian capital market. Even banks were financing about 65% of the Nigerian capital market transactions through margin facilities granted to investors and stock broking firms. Many banks abandoned or sidelined their core operation of providing credit to the real sector in favor of “playing” the capital market for short-term speculative activities that seemed to pay off up to March 2008 before the cancer that afflicted the market set in. It is estimated that the total exposure of banks to the capital market in terms of trapped funds was in excess of

N1 trillion. Following the trapped banks' funds, the banks became violent on the investors and stock broking firms who borrowed from them for share acquisition. This approach brought suicidal pressure to bear on these borrowers, compelling them to sell their shares at any price just to have a moment of respite. This further increased the supply of shares at ridiculous prices, leading to greater market crash. Thus, the capital market became overheated with so much speculative activities of banks and other institutional investors that by the time the market caved in, it became very difficult for them to exit through the narrow door as there were no large numbers of financially buoyant investors to buy the stocks from them.

10. **Borrowings from foreign banks:** The Nigerian banks usually get short-term loans from foreign banks. They come home, sell the foreign currency at the auction market or lend it to traders in consumables at exorbitant interest rates and make good profit. With this, they declare huge profit every day. The value of their shares goes up accordingly. With the emergence of the global financial crisis, the credit lines dried up with the related profit hence the low value of their shares. The value of the shares of the rest 40% members of the Stock Exchange which are non-financial institutions and do not trade in this manner remains relatively stable compared to gyrations in the prices of banking stocks. This as Eke (2012) observe, is an eye opener that the financial institutions should not depend heavily on foreign borrowing for their operation, and it is time them to learn

to have a home-based capital market that will not be vulnerable to any adverse fluctuation in foreign financial markets.

Consequences of the Market Meltdown

In collaboration with the views of Olisaemeka (2009), on the negative impact of the Nigerian Capital Market Meltdown, Nwude (2012), enumerated some of the effects of the meltdown as follows:

1. Loss of confidence in the Nigeria economy: There was loss of confidence in the Nigeria economy, as many investors prefer to convert their naira to foreign currencies, especially the dollar and held them through their domiciliary accounts or in their personal piggy-banks. This in part encouraged worsening exchange rate against the naira and starved the stock market of transaction funds.
2. Credit crunch in the economy: The market meltdown fuelled credit crunch in the economy as banks do not have enough funds to lend to the productive sectors leading to high interest rate. Given the high interest rate, cost of fund to manufacturers became very significant component of production cost, thus translating to higher prices of goods and services thereby causing high inflation. Thus, the productive sectors are crowded out of credit facilities and their share prices are crumbling.

3. Loss of confidence on shares as collateral: The meltdown led to the loss of confidence of banks and other lenders on shares as collateral for loan facilities. Shares which were before the crisis readily accepted by banks as collateral are now shunned by them. The few of them that dare to touch them for this purpose only do so at ridiculous discounts as some of them seek up to 300% cover.
4. Loss of depositors' funds with the banks: The market meltdown led to loss of shareholders' and depositors funds with the banks and significantly increased the quantum of banks non-performing assets. The market meltdown also induced massive withdrawal of foreign investors from the Nigerian financial system, dampening the remaining source of hope for possible market recovery.
5. Depletion of Pension Fund Asset: Following the passage of the Pension Reform Act, 2004, Pension assets are now privately managed. Under the Act, every employer, whether in the private or in the public sector is obligated to deduct 7.5% of every employees/emolument, then add another 7.5% totaling 15%. This is remitted on monthly basis to a Pension Fund Administrator (PFA) under the superintendence of a Pension Fund Custodian (PFC). The PFAs manage the pension assets by investing in a variety of instruments including equities. Currently there is massive reduction in the value of investment assets held by the PFAs and PFCs as a result of the capital market meltdown. The Pension Act of 2004 makes it mandatory for pension fund managers to invest 35

percent of the funds in the NSE. However, the terms of the Act is stiff as only 25 of the more than 300 companies listed in the NSE are qualified to attract pension fund. Based on this limitation, it will be of little or very much insignificant effect for these pension fund manager to cause a reasonable up-shake to herald a market boom in 2009.

