CAPITAL MARKET FUNDAMENTALS AND ECONOMIC GROWTH IN NIGERIA

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A PROJECT WRITTEN AND SUBMITTED TO THE DEPARTMENT OF FINANCE, E FACULTY OF MANAGEMENT SCIENCES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN FINANCE, UNIVERSITY OF BENIN, BENIN CITY

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DECLARATION

I, **Victor ENORUOMWANSE** do hereby declare that this project is entirely my work and composition. The work embodied in this project has not been submitted by another candidate for any degree and is not currently being submitted for any other degree. All references made to the works of other persons have been duly acknowledged.

_____ _____

Victor ENORUOMWANSE **Date**

CERTIFICATION

This is to certify that this project was carried out by **Victor ENORUOMWANSE** in the Department of Finance, University of Benin, Benin City.

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(Head of Department)

Date: _____

DEDICATION

I dedicate this project to Almighty God for his grace to complete this work. I also want to dedicate this project to my Dad, Mr Alex Enoruomwanse**,** and to my wonderful family for their love and support throughout the course of this project.

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TABLE OF CONTENTS

ABSTRACT

This study examined the impact of capital market fundamentals measured by (MCAP, ASI, TVT, and LE) on Nigeria's economic Growth, measured with Real Gross Domestic Product (RGDP). The study adopted time series data, specifically employing unit root testing, ARDL bounds cointegration test, and Error Correction Model (ECM). The findings show that Listed Equities (LE) exert a statistically significant positive impact on Nigeria's economic growth in the short run. In the long run, all the independent variables MCAP, This study examined the impact of capital market fundamentals measured by (MCAP, ASI, TVT, and LE) on Nigeria's economic Growth, measured with Real Gross Domestic Product (RGDP). The study adopted time series data, specifically employing unit root testing, ARDL bounds cointegration test, and Error Correction Model (ECM). The findings show that Listed Equities (LE) exert a statistically significant positive impact on Nigeria's economic growth in the short run. In the long run, all the independent variables MCAP, ASI, TVT, and LE collectively exert a statistically significant impact on Nigeria's economic growth, indicating the cumulative importance of the capital market over extended periods. Market Capitalization (MCAP) does not have a statistically significant short-run impact on Nigeria's economic growth. All Share Index (ASI) does not have a statistically significant short-run impact on Nigeria's economic growth. Total Value of Transactions (TVT) does not have a statistically significant short-run impact on Nigeria's economic growth. In line with findings and conclusion, the study recommends among others that the Nigerian Exchange Group Should Strengthen the performance of Listed Equities: The Nigerian Exchange and regulatory bodies should prioritize policies that encourage the listing of high-performing companies, enforce corporate governance standards, and attract both domestic and foreign investors. These measures will help sustain the short-run economic benefits of equity trading. Also, The Nigerian Exchange Group Should Promote long-run capital market development: The government should implement reforms aimed at deepening the capital market through enhanced infrastructure, transparent regulatory frameworks, and policies that reduce systemic risk and enhance investor confidence.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The global financial ecosystem plays a central role in fostering economic growth by efficiently reallocating financial resources from surplus units such as savers to deficit units requiring capital for investment purposes. Financial markets, particularly the capital market, serve as crucial conduits in this process by supporting long-term investment, promoting efficient resource allocation, and mitigating investment risk. When these functions are well-executed, they contribute significantly to national economic progress (Olufunke & Yemi, 2024; World Bank, 2023; IMF, 2022, Sanusi, 2012).

In Nigeria, the financial system is structured around two principal components: the money market and the capital market. While the money market addresses short-term funding needs through instruments such as treasury bills and commercial papers, the capital market focuses on mobilizing long-term funds by facilitating the issuance and trading of stocks, bonds, and similar instruments. This market supports key sectors like infrastructure, manufacturing, and public services, (Ariyo, 2025).

The Nigerian capital market is regulated and facilitated by institutions such as the Nigerian Exchange Group (NGX) and the Securities and Exchange Commission (SEC), both of which oversee trading activities and investor protections (Okpara et al., 2024; CBN, 2023). The performance of the capital market reflects broader economic dynamics, influenced by investor sentiment, global financial developments, and domestic policy measures. For instance, recent shifts in the All-Share Index (ASI) and market capitalization have mirrored fluctuations in investor confidence, inflation rates, interest rates, and currency valuation trends (NGX, 2024).

Throughout 2023 and into 2024, Nigeria's capital market displayed mixed outcomes. The ASI recorded moderate improvements due to renewed interest in financial and consumer sectors. However, macroeconomic instability especially rising inflation, interest rate hikes, and currency depreciation led to cautious market behavior. As of mid-2024, the NGX's market capitalization saw a slight contraction, declining from ₦28 trillion in 2023 to ₦25 trillion, reflecting subdued foreign investment flows and domestic uncertainties. Notably, government bonds and corporate debt instruments remained active as the Debt Management Office (DMO) continued issuing securities to support public spending needs.

To enhance transparency and broaden market participation, regulators have introduced various reforms, including digital trading platforms, ESG (Environmental, Social, and Governance) compliance frameworks, and sector-specific listing rules. These developments coincide with broader economic trends, such as modest GDP growth driven primarily by the non-oil sector—particularly agriculture, telecom, and finance.

However, Nigeria's capital market continues to face structural and policy-related challenges, including regulatory inconsistencies, high inflation, foreign exchange volatility, low retail investor participation, and infrastructure gaps. These issues limit the market's ability to fulfill its developmental role. Given this backdrop, this study investigates how key capital market indicators—market capitalization (MCAP), All-Share Index (ASI), Total Value of Transactions (TVT), and Listed Equities (LE)—impact Nigeria’s economic growth between 1998 and 2023.

The study is motivated by the need to examine the capital market’s performance during major national and global events, including the banking sector consolidation of 2004–2005, the global financial crisis of 2008–2009, the COVID-19 pandemic, and the recent introduction of reforms such as NGX demutualization and sustainability-focused investment frameworks. Understanding these events' combined effects on economic growth will offer policymakers valuable insights into enhancing the capital market's contributions to national development.

1.2 Statement of the Research Problem

Since Nigeria's transition to democratic governance in 1999, expectations have been high that improved political stability would accelerate economic development. However, the country's capital market has not evolved proportionately with its economic size and potential (Amoo, 2025). Data from the Central Bank of Nigeria (CBN, 2023) indicates that Nigeria's equity market capitalization remains relatively low compared to capital markets in other developing regions across Africa, Asia, and the Americas.

One of the most critical setbacks was the capital market collapse during the 2008 global financial crisis, when Nigeria's market capitalization plummeted from approximately ₦13.5 trillion to less than ₦4.5 trillion. This downturn exposed the structural fragilities of the market and sparked extensive regulatory investigations (World Bank, 2023; Yakubu & Mohammed, 2020). Despite intermittent recovery and reform, the question persists: How effective has the Nigerian capital market been in driving real economic growth since the return to civilian rule?

While a number of empirical studies suggest that capital market development facilitates economic expansion through enhanced investment opportunities and efficient fund allocation, others point to limited depth, inefficiencies, and market volatility as undermining its impact. For example, some evidence highlights the role of the capital market in stimulating industrial growth and foreign investment inflows (Olufunke & Yemi, 2024; Bamishe & Owolabi, 2024), while contrasting research underscores

persistent constraints such as inflationary pressures, weak investor confidence, and overreliance on foreign portfolio investments.

Furthermore, investor participation remains low, particularly among retail investors, partly due to limited financial literacy and widespread distrust in the system. High inflation, exchange rate instability, and regulatory gaps continue to hamper efficient capital mobilization and pose serious barriers to sustained market development.

This study addresses these challenges by critically examining the impact of key capital market fundamentals Market Capitalization (MCAP), All-Share Index (ASI), Total Value of Transactions (TVT), and Listed Equities (LE) in influencing Nigeria's Real Gross Domestic Product (RGDP) between 1998 and 2023. By bridging existing empirical gaps and incorporating over two decades of data, the study aims to provide evidence-based recommendations to strengthen the market's contribution to inclusive and sustainable economic growth, particularly in an era where Nigeria seeks to diversify away from oil dependency and build a more resilient financial system.