6. Financial Incapacity of Stockbrokers: The Stockbrokers are financially incapacitated and unable to settle their clients for securities sold. With the meltdown, many stock broking firms cannot discharge their obligation to their clients. Proceed of shares sold by these stockbrokers for their clients are greedily seized by the banks to which the stock broking firms owe billions of naira through margin accounts. Incoming credits or debits arising from sale of securities or purchase of securities can only be settled through the appointed settlement banks. This gives the banks the opportunities to get at stockbrokers. Thus many stock broking firms rejects sale order as they know that the banks will seize the credits, leading them to contend with their clients.
7. Loss of Confidence on the regulatory bodies: There has been massive erosion of investors' confidence on the regulatory bodies of the stock market such as the Nigeria Stock Exchange as well as the Securities and Exchange Commission whose regulatory impotence has been largely blamed for the present woes of the capital market and whose principal officers appears to have exhausted all they know and all they can offer to change the fortunes of the market.

8. **Unstable Macro-Economic Environment:** The macroeconomic environment in Nigeria has remained unstable and unpredictable for several years arising from the incessant and often violent changes in the machinery of government of the economy. The consequences of such unstable economic environment have been high inflation, foreign exchange rate depreciation, loss in the value of returns on investment among others.
9. **Poor System of Supervision and regulation:** The system of prudential regulation and supervision remains rather poor, such that the freedom of financial information is often impeded. In the Nigeria capital market, complaints from operators have revolved around manipulation of share prices by stockbrokers, share purchase without fund to back it up, share dealing without client's mandate, the appropriation of part or all the proceeds of issues by issuing houses to offset bridging loans, non-remittance of share proceeds to the selling clients, buy-hold syndrome.

2.3.7 The Nigeria Capital Market Reforms

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) opine 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 economic meltdown 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, & Odoko, 2004).

Some of the reforms put in place by the Nigerian Government according Oke and Adeusi (2012):

1. **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 was 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.

2. **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 a 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.

3. **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, in which most scheme in existence were under-funded. Majority of workers in the private sector were not covered by any retirement benefit arrangements.
4. **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
5. **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.
6. **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.

7. **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.

8. **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.

9. **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.

10. **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.

11. 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.

12. 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.

2.3 Theoretical Review

In order to understand the impact of global economic meltdown on Nigeria economy, four theories were considered, such as Knut Wicksell model, John Maynard Keynes theory, Hyman Minsky model and Behavioral finance model.

2.3.1 Knut Wicksell Theory

Wicksell (1898) belongs to the school of Swedish neo-classical economists which in many ways steps out of the neo-classical model. This theory provides a framework for cumulative processes. This approach attempts to explain global financial crisis in terms of rate of returns on investments with one being the real interest rate and the other being the nominal interest rate. The real aspect dominates economic development. He explained the dynamics of capitalist's economies by the interaction of two rates of return; the natural rate of interest and the money interest rate. The natural rate of interest is the interest rate of the real neo-classical sphere in an

equilibrium situation. It is the interest rate which would be realized if the neo-classical capital market actually existed. According to Wicksell (1898), the money interest rate is determined in the monetary sphere mainly by the central bank. When the money interest rate is lower than the natural interest rate, a cumulative investment process is triggered. This process will increase the number of entrepreneurs abnormally and this increase will lead to an increase in inflation rate. Wicksell theory serves as a suitable framework to explain financial crisis.

2.3.2 John Maynard Keynes

Keynes (1936) proposed a model of monetary production economy. In such an approach money plays a key role and penetrates all areas of the economy. This theory states that in a capitalist, a market between saving and investment which is equalized by an interest rate that simply does not exist. The important point of Keynes is that credit given to firms and investment in productive capital must be considered as a potential unstable process. According to him uncertainty plays an important role in the monetary process. Uncertainty means that not all future events are known and probability models are not able to overcome uncertainty. Keynes theory distinguishes between the interest rate and the marginal efficiency of capital. When the marginal efficiency of capital is higher than the interest rate, investment will be carried out and investment income creation process will start while when the interest rate is higher than the marginal efficiency of capital, investment will collapse and this will lead to financial crisis.