1.3 Research Questions

The research questions are as followings.

i To what extent does Market Capitalization (MCAP) Impact Nigeria's RGDP?

ii To what extent does All Shall Index (ASI) Impact Nigeria's RGDP?

iii To what extent does Total Value of Transactions (TVT) Impact Nigeria's RGDP?

iv To what extent does Listed Equities (LE) Impact Nigeria's RGDP?

1.4 Objectives of the Study

The Main objective of this study examines impact of Capital Market Fundamentals on Nigeria's Economic Growth, while the specific objectives are to.

i. Evaluate the Impact of Market Capitalization (MCAP) on Nigeria's RGDP

ii. Ascertain the Impact of All Shall Index (ASI) on Nigeria's RGDP

iii. Investigate the Impact of Total Value of Transactions (TVT) on Nigeria's RGDP

iv. Assess the Impact of Listed Equities (LE) on Nigeria's RGDP

1.5 Research Hypotheses

This study considered the following null hypothesis.

H_{o1}: Market Capitalization (MCAP) does not have significant impact on Nigeria's RGDP

H_{o2}: All Shall Index (ASI) does not have significant impact Nigeria's RGDP

H_{o3}: Total Value of Transactions (TVT) does not have impact significant Nigeria's RGDP

H_{o4}: Listed Equities (LE) does not have significant Impact on Nigeria's RGDP

1.6 Scope of the Study

The study examine the impact of capital market fundamentals (Market Capitalization (MCAP), All Share Index (ASI), Total Value of Transactions (TVT), and Listed Equities (LE) on Nigeria's economic growth, measured by RGDP, from 1998 to 2023 in order to assess the impact of 1999 financial sector reforms, the global financial crisis (2008–2009), recovery efforts post-2010, impact of banking consolidation (2004–2005), Impact of COVID-19, digital transformations in trading, and The introduction of new regulations (e.g., SEC reforms, demutualization of NGX) makes this period analytically valuable.

1.7 Limitations of the Study

The following are the limitations of this study;

External Economic Shocks: The study period includes major global and domestic shocks (e.g., 2008 financial crisis, 2014 oil price crash, COVID-19 pandemic) that may distort the true relationship between capital markets and economic growth.

Structural Changes in the Economy: Nigeria's economy underwent significant transitions (e.g., banking reforms, exchange rate fluctuations, informal sector dominance), which may not be fully captured by capital market variables alone.

Limited Scope of Capital Market Fundamentals: The study may focus on key indicators (market capitalization, all-share index, total value of transactions and listed equalities) while omitting other critical factors like derivatives market performance or fintech innovations.

Endogeneity Issues: Potential reverse causality (where economic growth also influences capital market performance) may complicate the interpretation of results.

Time Frame Justification: While 1998–2023 captures major reforms, it excludes earlier periods (e.g., pre-1998 financial repression era) that could provide additional historical context.

Non-Market Factors: Political instability, corruption, and regulatory inefficiencies in Nigeria may indirectly affect capital markets but are difficult to quantify in

an econometric model. Despite these limitations, the study provides valuable insights into the relationship between capital market fundamentals and Nigeria's economic growth. Future research could address these gaps by incorporating alternative variables, longer time frames, or advanced econometric

1.8 Significance of the Study

This study on the impact of capital market fundamentals on Nigeria's economic growth offers significant benefits to various stakeholders as.

a. Government

The government would benefit from the outcome of this study in term of;

i. *Policy Formulation:* Insights into how capital market activities (e.g., stock trading, bond issuance) drive growth can guide policies to strengthen regulation, enhance market efficiency, and attract investments.

ii. *Economic Planning:* Understanding the link between market performance and GDP, employment, and inflation can improve targeted economic interventions.

iii. *Revenue Generation:* A thriving capital market boosts government revenue through taxes on capital gains, dividends, and market activities, with the study identifying optimization strategies.

b. Investors

The findings of this study shall enable the investors to make;

i. *Informed Decisions:* The study provides insights into growth sectors, enabling better capital allocation.

ii. *Risk Management:* Understanding market-economic linkages helps investors mitigate risks from fluctuations and economic cycles.

iii. *Market Confidence:* Reliable data on market contributions to growth can boost investor confidence, attracting domestic and foreign investments.

c. Businesses

Businesses will benefit from the finding of this study through;

i. *Access to Capital:* Highlights opportunities for SMEs to raise funds through equity or debt, fostering growth and job creation.

ii. *Strategic Planning:* Offers insights into market trends and economic conditions, helping businesses align strategies with growth opportunities.

iii. *Cost Efficiency:* A functional capital market reduces borrowing costs, enabling optimal financial decisions.

d. General Public

It benefitted the public through;

i. *Economic Prosperity:* A strong capital market drives employment, wages, and stability, benefiting the public.

ii. *Investment Opportunities:* Increased awareness encourages public participation, promoting financial literacy and wealth-building through stocks and bonds.

iii. *Social Development:* Economic growth supported by capital markets improves public services like education, healthcare, and infrastructure, fostering sustainable development.

e. Researchers

This study serves as a valuable reference for future research on the impact of capital markets on Nigeria's economic performance. It benefits students, academics, and the public by enhancing understanding of how financial leverage factors influence firms' debt financing choices and their performance. Additionally, it provides company owners with insights into firm-specific factors affecting performance from a debt financing perspective.

1.9 Operational Definitions of Terms

This section defines some key terms related to this study such as.

i. *Market Capitalization (MC):* Deals with the total value of listed securities in the capital market, serving as an indicator of market size and growth.

ii. *All-Share Index (ASI):* A measure of the stock market's overall performance, reflecting investor confidence and the market's response to economic policies.

iii. *Total Value of Transactions (TVT):* The total monetary value of securities traded within a specific period, indicating market liquidity and activity levels.

iv. *Listed equities:* Refer to shares (stocks) of a company that are publicly traded on a Nigeria Exchange Groups (NXG). These equities represent ownership in the companies and are available for purchase and sale by investors in the open market.

v. *Capital Market Fundamentals***:** Capital market fundamentals are the core indicators and components that reflect the structure, depth, and efficiency of a country's capital market. These typically include market capitalization**,** value of transactions**,** number of listed equities**,** and all share indexes**.** These fundamentals provide insights into the level of investment activity, liquidity, and investor confidence in the market, and they are often used to assess how well the capital market supports economic development and resource allocation**.**

vi. *Real Gross Domestic Product (Real GDP):* Real Gross Domestic Product refers to the total monetary value of all final goods and services produced within a country in each period, adjusted for inflation or deflation**.** It reflects the actual productivity of an economy by using constant prices (e.g., 2010 constant prices) to eliminate the effect of price changes over time. Real GDP is a key indicator of economic growth and performance.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter provides the operational concepts, theoretical reviews and empirical reviews as relates to this study.

2.1 Conceptual Review

This section deals with the imperative concepts as related to this study such as.

2.1.1 Capital Market Fundamentals

The capital market is central to economic expansion as it serves as a platform for governments and corporations to raise long-term financing. In Nigeria and similar economies, it plays a dual role by supporting economic development and offering investment opportunities for wealth accumulation. Among the primary indicators of capital market performance are market capitalization**,** listed equities**,** transaction volumes**,** and indices such as the All-Share Index**.** These elements collectively reflect the market's depth, efficiency, and investor sentiment (NGX, 2023).

i. *Market Capitalization (MCAP)*

Market capitalization measures the total value of all outstanding shares listed on a stock exchange. It is calculated by multiplying a company's share price by the number of its listed shares. This metric is often used to assess the relative size and financial robustness of listed firms. In broader terms, aggregate market capitalization provides insight into investor confidence and general market valuation. Larger market capitalizations typically signal stability and maturity, while fluctuations often mirror broader economic and policy changes (Amoo, 2025; World Bank, 2023; Grbic 2020).

ii. *All-Share Index (ASI)*

The All-Share Index (ASI) functions as a barometer for overall market performance, capturing price movements of listed equities within a specific timeframe. It is generally calculated using a market-capitalization-weighted method and is tied to a designated base year. Increases in the ASI suggest a bullish market and positive investor expectations, while declines often signal uncertainty or declining investor confidence. In Nigeria, the ASI is a critical indicator of the Nigerian Exchange Group's (NGX) market performance and is frequently referenced by policymakers and financial analysts (Nnakee, 2025; NGX, 2023).

iii. *Total Value of Transactions (TVT)*

The Total Value of Transactions represents the monetary worth of all securities traded over a defined period. It is a direct indicator of market liquidity and trading intensity. A high transaction value points to active investor engagement and a responsive market, whereas persistently low values may suggest investor apathy, economic instability, or structural weaknesses. Financial authorities and market regulators often use this measure to assess market vibrancy and the impact of reform policies (European Central Bank, 2023; Algaeed, 2021).

iv. *Listed Equities (LE)*

According to Amoo (2025), listed equities refer to shares of companies that meet regulatory and financial standards for public trading on an exchange. These shares represent ownership stakes and can be bought and sold by a wide range of investors. The presence of numerous and diverse listed companies enhances market depth and provides a broader base for capital formation. In Nigeria, increased listing activity has been linked to improved access to financing and better corporate governance standards.