2.3.3 Hyman Minsky Theory (1992)

This theory is based on two key theorems: An economy has a financing regime under which it is stable and a financing regime under which it is unstable. A financial system can be described as robust if small changes in cash flows, capitalization rates, or payment commitments will not stop the ability of most units to meet their financial obligations while the opposite is true of a fragile system. Minsky's theory of investment combines investment decisions of firms with their financing decisions and the willingness of lenders to provide external funds to them. This is important to determine the level of economic activity and also to explain the gradual move of the system towards instability. Minsky's theory of investment decisions of firms with their financing decisions and the willingness of lenders to provide external funds to them, this is important to determine the level of economic activities and also to explain the gradual move of the system towards instability (Osadume & Mbachu, 2017).

2.3.4 Behavioural Finance Theory (1970)

This model tries to explain people's economic decisions by combining findings of behavioral and cognitive research with traditional economics and finance. Behavioral finance shows that investors do not act in a rational way as implied by rational expectations and the efficient market hypothesis. It tries to give a more accurate picture of human behavior in the financial market. This theory is very relevant in analyzing the cause of global financial crises as it relates to Nigeria's economy (Osadume & Mbachu, 2017).

2.5 Empirical Review

Bogunjoko (1997) examined the impact of financial crisis on Nigeria, which makes Nigerians to face an uncertain economic situation both in the near and far future as a result of the oxidizing global and domestic financial crisis. The findings show that the capital market is in ratters, banks are struggling, the sole dependency on oil continues to bedevil the nation, and our foreign reserve situation remains an enigma wrapped in a mystery. He concludes by calling for an urgent need to adjust government's expenditure and upcoming budget accordingly. Okonjo-Iweala (2009) examined the impact of such crisis on oil price. Which she saw as the biggest component of external shock that has hit Nigeria in which she suggest two challenges faced by policy makers, which are; how to respond to the down cycle of oil prices and how to ensure that the economy emerges stronger and more diversified after the crisis ends. She concluded by saying that fiscal and exchange rate/monetary policy are the vehicles that will sustain the economy's growth and quest for diversification. Ajakaiye and Fakiyesi (2009) used computable general equilibrium (CGE) methodology to examine the impact of global financial crisis. The study examined that the Nigerian economy is affected by the current global financial crisis which is transmitted via the fall in the prices of crude oil exported to the international market. Their result of the research shows that negative oil price shock has negative impact both in the short and medium term growth of the economy, based on their findings, the oil price shock have had a stagflation effect on the Nigerian economy; the showdown in the rate of economy growth and

increase in the domestic price level. Also, they reduce the level of domestic investment and worsened the government account and income position. Besides, the shocks have increased.

Onaolopo and Ojebiyi (2016) evaluated the effects of global economic meltdown on Nigeria capital market development using market share index, exchange rate, interest rate, inflation rate and unemployment rate as its variables. The country of study was Nigeria and time series of 9 years (2000-2009) was used. Ordinary least square of multiple regressions was used to analyze the data. They found out that global financial crisis has a negative effect on the Nigeria capital market development. Onuoha and Nwaiwu (2016) carried out a study on the impact of the global financial crisis on Nigeria stock market using currency crisis, credit crisis, liquidity and foreign investment as its variables. The country of study was Nigeria and he used a time series of 7 years (2008-2014). The study adopted survey method and regression method was used to analyze the data. They found out that the global financial crisis measured by currency crisis, credit crisis, liquidity crisis and foreign investment crisis has a negative significant impact on the Nigeria stock market. Mughal (2015) examined a paper which measures the long run econometric association between key macroeconomic indicators of financial crisis in Pakistan economy. The variables used includes (GDP, inflation, balance of trade, and current account balance) and the country of study was Pakistan and he made use of secondary data which was collected from the annual reports of state bank of Pakistan, economic surveys (2000-2014) and from the international monetary fund (IMF) database for the period of 2000 to 2014 which lately transformed into quarterly data for better estimation. He made use of Vector Auto-regression

(VAR) in his research to check the long-run association among the variables included in the research. The results from the VAR estimation system was also been generated. In order to check the individual significance of the equations ordinary least square method (OLS) was been used in the research. This result explains that most of the probability values are less than five percent. Further all the R squared values relevant to estimated model are quite high which represent the goodness of fit. The corresponding probability value of F statistic, is less than 5 percent for all the cases, which witnessed the jointly significance of the variables included in the study.