2.1.2 Financial System

The financial system constitutes a sophisticated and interconnected framework composed of financial institutions, markets, regulatory bodies, and instruments**;** all working in concert to efficiently allocate capital, mitigate risks, and

facilitate economic transactions**.** At its core, this system acts as an intermediary mechanism, bridging the gap between savers (surplus units) and borrowers or investors (deficit units)**,** thereby enabling the optimal distribution of financial resources across the economy, (Abayomi, & Yakubu, 2022; CBN 2022; and Adamu & Sanni 2005). According to Algaeed, (2021).

Financial Institutions: These include banks (commercial and investment), credit unions, insurance companies, and asset management firms. They serve as intermediaries by pooling savings, providing credit, and offering risk-transfer mechanisms.

Financial Markets: Organized platforms (e.g., stock exchanges, bond markets, forex markets) where securities are traded, ensuring liquidity and price discovery.

Regulatory and Supervisory Bodies: Central banks, securities regulators such as SEC, FCA, and international organizations like IMF, BIS which enforce stability, transparency, and investor protection.

Financial Instruments: Equities, bonds, derivatives, and other contractual agreements that formalize claims on future cash flows, enabling risk diversification and investment opportunities.

The Core Functions of the financial system deals with Capital *Allocation*: Directs funds toward productive investments, fostering innovation and economic growth (Levine, 1997).

Risk Management: Derivatives, insurance, and hedging strategies allow entities to mitigate financial uncertainties.

Payment Systems: Facilitates seamless transactions through mechanisms like electronic transfers and blockchain-based solutions.

Information Aggregation: Market prices reflect collective knowledge, reducing information asymmetry (Fama, 1970).

Financial markets are institutional frameworks where financial assets such as stocks, bonds, currencies, and derivatives are traded between buyers and sellers. They serve as critical mechanisms for capital allocation, price discovery, liquidity provision, and risk transfer in an economy, (Mishkin, 2016; Fabozzi et al., 2014)

Financial markets can be classified into distinct categories based on instrument type, maturity, and market structure**.** These classifications help investors, policymakers, and financial analysts understand market dynamics, risk profiles, and regulatory requirements. Financial markets are segmented based on the type of financial asset being traded.

The four major categories are:

i. *Equity Markets:* Markets where ownership stakes (shares/stocks) in companies are traded. The Features are. Investors gain partial ownership and voting rights. Returns come from dividends and capital appreciation. Examples: NYSE (New York Stock Exchange), JSE (Johannesburg Stock Exchange). Fama & French (1993) highlight how equity markets reflect corporate performance and macroeconomic conditions.

ii. *Debt Markets***:** Markets for trading fixed-income securities (bonds, notes, bills). The Features are, Issuers (governments, corporations) borrow funds with a promise of repayment + interest. Lower risk than equities but with fixed returns. Examples: U.S. Treasury bonds, corporate bonds. Modigliani & Miller (1958) discuss the role of debt in capital structure decisions.

iii. *Derivatives Markets:* Markets for financial contracts deriving value from the underlying assets (stocks, bonds, commodities). The Features are used for hedging risks or speculative trading. Includes futures, options, swaps, and CFDs. Chicago Mercantile Exchange (CME), South African Futures Exchange (SAFEX). Black & Scholes (1973) model derivative pricing and risk management.

iv. *Foreign Exchange (Forex):* These are Decentralized global markets for currency trading. Features are Largest financial market by trading volume ($6.6 trillion daily, BIS 2022). Influenced by interest rates, inflation, and geopolitical factors. EUR/USD, USD/ZAR pairs. Dornbusch (1976) models exchange rate fluctuations under different monetary policies.

2.1.3 Financial markets categories based on the maturity period of traded instruments

The categories of financial market based on the maturity period of traded is perceived from the following perspectives; *Money Markets:* This is a Short-term debt instrument (maturity < 1 year). Provide liquidity for governments, banks, and corporations. Treasury bills (T-bills), commercial paper, certificates of deposit (CDs). U.S. Federal Reserve's open market operations. *Capital Markets*: Long-term investment vehicles (maturity > 1 year). Fund business expansion, infrastructure, and government projects. Stocks, corporate bonds, mortgages. Corporate bond issuances by companies like Apple or Eskom. Classification by Market Structure Markets differ based on whether they facilitate new issuances or secondary trading and it is through; *Primary Markets:* Markets where new securities are issued and sold for the first time**.** The Features Companies raise capital via IPOs (Initial Public Offerings) or private placements. Prices are often fixed during issuance (e.g., IPO pricing). Tesla's 2010 IPO raised $226

million. Secondary Markets: Markets where existing securities are traded among investors. The features are providing liquidity, enabling investors to exit positions. Prices fluctuate based on supply and demand (e.g., stock exchanges). Trading of Amazon (AMZN) shares on Nasdaq, (Nnakee, 2025; Grbic, 2022).

2.1.4 Table: Comparative Analysis of Market Categories

Category	Key Differentiators	Risk Profile	Major Participants
Equity Markets	Ownership stakes, variable returns.	High (volatility).	Retail/Institutional investors.
Debt Markets	Fixed-income, lower risk.	Low to moderate.	Governments, pension funds.
Derivatives	Leveraged, complex instruments.	Very high (speculative).	Hedge funds, corporations.
Forex Markets	24/7 trading, exchange rate exposure.	Moderate to high.	Central banks, multinationals.

Source: *E-Views 11 output*

Understanding financial market categories is essential for investment strategy, regulatory compliance, and economic analysis**.** Each market type serves unique economic functions, from facilitating capital formation (primary markets) to enabling risk transfer (derivatives). Future trends, such as digital securities (blockchain-based assets) and ESG investing, are reshaping these classifications.

2.1.5 Capital Market

The capital market is a system of institutions and mechanisms that pool and allocate medium- to long-term funds to businesses, governments, and individuals. It serves as a platform for issuing and trading financial instruments, facilitating the mobilization and allocation of funds. These instruments represent debt or

ownership relationships between issuers and investors. Often referred to as the securities market, it channels surplus funds from savers to borrowers needing long-term capital. As a segment of the financial market, it specializes in medium- and long-term financing, connecting investors with entities requiring extended funding. (Agundu et al. 2018; Enoruwa et al. 2019; Okpara el.at. 2024; Ogieva & Osayi 2024)

The Nigerian capital market is a vital component of the country's financial system, playing a key role in mobilizing and allocating long-term funds for economic development. Its structure comprises two main segments: the primary market and the secondary market, each of which serves specific functions and uses different financial instruments to facilitate the raising and trading of capital (NGX 2023).

Primary Market

The primary market facilitates the issuance of new securities, enabling businesses, governments, and institutions to raise capital by selling shares or bonds to the public or select investors. Proceeds with fund growth, expansion,

or projects. In Nigeria, this market is vital for firms seeking to expand their capital base. Key instruments include:

i. Initial Public Offering (IPO): The IOP is the first sale of a company's stock to the public, regulated by the Securities and Exchange Commission (SEC). IPOs help Nigerian companies access a broader investor pool and grow (NGX 2023).

ii. Private Placement: Private Placement is the sale of securities to select investors, such as institutions or high-net-worth individuals. It offers a quicker, less regulated alternative to IPOs for raising capital (CBN 2023).

iii. Preferential Allotment: Preferential Allotment Issuing shares to a specific group at a predetermined price, often used for strategic fundraising while maintaining control over investor selection (CBN, 2023).

iv. Qualified Institutional Placement (QIP) **:** Qualified Institutional Placement (QIP), Raising capital from institutional investors without extensive regulatory processes, enabling faster funding (CBN 2023).

v. Rights Issue: Rights Issue Offering existing shareholders the right to buy additional shares at a discount, helping firms raise capital while preserving shareholder ownership proportions (CBN 2023; SEC 2022).

The secondary market enables the trading of previously issued securities, providing liquidity to investors without directly impacting issuers. In Nigeria, the Nigerian Exchange Group (NGX) is the primary platform. Key instruments include:

i. Direct Equity (Shares): The direct equity trading of shares of publicly listed companies on the NGX, allowing investors to buy and sell ownership stakes. This market supports capital appreciation and dividend earnings (CBN, 2023; SEC, 2023).

ii. Commodity Market: The Commodity Market Facilitates trading of agricultural, energy, and metal commodities through platforms like the Lagos Commodities and Futures Exchange (LCFE) and AFEX Commodities Exchange. It stabilizes prices, enhances transparency, and supports hedging and investment (CBN, 2023; SEC, 2023).

iii. Foreign Exchange (FOREX) Market: The FOREX market enables trading of foreign currencies, crucial for international trade and hedging against currency fluctuations. Overseen by the Central Bank of Nigeria (CBN), key platforms include the Nigerian Interbank Foreign Exchange Market (NIFEX) and the Investors' and Exporters' (I&E) Window (CBN, 2023; SEC, 2023).

2.1.6 Historical Evolution of the Nigerian Capital Market

The Nigerian capital market has evolved significantly, reflecting the country's economic development. From its colonial roots to a modern financial system, it has become a vital platform for mobilizing long-term funds and driving growth. The following is the historical phases:

i. Colonial Era (1946–1960): The market began with the colonial government issuing bonds, such as a £300,000 ten-year bond in 1946, to fund infrastructure projects. These early activities laid the groundwork for formal capital market operations, though trading was limited to government securities without a formal stock exchange (CBN, 2023; SEC, 2023).

ii. Post-Independence and Formation of the Nigerian Stock Exchange (1960–1977)**:** After independence in 1960, the government established the Lagos Stock Exchange (LSE) in 1961, later renamed the Nigerian Stock Exchange (NSE). The NSE initially traded government bonds and a few corporate equities, playing a key role in economic reconstruction post-Civil War (1967–1970) by financing infrastructure and encouraging local business listings (SEC, 2023).

iii. Indigenization Decree and Market Expansion (1972–1990)**:** The 1972 Nigerian Enterprises Promotion Decree (NEPD) mandated foreign companies to +sell at least 40% of their equity to Nigerians, boosting market activity. The 1977 NEPD II increased this requirement to 60%, deepening market

participation. Infrastructure improvements, such as the Central Securities Clearing System (CSCS), enhanced market efficiency (CBN, 2023).

iv. Structural Adjustment Program (SAP) Era (1986–1990)**:** The 1986 SAP liberalized the economy, encouraging private sector participation and foreign investment. Privatization of state-owned enterprises increased listings on the NSE, while the Second-Tier Securities Market (SSM) allowed smaller companies to access capital. However, volatility and inflation rose, highlighting the need for stronger regulation (SEC, 2023).

v. Creation of the Securities and Exchange Commission (SEC) (1979–1990)

The SEC, established in 1979, became the regulatory body overseeing market operations, ensuring transparency, and protecting investors. It introduced reforms to curb malpractices and enhance market integrity (SEC, 2023).

i. Privatization and Market Growth (1990s–2000s)**:** The 1999 Investment and Securities Act provided a robust legal framework, while privatization in sectors like telecommunications and oil spurred new listings. The CSCS, introduced in 1997, modernized trading, improving efficiency and attracting foreign investors (World Bank, 2023).

ii. Bull Run and Global Financial Crisis (2000–2010)**:** The early 2000s saw a bull run driven by foreign investments and economic growth, with

increased IPOs and mergers. However, the 2008 global financial crisis caused a sharp decline, exposing vulnerabilities and prompting calls for better risk management (ECA, 2023; Sanusi, 2012).

iii. Post-Crisis Reforms and Modernization (2010–Present): Post-2008 reforms included the introduction of the X-Gen trading platform in 2011 and stricter corporate governance standards. In 2021, the NSE transformed into the Nigerian Exchange Group (NGX), enhancing operational efficiency. New instruments like ETFs and derivatives have further modernized the market, supporting sustainable growth (NBS, 2023). The Nigerian capital market has grown from a small, government-focused system to a sophisticated platform integral to the nation's economic development. Despite challenges like volatility and regulatory gaps, ongoing reforms continue to strengthen their resilience and capacity to mobilize long-term funds.

2.1.7 Capital Market Regulatory Framework

The following are the regulatory body for the Nigerian Exchange Group:

i. Nigerian Exchange Group (NGX): The Nigerian Exchange Group (NGX) was established in 1961 (as the Lagos Stock Exchange) Demutualized in 2021 (as the Nigerian Exchange Group, NGX) originally established as the Lagos Stock Exchange**,** the NSE later became the Nigerian Exchange

Group (NGX)**.** In 2021, the exchange was demutualized, transforming into the Nigerian Exchange Group (NGX)**.** It provides a platform for trading securities, including equities, bonds, and other financial instruments, under a transparent and regulated system, **(**Ariyo et al. 2024; NGX, 2023).

ii. Investment and Securities Act (ISA): Investment and Securities Act (ISA) establishment in1999 (Initial Version), revised in 2007. The ISA provides the legal framework for the functioning of the Nigerian capital market. It defines the powers and responsibilities of the SEC, regulates public offers, securities trading, and provides guidelines for market operations. The 2007 version introduced more comprehensive reforms, including measures for investor protection, corporate governance, and transparency, (International Monetary Fund [IMF] 2023).

iii. Central Securities Clearing System (CSCS): Central Securities Clearing System (CSCS) establishment in 1997. The CSCS is the clearinghouse for all securities transactions on the Nigerian Stock Exchange. It facilitates the electronic settlement of transactions, holds securities in dematerialized form, and improves efficiency in the transfer and ownership of securities (CSCS, 2023)

iv. Nigerian Investment Promotion Commission (NIPC) Act: Nigerian Investment Promotion Commission (NIPC) Act was **e**stablishment in the year1995 with

primary roles to promotes, coordinates, and monitors investments in Nigeria. Although not solely focused on the capital market, it plays a key role in attracting foreign investment to the Nigerian capital market by offering incentives and protections for foreign investors, (CBN, 2023).

v. Corporate Affairs Commission (CAC): Corporate Affairs Commission (CAC) Establishment in 1990. By the Companies and Allied Matters Act (CAMA) of 1990 (Revised in 2020). The CAC is responsible for registering companies and ensuring corporate governance standards. It regulates companies listed on the Nigerian Stock Exchange and enforces compliance with corporate laws (IMF, 2023).

vi. Financial Reporting Council of Nigeria (FRCN): The financial Reporting Council of Nigeria (FRCN) was **e**stablished in the year 2011. By the Financial Reporting Council of Nigeria Act, 2011 with the role to regulates accounting and financial reporting standards in Nigeria. It ensures that listed companies comply with international accounting standards and that financial disclosures meet regulatory requirements for transparency and investor protection, (IMF 2023; & NBS 2023)

vii. Nigerian Deposit Insurance Corporation (NDIC): Nigerian Deposit Insurance Corporation (NDIC) was established in 1988. While the NDIC primarily regulates the banking sector, it plays an indirect role in the capital market

by protecting depositors, which helps maintain overall financial system stability. It also deals with issues related to bank securities and investments, (CBN, 2023).

viii. Banking and Other Financial Institutions Act (BOFIA): Banking and Other Financial Institutions Act (BOFIA) established in the year1991 (Updated 2020). BOFIA regulates financial institutions in Nigeria, including banks that are significant participants in the capital market. The act ensures that banks meet capital adequacy requirements and other standards that affect their capital market activities, (BOFIA, 2023).