Njiforti (2015) investigated the impact of 2007/2008 global financial crisis on the stock market in Nigeria. The Nigerian capital market was used as variable for measuring the impact of the global financial crisis. Nigeria was the country of study and Monthly time series data from 2006 to December 2009 were used and All-share index was used as a proxy for the performance of the Nigerian capital market. He employs the vector error correlation (VEC) model for the analysis. The paper found out that the global financial crisis adversely and significantly affected the Nigerian capital market both in the long run and the short run. Jenrola and Daisi (2012) in another investigation on the response of Nigerian stock market to the global financial crisis, using time series data from 2000-2008 and Employing a simple regression analysis. The study found that, the Nigerian stock exchange downturn is not attributed to global financial crisis, but instability of macroeconomic variables in Nigeria like: unfavorable exchange rate, inflationary pressure, problem of insecurity, inadequate infrastructural facilities. Onuoha and Nwaiwu (2016)

investigated the impact of global financial crisis on Nigerian stock market. Their study found a negative significant impact on the Nigerian stock market by the global financial crisis.

Using the survey method of research design and the ordinary least square (OLS) technique in their data analysis, Abdul (2009) examined the effect of global financial crisis on Nigerian economy. The study discovered that the financial crisis caused fall in commodity prices and declined export, lower portfolios and FDI inflows and fall in equity market. Yakubu and Akerele (2012) investigated the impact of global financial crisis on the Nigerian stock exchange that span the range of 2008-2011 using market capitalization to proxy the Nigerian stock exchange and capital inflow and foreign exchange rate to as global financial crisis. The study found an insignificant impact of the global financial crisis on the Nigerian stock exchange. Nelson, Onduka, Yebimodei, George and Angonimi (2018) examined the impact of global financial crisis on the Nigerian stock market performance spanning from 2008-2016; with particular interest to proxy the impact variable (global financial crisis) as foreign exchange rate, foreign direct investment on stocks and foreign reserves and market capitalization as stock market performance proxy. The ordinary least square regression model was employed to test the parameters and the t-test was used to test the three hypotheses outlined in the study to give clarity of purpose. The outcome of the test shows that the global financial crisis has no significant impact on the Nigerian stock market performance for the period under study.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter reviews the methods, process and modalities which were adopted in this project work to accomplish its stated objectives. It presents a careful description of the research design, model specification, econometric techniques, data collection and data sources as well as analyses of data.

3.2 Research Design

The crux of this study is an impact study, which is because, the study seeks to ascertain the effect of the global economic meltdown on the Nigerian capital market performance. Consequently, this study will be imitating finance literature by adopting the *ex-post facto* research design and empirical analytical methods to estimate the functional relationship between the triggering factors of the global economic meltdown and the Nigerian capital market performance. *Ex-post facto* research design is a quasi-experimental design used in examining how an independent variable affects a dependent variable. This design is adopted because the researcher has no control over the variables of the study as a result of the fact that the conditions for the study has already been in existence before the study is been conducted. In addition, the design gives the researcher the needed freedom to purposively choose the components of the study (Nelson, Onduka, Yebimodei & Angonimi, 2018).

3.3 Sources of Data

The method of data collection adopted in this study is called the survey of existing documents. This is otherwise known as secondary source of data collection. This method enables the researcher to collect data for all the variables of the study from the Central Bank of Nigeria statistical bulletin and the Nigerian stock exchange fact files 2017. The type of data collected from the bulletin and the fact files are called time series data. The time series data gave us the needed information about the numerical values of the individual variables of the study from the period of 1991 to 2016 for the estimation of the model (Nelson, Onduka, Yebimodei & Angonimi, 2018).