ix. Pension Reform Act: The Pension Reform Act was established in the year 2004 (Revised in 2014). This act established the National Pension Commission (PenCom), which regulates pension fund managers and administrators. Pension funds are key institutional investors in the capital market, and this act provides the regulatory framework for their investments in securities, (CBN, 2023).

x. National Insurance Commission (NAICOM): The National Insurance Commission (NAICOM) was established in 1997. NAICOM regulates the insurance sector, which also plays a vital role in the Nigerian capital market. Insurance companies are major institutional investors, and NAICOM

ensures that their investments are following regulatory standards (IMF, 2023).

xi. Debt Management Office (DMO): Established in 2000. The DMO manages Nigeria's public debt and oversees the issuance of government securities such as bonds and treasury bills. These instruments are traded in the capital market, providing investment options for both retail and institutional investors.

xii. Central Bank of Nigeria (CBN): The Central Bank of Nigeria (CBN) was established in the year1958. CBN regulates monetary policy and the financial system, which impacts the capital market. It oversees banks and other financial institutions that are key participants in the market and regulates the issuance and trading of financial instruments like treasury bills and bonds. The Nigerian capital market regulatory framework is robust and multifaceted, with multiple institutions working together to ensure that market operations are transparent, fair, and efficient. This framework has evolved over time to adapt to changing economic conditions and global best practices, providing the foundation for sustainable capital market growth, (Chartered Institute of Stockbrokers [CIS] 2023).

2.1.8 Functions of Nigeria Capital Market

The capital market is instrumental in fostering sustainable economic development, particularly through the efficient allocation of long-term capital. Its core functions span several domains critical to national development: (World Bank, 2023). The functions are as follow;

i. Capital Formation

As emphasized by Al-Faki (2006), one of the principal roles of the capital market is to mobilize surplus funds for investment in productive economic ventures. Through the issuance of financial instruments such as stocks and bonds, governments, corporations, and other institutions are able to secure long-term funding from the investing public. This system facilitates the efficient reallocation of savings into meaningful economic activities, promoting overall national development (NGX, 2023).

ii. Provision of Long-Term Finance

The capital market serves as a vital source of long-duration financing, particularly through the trading of equity and debt instruments. Unlike the money market, which focuses on short-term liquidity needs, the capital market supports projects that require extended gestation periods—such as infrastructure

development and industrial expansion. By enabling access to long-term funds, it becomes indispensable for sectors that require large-scale capital input (Ogunmuyiwa & Ekone, 2010).

iii. Investment and Wealth Creation

According to Ajakaiye and Fakiyesi (2009) note that the Nigerian capital market offers a platform for both domestic and international investors to generate wealth and diversify their investment portfolios. The availability of a wide range of instruments—including equities, bonds, and collective investment schemes—allows investors to balance risk and return, thereby supporting long-term financial planning and portfolio management.

iv. Economic Growth Catalyst

According to the Nigerian Exchange Group (NGX), the capital market plays a strategic role in economic advancement by facilitating capital formation and directing funds toward priority sectors. Through the efficient allocation of resources, the market ensures that investments flow into areas that have the highest potential for driving sustainable growth and development. It thus acts as a conduit between capital providers and sectors critical to the economy.

v. Liquidity Enhancement

According to Ogunmodede et al. (2018) emphasize the importance of liquidity in enhancing the attractiveness of capital market instruments. The secondary segment of the market provides investors with the opportunity to trade securities with ease, ensuring they can access cash when necessary. This fluidity increases investor confidence and encourages broader participation in the market, which is essential for a thriving financial system.

vi. Price Discovery and Market Transparency

The capital market plays a pivotal role in the discovery of asset prices through the interaction of supply and demand. Emenuga (1998) highlights that prices of securities reflect all publicly available information, ensuring that investors can

make informed decisions. This process improves market efficiency by enabling transparent valuation of assets and enhancing investor trust.

vii. Promotion of Corporate Governance

According to Oyejide (2003), capital markets indirectly enforce good corporate governance by requiring listed firms to comply with stringent financial reporting, disclosure, and accountability standards. The necessity to maintain market credibility and investor confidence compels firms to uphold ethical management practices and regulatory compliance

Companies that are listed on the Nigerian Exchange Group (NXG) are required to adhere to strict disclosure requirements and corporate governance standards. This promotes transparency, accountability, and efficient management within these companies such as;

i. Risk Sharing: According to Okoye and Nwisienyi (2013), explain that the capital market provides avenues for risk-sharing among various market participants through diversified investments. The capital market allows for the transfer of risk from those who are averse to risk to those who are willing to bear it. Investors can spread their investments across various financial instruments, reducing their exposure to specific risks.

ii. Foreign Investment Attraction: Nwankwo (2014), highlights the role of the capital market in attracting foreign investment, contributing to foreign exchange

earnings and financial market development. The Nigerian capital market attracts foreign direct investment (FDI) and portfolio investment by providing an organized and regulated environment for international investors to invest in Nigerian securities. This inflow of foreign capital strengthens the financial market and supports economic growth.

iii. Reduction of Over-Reliance on Short-term Financing: According to Yusuf & Yaqub (2014), suggest that the capital market helps in providing long-term financing alternatives, reducing dependency on the money market and bank loans. The capital market provides an alternative to short-term borrowing from banks by offering access to long-term capital. This reduces the pressure on businesses and government entities to service short-term loans, thus supporting more sustainable financial management.

iv. Promotion of Public-Private Partnerships: Aregbeyen and Fasanyan (2017), argue that public-private partnerships in infrastructure projects are more successful due to the capital market's ability to raise large sums of long-term capital. The capital market facilitates collaborations between the public and private sectors through public offerings, bonds, and infrastructure financing. This is critical for financing large-scale development projects, such as energy, transportation, and housing, which require long-term investments.

2.1.9 Nigeria Capital Market Instruments

The Nigerian capital market offers a wide range of instruments designed to meet the financing needs of issuers and the investment preferences of

individuals and institutions. These instruments can be categorized into equity, debt, and hybrid securities as considered below.

i. Equity Instruments: Equity securities represent ownership in a company. The two main types of equity instruments available in the Nigerian capital market are:

ii. Ordinary Shares (Common Stocks): These are the most common forms of equity in which shareholders own a portion of the company and have voting rights. Investors benefit from dividends and capital appreciation. Osaze (2007) emphasizes that ordinary shares dominate equity trading on the Nigerian Stock Exchange (NEX), with companies like Dangote Cement, MTN Nigeria, and GTCO offering substantial investment opportunities.

iii. Preferred Shares (Preference Stocks)**:** Preference shareholders receive dividends at a fixed rate before ordinary shareholders and have a higher claim on assets in the event of liquidation but generally do not have voting rights. Alile (2003), points out that preference shares are hybrid instruments that provide a mix of fixed-income and equity-like characteristics.

iv. Debt Instruments: Debt securities allow issuers to borrow funds, with a promise to repay the principal along with interest. Key debt instruments in the Nigerian capital market include:

v. Federal Government Bonds (FGN Bonds)**:** Long-term debt securities issued by the Federal Government of Nigeria, with tenures typically ranging from 5 to 30 years. They are the safest form of investment in the Nigerian market due to government backing. CBN (2023) outlines that FGN Bonds serve as a major source of financing for public infrastructure projects, providing stable returns for investors.

vi. Corporate Bonds: Issued by corporations to raise long-term capital. Corporate bonds typically offer higher returns than government bonds due to higher risk. Obadan (2006), highlights the growing importance of corporate bonds in the Nigerian capital market, with companies like Flour Mills and UBA raising significant funds through bond issuance.

vii. Municipal Bonds**:** Issued by state governments or municipalities to finance public projects such as infrastructure or utilities. Akintoye (2008) discusses the use of municipal bonds by Lagos State to fund critical projects like road and rail developments.

viii. Sukuk (Islamic Bonds): Sukuk are Shariah compliant bonds where returns are based on asset ownership or rental agreements rather than interest. They are increasingly popular in Nigeria for financing infrastructure

projects. NEX (2023) highlights the issuance of Nigeria's first sovereign Sukuk bond in 2017, which raised ₦100 billion for road infrastructure development.

ix. Eurobonds: Debt securities issued in foreign currencies, typically USD, by the Nigerian government or corporations to attract international investors. Nwankwo (2014) notes that Eurobonds are used by the government and large corporations to diversify their financing sources and access global capital markets.

x. Hybrid Instruments: Hybrid instruments have characteristics of both equity and debt.

xi. Convertible Bonds: Bonds that can be converted into a specific number of ordinary shares at the discretion of the bondholder. These bonds provide both fixed interest payments and the potential for capital appreciation if converted. Okafor (2011) discusses how convertible bonds provide issuers with lower interest rates and offer investors the option to participate in equity gains.

xii. Preference Shares: As previously mentioned under equity are also considered hybrid instruments due to their fixed-income-like features alongside equity ownership.

xiii. Derivatives (Developing Market): The derivatives market in Nigeria is in its early stages but has potential to offer various financial contracts. The

Nigerian Exchange Group (NGX) has initiated efforts to introduce more derivative products.

xiv. Futures and Options: These contracts allow investors to hedge against price movements in underlying assets like stocks, commodities, or foreign exchange. NGX (2020) launched a framework for derivative trading, with the aim of developing futures and options markets to improve risk management in the Nigerian capital market.

xv. Exchange-Traded Funds (ETFs): ETFs are investment funds traded on the stock exchange, allowing investors to own a basket of assets, such as stocks, bonds, or commodities, without directly buying each asset individually. Ezeoha (2011), highlights ETFs like the Vetiva & Griffin, 30 ETF**,** which tracks the top 30 companies on the Nigerian Stock Exchange, providing investors with diversified exposure to blue-chip stocks.

xvi. Real Estate Investment Trusts (REITs): Real Estate Investment Trusts (REITs) pool investors' funds to invest in income-generating real estate assets. They offer a liquid way for investors to participate in real estate markets. Adedokun (2013) emphasizes that REITs such as Skye Shelter Fund allow investors to invest in real estate without the complexities of direct property ownership, while enjoying regular income from rents.

xvii. Collective Investment Schemes (Mutual Funds): Mutual funds pool resources from multiple investors to invest in a diversified portfolio of assets, including stocks, bonds, and money market instruments. NGX, (2023) underscores the growth of mutual funds in Nigeria, such as the Stanbic IBTC Nigerian Equity Fund and the ARM Discovery Fund**,** providing investors with low-risk, diversified investment options.

xviii. Green Bonds: Green bonds are issued to raise funds specifically for environmentally sustainable projects, such as renewable energy and eco-friendly infrastructure. The Nigerian Sovereign Green Bond, launched in 2017, is Africa's first green bond and a landmark initiative in financing sustainable development projects (CBN, 2019).

xix. Commercial Papers: Commercial papers are short-term, unsecured promissory notes issued by corporations to meet working capital needs. Although technically a money market instrument, they are important for short-term corporate financing. Sanusi (2012), notes that commercial papers provide companies with quick access to liquidity and are commonly issued by Nigerian blue-chip companies. The Nigerian capital market offers a diverse range of instruments, including equities, bonds, ETFs, REITs, and green bonds. These instruments allow companies and governments to raise long-term funds while providing investors with various avenues to grow their wealth. Each instrument serves different needs, and together they contribute to the deepening of Nigeria's capital market.

xx. Behavioral finance: According CBN (2023), Behavioral finance is a subfield of behavioral economics that examines how psychological biases, cognitive errors, and emotional factors influence financial decision-making, challenging the traditional assumption of rationality in standard finance theories. Academic research in this area has uncovered systematic deviations from rational behavior, leading to anomalies in financial markets. Below is a structured discussion of key themes in behavioral finance based on academic research Investment Behaviors

In the Nigeria capital market like other financial investments, the following are investor's behavior.

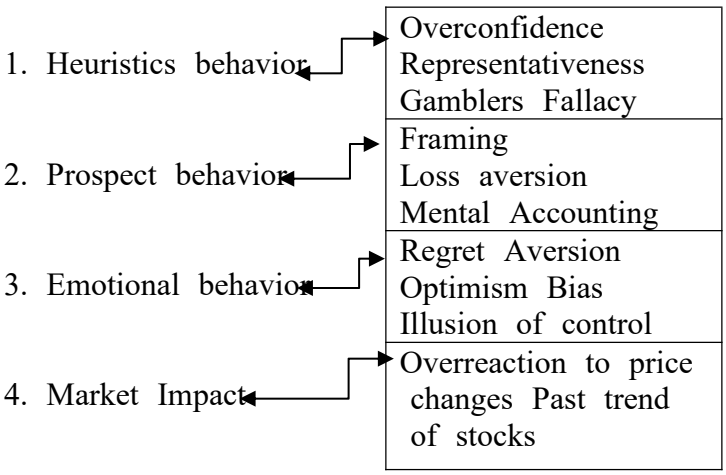


Figure: 1

Source: *Researcher's Compilation*

i. *Heuristics behavior:* Heuristics theory refers to the cognitive shortcuts or simple rules of thumb that individuals use to make decisions and solve problems quickly and efficiently. These mental shortcuts are based on experience and allow people to function without having to engage in detailed analysis for every decision. Heuristics are especially useful in complex situations where quick judgments are required, or when there is a lack of complete information. However, while heuristics can be practical and timesaving, they can also lead to systematic errors or biases in decision-making, some of the types of heuristics, according to CBN 2023), are as follows Availability Heuristic: This involves making decisions based on the information that is most readily available in memory. If something can be easily recalled, it is perceived to be more common or more likely than it is. Representativeness Heuristic*:* This is the tendency to judge the probability of an event by how similar it is to a prototype or stereotype. People often ignore base rates and other relevant information in favor of what seems representative. Anchoring and Adjustment Heuristic**:** This involves relying heavily on the first piece of information (the "anchor") when making decisions. Subsequent judgments are made by adjusting away from this anchor, often insufficiently. Overconfidence: This occurs when individuals overestimate their knowledge, abilities, or the accuracy of their predictions. Overconfidence can lead to poor decision-making and an

underestimation of risks. Gambler's Fallacy: This is the mistaken belief that past random events affect the probability of future random events. For example, believing that a coin is "due" to land on heads after several tails in a row. Heuristics theory is a fundamental concept in behavioral economics and psychology, highlighting how people can deviate from rational decision-making models due to cognitive biases.

ii. *Overconfidence:* Overconfidence is a bias where individuals are excessively confident in their abilities, knowledge, or predictions, affecting decision-making in high-stakes areas like investing. It manifests as: Overestimation**:** Overestimating one's abilities or control, like a novice investor overestimating their ability to predict markets. Over placement**:** Believing one is better than others, such as thinking they are in the top 10% of drivers. Over precision**:** Excessive certainty about one's knowledge, such as being overly sure of sales forecasts despite uncertainties.

iii. *Representativeness:* Representativeness is a bias where individuals judge the likelihood of an event based on its similarity to a prototype or stereotype, rather than actual statistics, as proposed by Tversky and Kahneman in the 1970s.

iv. *Gambler's Fallacy:* The Gambler's Fallacy is the mistaken belief that if an event happens more frequently in a period, it will occur less in the future,

or vice versa. It arises from a misunderstanding of probability in sequential events like coin flips.

v. *Framing:* Farming is a bias where decisions are influenced by how information is presented. Kahneman (2011) noted that few people are "reality bound." Diacon & Hasseldine (2007) found that investors frame information visually rather than relying on the facts. Wahla et al. (2019) showed that framing negatively affects financial behavior, leading investors to make poor decisions based on how information is presented rather than the facts.

vi. *Loss Aversion:* Tversky & Kahneman (1979) found that people value losses more than equivalent gains, making them risk-averse with gains and risk-takers with losses. Myopic loss aversion explains why daily investors adjust their wealth distribution. Investors often avoid equities after a loss, despite the market principle of buying low and selling high.

vii. *Mental Accounting:* Mental accounting refers to how people categorize money for different purposes, which can harm investment and consumption decisions. Shefrin & Thaler (1988) noted that individuals divide their funds into current income, current wealth, and future income, often leading to risk segregation.

viii. *Emotional behaviors:* Emotions like fear, greed, and regret significantly influence investment decisions. Ahmad (2019) emphasized that managing

emotions is key to sound financial decisions. However, biases like optimism and lack of self-control often lead to poor financial planning, such as overspending on present needs instead of saving.

ix. *Optimism Bias:* Optimism bias is the tendency for individuals to overestimate positive outcomes, based on inner perceptions rather than reality. Riaz & Iqbal (2015) linked optimism bias to risky investment decisions, particularly in volatile markets.

x. *Illusion of Control:* Illusion of control is the false belief that one can control events beyond their influence. This bias often leads to overtrading, increasing costs. Langer (1975) defined this as an "inappropriate personal success," where people overestimate their control in random events.

xi. *Regret Aversion:* Regret aversion is the tendency to avoid making decisions to prevent future regret. Investors often sell winning stocks too quickly and hold onto losing ones for too long, leading to reduced returns. This bias also causes investors to avoid risks that could lead to regret, making them overly conservative in their decisions.