3.4 Estimation Technique

The econometric technique adopted in this study are the Descriptive statistic, the Ordinary Least Square Regression and the Granger causality test. The Descriptive statistic is to determine the normality of the data. The Ordinary Least Square (OLS) technique enabled the researcher to estimate the coefficients of the individual variables, while the Granger causality test determine the impact of the independent variables on the dependent variable (Nelson, Onduka, Yebimodei & Angonimi, 2018).

3.4 Model Specification

The linear regression model designed to test each of the Null hypotheses was adopted from the work of Okoro (2013); $GDP = F(GCEXP, GREXP)$ to suit this study. Thus, functional relationship of the model is expressed as:

$$MCAP = f(M_2GDP, EXRATE, INFLRATE) \dots \dots \dots (1)$$

To stabilize the variance of the data and to reduce the value of the coefficients and as well as to remove spuriousity and autocorrelation, the above model will be transformed into log linear model as specified below:

$$LMCAP = b_0 + b_1LM_2GDP + b_2LEXRATE + b_3LINFLRATE + \mu \dots \dots \dots (2)$$

Where;

LMCAP = Log of Market Capitalization (proxy for the Nigerian capital market performance).

LM₂GDP = log of Financial deepening as a proxy to economic meltdown.

LEXRATE = Log of Exchange Rate

LINFLRATE = Log of Inflation Rate

μ = Error Term

b_0 = Intercept

b_1 - b_2 = Coefficient of the Independent Variables.

A-priori expectation: $b_1, b_2, b_3 < 0$

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Data Presentation

This chapter is based on the presentation as well as the empirical analyses of results derived from the estimated empirical model. Data for economic meltdown (proxy as financial deepening), exchange rate and inflation rate were used to capture the significant effect on capital market performance (proxy as market capitalisation) as shown in Table 1.

Table 1: Data for Market capitalisation, Inflation rate, Exchange rate and Financial deepening

Year	MCAP (₦Billion)	INFLRATE (%)	EXRATE (₦/\$)	FINDP (%)
2007	13181.69	5.39	116.8	25.37
2008	9562.97	11.58	131.25	41.4
2009	7030.84	12.56	148.1	45.04
2010	9918.21	13.72	148.81	38.97
2011	10275.34	10.84	156.7	34.89
2012	14800.94	12.22	155.76	39.66
2013	19077.42	8.48	155.74	40.99
2014	16875.1	8.06	168	41.24
2015	17003.39	9.01	197	41.58
2016	16185.73	15.68	305	44.15
2017	21128.9	16.52	306	44.45
2018	21904.04	12.1	307	40.61
2019	25890.22	11.4	307	41.15
2020	38589.58	13.25	371	42.18
2021	42054.5	16.95	416.21	41.57
2022	51188.87	21.34	426.02	43.2

Source: Central Bank of Nigeria Statistical Bulletin (2022) and Index Mundi Data Base (2022)

4.2 Inferential Analyses

Table 2: Descriptive statistics Test Result

	MCAP	C	EXRATE	INFLRATE	FINDP
Mean	20916.73	1.000000	238.5244	12.44375	40.40313
Median	16939.25	1.000000	182.5000	12.16000	41.32000
Maximum	51188.87	1.000000	426.0200	21.34000	45.04000
Minimum	7030.840	1.000000	116.8000	5.390000	25.37000
Std. Dev.	12680.36	0.000000	107.1673	3.914770	4.671031
Skewness	1.189491	NA	0.512724	0.408428	-2.240836
Kurtosis	3.368904	NA	1.765574	3.119737	7.917995
Jarque-Bera	3.863762	NA	1.716900	0.454395	29.51470
Probability	0.144875	NA	0.423819	0.796763	0.121421
Sum	334667.7	16.00000	3816.390	199.1000	646.4500
Sum Sq. Dev.	2.41E+09	0.000000	172272.6	229.8814	327.2779
Observations	16	16	16	16	16

Source: Researcher's Computation (2024) using E-view 7.0

In Table 2, the coefficient values of 20916.73; 238.5244; 12.44375; 40.40313 and 12680.36; 107.1673; 3.914770; 4.671031 represent the mean and standard deviation of MCAP; EXRATE; INFLRATE; FINDP respectively. The mean values and standard deviation of the variables established positive averages in the result, depicting that the skewness of the variables are positive. The probability values of 0.144875; 0.423819; 0.796763 and 0.121421 represent p-values > 0.05 , which indicate insignificant values at 5% level for Jarque-Bera statistics of 3.863762; 1.716900; 0.454395 and 29.51470 respectively. These test results for the probability values of the Jarque-Bera statistics established that there is normality in the distribution.