2.1.10 Crypto currency and Capital Markets

Crypto currency, a digital or virtual currency secured by cryptography, operates on decentralized block chain technology, contrasting with traditional capital markets that rely on centralized financial systems. Capital markets facilitate the

trading of stocks, bonds, and other securities, enabling businesses and governments to raise long-term funds. The emergence of crypto currencies has introduced a new asset class, influencing capital market dynamics by offering alternative investment opportunities and decentralized financial instruments, (CBN, 2023).

i. *Crypto currency on Capital Market Operations:* Crypto currencies have disrupted traditional capital markets by introducing decentralized finance (DeFi) platforms, which allow peer-to-peer lending, borrowing, and trading without intermediaries. This shift challenges conventional market structures, reducing reliance on brokers and exchanges. Additionally, the volatility of crypto currencies has attracted speculative investors, impacting liquidity and risk profiles in capital markets. Some firms now issue security tokens digital assets representing traditional securities blurring the lines between crypto and conventional markets, (CBN 2023).

ii. *Regulatory Challenges and Market Integration:* The integration of crypto currencies into capital markets faces regulatory hurdles due to concerns over fraud, money laundering, and investor protection. Governments and financial authorities struggle to establish frameworks that balance innovation with stability. While some countries embrace crypto assets by approving Bitcoin ETFs or regulating exchanges, others impose strict bans. Regulatory clarity is essential

for institutional investors to confidently participate in crypto-related capital market activities, (CBN, 2023).

iii. *Risks and Opportunities for Investors:* Crypto currencies present both risks and opportunities for capital market participants. High volatility can lead to significant gains or losses, making crypto investments speculative compared to traditional securities. However, block chain technology enhances transparency and reduces settlement times, potentially improving market efficiency. Institutional adoption of crypto assets, such as hedge funds and corporate treasuries adding Bitcoin to their portfolios, signals growing acceptance but also systemic risk if market corrections occur, (CBN 2023).

iv. *Crypto Currency and Capital Market Future Prospects:* The future of crypto currency in capital markets hinges on technological advancements, regulatory developments, and market adoption. Central bank digital currencies (CBDCs) may bridge the gap between traditional finance and crypto, fostering hybrid financial ecosystems. As block chain matures, its applications in clearing, settlement, and smart contracts could revolutionize capital market operations. While challenges remain, the synergy between crypto currencies and capital markets is reshaping global finance, demanding adaptive strategies from investors, regulators, and financial institutions, (CBN 2023).

v. *Foreign Exchange (FX) and FX Trading:* The foreign exchange (FX or Forex) market is the largest and most liquid financial market globally, where

currencies are traded against one another. It operates 24 hours a day, five days a week, facilitating international trade and investment by enabling currency conversion. FX trading involves buying one currency while selling another, with exchange rates fluctuating based on economic indicators, geopolitical events, and market sentiment. Unlike stock markets, Forex is decentralized, with transactions occurring over the counter (OTC) through electronic networks, banks, and brokers, (CBN 2023).

vi. *Types of FX Trading:* FX trading can be categorized into several types based on trading style, duration, and instruments used: Spot Trading: The most common form, where currencies are bought and sold for immediate delivery at the current market rate. Forward Contracts: This is an Agreements to exchange currencies at a predetermined rate on a future date, used for hedging against exchange rate risks. Futures Trading: Standardized contracts traded on exchanges, obligating the buyer and seller to transact at a set price and date. Options Trading: Provides the right (but not the obligation) to buy or sell a currency at a specified price before a set expiration date. Swap Transactions: Involves exchanging currencies for a period and then reversing the trade later, often used by institutions for hedging. Algorithmic & High-Frequency Trading (HFT): Uses automated systems to execute trades at high speeds based on pre-set algorithms.

vii. *Factors Influencing FX Markets:* Several factors drive currency price movements, including: Economic Indicators: GDP growth, inflation, employment data, and interest rates impact currency strength. Central Bank Policies*:* Monetary policies, such as quantitative easing or rate hikes, influence exchange rates. Geopolitical Events: Political instability, trade wars, and global conflicts create market volatility. Market Sentiment: Speculation and trader psychology can cause rapid price swings. Liquidity & Leverage: Major currency pairs (e.g., EUR/USD, USD/JPY) are highly liquid, while exotic pairs are more volatile.

viii. *Strategies for Profitable FX Trading:* Successful FX trading requires a structured approach and risk management. Common strategies include: Day Trading: Opening and closing positions within the same day to capitalize on short-term price movements. Swing Trading: Holding trades for days or weeks to benefit from medium-term trends. Scalping: Making multiple small trades to exploit minor price fluctuations within minutes or seconds. Trend Following: Identifying and trading in the direction of established market trends using technical indicators like moving averages. Carry Trade: Borrowing a low-interest-rate currency to invest in a higher-yielding one, profiting from the interest rate differential. Breakout & Reversal Trading: Entering trades when prices break key support/resistance levels or reverse direction.

ix. *Risk Management & Future Trends in FX Trading:* FX trading is inherently risky due to leverage and volatility. Effective risk management

includes: Stop-Loss & Take-Profit Orders: Automatically closing trades at predefined levels to limit losses and lock in profits. Position Sizing: Avoiding overexposure by risking only a small percentage of capital per trade. Diversification: Trading multiple currency pairs to spread risk. Avoiding Emotional Trading: Sticking to a trading plan and avoiding impulsive decisions. Technological advancements, such as AI-driven trading boots, block chain-based FX settlements, and increased retail participation, are shaping the future of Forex. As markets evolve, traders must adapt to regulatory changes, algorithmic competition, and macroeconomic shifts to remain profitable. FX trading offers significant profit opportunities but requires knowledge, discipline, and risk management. Understanding different trading styles, market drivers, and strategic approaches enhances a trader's ability to navigate the dynamic Forex landscape. Continuous learning and adapting to technological innovations will be crucial for long-term success in FX trading, (CBN 2023).

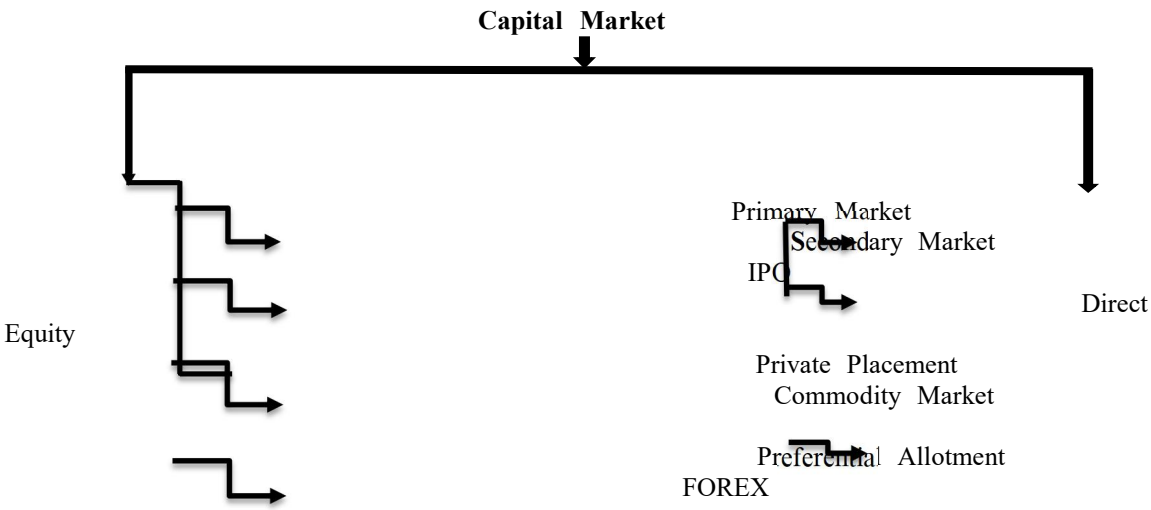
2.1.11 Economy Growth

According to Vasila (2003), economic growth refers to the increase in the production of goods and services over a specific period, measured after removing inflationary effects. It boosts business profits, enabling reinvestment, job creation, and opportunities such as rising stock prices. As a result, positive economic growth is a key target for nations, making it one of the most

analyzed economic indicators. Most countries measure growth quarterly using real GDP, with analysts tracking it to identify the economy's phase in the business cycle, particularly during sustainable expansion. When a country lacks sufficient factors of production, it must seek alternative growth strategies. Governments often aim to boost growth to increase tax revenue. However, during periods of growth, they should adopt contractive fiscal policies, such as reducing spending and raising taxes, to ensure sustainable economic growth.