Table 3: Granger Causality Test Result

Null Hypothesis:	Obs	F-Statistic	Prob.
LEXRATE does not Granger Cause LMCAP	15	4.07904	0.0663
LMCAP does not Granger Cause LEXRATE		1.11637	0.3115
LINFLRATE does not Granger Cause LMCAP	15	2.24572	0.1598
LMCAP does not Granger Cause LINFLRATE		4.34548	0.0591
LFINDP does not Granger Cause LMCAP	15	0.67877	0.4261
LMCAP does not Granger Cause LFINDP		0.95487	0.3478

Source: Researcher's Computation (2024) using E-view 7.0

4.2.1 Test of Hypotheses

These hypotheses were tested applying the granger causality using the probability values at 5 % level of significance. The results of the hypotheses are shown in Table 2.

Hypothesis 1

H₀: There is no causality effect of global economic meltdown on the Nigerian capital market performance and vice versa. From Table 3, the result derived from the granger causality test showed probability values of $0.4261 > 0.05$ (not significant) for LFINDP and $0.3478 > 0.05$ (not significant) for LMCAP. Thus, LINDP and LMCAP do not granger cause each other. Consequently, there are no variations between financial deepening and the Nigeria capital market performance because their probability values are not significant, such that $p > 0.05$. This indicates that financial deepening during the considered period have no significant effect on the Nigerian capital market performance.

Hypothesis 2

H₀: There is no causality effect of exchange rate on the Nigerian capital market performance and vice versa. From Table 3, the result derived from the granger causality test showed probability values of $0.0663 > 0.05$ (not significant) for LEXRATE and $0.3115 > 0.05$ (not significant) for LMCAP. Thus, LEXRATE and LMCAP do not granger cause each other. Consequently, there are no variations between exchange rate and the Nigeria capital market performance because their probability values are not significant, such that $p > 0.05$. This indicates that exchange rate during the considered period have no significant effect on the Nigerian capital market performance.

Hypothesis 3

H₀: There is no causality effect of Inflation rate on the Nigerian Capital Market and vice versa. From Table 3, the result derived from the granger causality test showed probability values of $0.1598 > 0.05$ (not significant) for LINFLRATE and $0.0591 < 0.05$ (significant) for LMCAP. Thus, LINFLRATE does not granger causes LMCAP, while LMCAP granger causes LINFLRATE. Consequently, there are variations between inflation rate and the Nigeria capital market performance. However, this indicates that during the considered period, inflation rate has no significant effect on the Nigerian Capital market performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

Based on the results of the tests of hypotheses, the following findings were observed:

1. Financial deepening does not granger causes market capitalisation, while market capitalisation does not granger causes financial deepening.
2. Exchange rate does not granger causes market capitalisation, while market capitalisation does not granger causes exchange rate.
3. Inflation rate does not granger causes market capitalisation, while market capitalisation granger causes inflation rate.

5.2 Conclusion

Financial deepening has no causality effect on the Nigerian capital market performance. Thus, exchange rate as well has causality effect on the Nigerian capital market performance, while inflation rate has no causality effect on the Nigerian Capital market. This study infers that the global economic meltdown during the considered period have no consequential significant effect on the performance of the Nigerian capital market.

5.3 Recommendations

Based on the empirical results obtained, the study recommends that:

1. Government and regulatory authorities should implement policies to improve the declining market capitalization by injecting more funds into the market and encouraging more foreign investors to participate and invest into the market.
2. Government should formulate policies that will encourage investors to invest more on equities in the capital market since that is the surest avenue to transmit growth to the economy.
3. The exchange is an important instrument in the financial market, and as sure should be allowed to be determined by the market.

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