2.1.12 Structural View of the Nigeria Capital Market

The Nigerian capital market facilitates long-term financing, driving economic growth. Its efficiency relies on strong regulatory frameworks, active participation, and effective institutions operating through the primary and secondary markets as outlined below



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Right Issues

Figure 1

Source: *Research's Compilation*

2.2 Theoretical Review

Theoretically, this study is anchored on Levine's Financial Development Theory. The study also evaluated Savings-Investment Nexus, and Supply-Leading Hypothesis due to their contribution in the discussion of the capital market and roles on economic growth in Nigeria and other nations.

2.2.1 Levine's Financial Development Theory

The Levine's Financial Development Theory, formulated during the 1990s with major contributions spanning from 1991 to 2005, asserts that the structure and efficiency of a country's financial system play a pivotal role in driving economic growth. According to Levine, financial institutions and markets contribute to development by performing essential functions such as mobilizing savings, allocating capital more efficiently, facilitating investment, diversifying risk, and reducing both transaction and information costs. The theory underscores the integration of financial intermediation and market-based finance within the broader context of development economics. Through these

mechanisms, a well-developed financial system enhances the productive capacity of an economy by ensuring that financial resources are channeled toward their most efficient uses.

2.2.1.2 Assumptions of the Financial Development Theory

The following are the assumptions of the theory.

i. Financial Development is a Key Driver of Economic Growth

The theory assumes a strong causal relationship between financial system development and economic performance. Efficient Markets Allocate Resources Better: It assumes that well-developed financial markets allocate resources to the most productive sectors, leading to optimal investment decisions.

ii. Financial Intermediaries Reduce Information Asymmetry

The theory assumes that banks and other intermediaries play a crucial role in reducing problems related to information asymmetry, ensuring efficient capital allocation. Institutional Quality Matters: Levine assumes that strong institutions, including regulatory frameworks, are necessary for financial systems to function effectively. Endogenous Growth Mechanism: The theory is based on endogenous growth principles, where financial markets contribute to technological innovation and productivity growth.

2.2.1.3 Criticism of Levine's Financial Development Theory

Despite the significance of Levine's theory, it has faced criticism from various scholars:

i. *Causality Issue (Finance-Growth Debate):* Some economists argue that economic growth leads to financial development, rather than the other way around. This reverse causality challenges the notion that financial development is a prerequisite for economic growth.

ii. *Overemphasis on Financial Markets:* Critics argue that the theory places excessive importance on financial markets while underestimating other growth factors such as human capital, infrastructure, and industrial policy.

iii. *Institutional and Political Constraints:* The effectiveness of financial development in driving growth depends on the quality of institutions and governance. Weak institutions, corruption, and regulatory failures can hinder the expected positive impact of financial development.

iv. *Financial Crises and Market Failures:* The theory does not fully account for financial instability, bubbles, and crises. Excessive financial liberalization has sometimes led to economic downturns, as seen in the 2008 Global Financial Crisis.

v. *Neglect of Informal Financial Systems:* In developing economies, informal financial systems play a significant role in financial intermediation, which the theory does not sufficiently address.

2.2.1.4 Relevance of Levine's Financial Development Theory to the Study

Levine's Financial Development Theory is highly relevant to the study of capital markets fundamentals and Nigeria economic growth as the following ways.

i. Explains the Role of Capital Markets in Economic Growth: The theory highlights how stock markets and bond markets mobilize resources for investment, leading to higher economic output. By improving liquidity and access to capital, financial markets enhance economic productivity
ii. Link between Financial Development and Economic Growth: The theory provides a framework to analyze how financial deepening (such as an increase in stock market capitalization) contributes to GDP growth. In Nigeria, financial sector reforms have been linked to economic expansion, as predicted by Levine's model.
iii. Impact of Financial Regulation on Capital Markets: The theory underscores the importance of sound financial regulation in ensuring efficient capital allocation and preventing crises. Regulatory bodies like

the Securities and Exchange Commission (SEC) play a crucial role in maintaining market stability.

iv. Encouraging Foreign and Domestic Investment: Well-functioning financial systems attract foreign direct investment (FDI) and institutional investors, fueling economic expansion. In Nigeria, financial development has encouraged foreign participation in capital markets, supporting industrial growth.

v. Application to Policymaking and Financial Sector Reforms: Policymakers use insights from the theory to design financial sector reforms aimed at boosting economic growth. The Central Bank of Nigeria (CBN) and other financial regulators implement policies to enhance market efficiency based on these principles.

2.2.2 The Savings-Investment Nexus

The Savings–Investment Nexus highlights the intrinsic relationship between the accumulation of savings and the generation of investments within an economy. At its core, this concept posits that a well-functioning capital market serves as a crucial intermediary that bridges surplus units (savers) and deficit units (investors). In this framework, households and businesses generate surplus funds through savings, which are then mobilized and redirected into productive ventures via financial instruments traded in the capital market. A robust capital

market infrastructure ensures the efficient allocation of these resources, enabling investments in sectors that drive economic growth. By facilitating the movement of idle funds into capital-intensive projects, the nexus underscores the role of financial intermediation in enhancing national productivity and long-term development.

2.2.2.1 Assumptions of the Savings-Investment Nexus

The assumptions of the theory are.

Savings Lead to Investment**:** The theory assumes that higher savings result in higher investments, leading to capital accumulation and, consequently, economic growth.

Perfect Intermediation**:** Capital markets are assumed to efficiently mobilize savings and allocate them to the most productive investment opportunities.

Investment Drives Growth**:** Investments, particularly in physical and human capital, are key drivers of economic growth.

2.2.2.2 Criticisms of the Savings-Investment Nexus

The criticisms of the theory are as follows.

Causality Issues**:** Critics argue that the direction of causality between savings and investment is not always clear. Some suggest that investment drives savings, particularly in growing economies, where the demand for financial services increases with rising incomes.

Market Imperfections**:** The assumption of perfect intermediation may not be held in developing countries, where capital markets often face issues like information asymmetry, inefficiency, and high transaction costs.

Lack of Consideration for External Financing**:** In a globalized economy, capital markets are not solely reliant on domestic savings for investment. Foreign capital inflows can also finance investments, making the savings-investment link weaker.

2.2.2.3 Relevance of the Savings-Investment Nexus to Capital Market and Economic Growth

In the context of Nigeria's economy, the savings-investment nexus theory is relevant as capital markets can act as a bridge between domestic savings and investment needs. Efficient capital markets enhance savings mobilization and direct these funds toward productive investments, spurring economic growth. However, this requires an efficient financial system with low barriers to participation for savers and borrowers.

2.2.3 The Supply-Leading Hypothesis

The Supply-Leading Hypothesis, originally advanced by Patrick H.T. in 1966, posits that financial development acts as a catalyst for economic growth. According to this perspective, the establishment and expansion of financial institutions such as capital markets, banks, and other intermediaries—precede and actively promote economic development. These financial systems mobilize savings, lower transaction costs, and allocate capital to the most productive investments. The hypothesis argues that when a country proactively builds a sound financial infrastructure, it creates the conditions necessary for sustained investment and industrial expansion. In this sense, financial development is not merely a byproduct of economic growth but a strategic input that drives it. This theory underpins many development policies in emerging economies, where strengthening financial markets is seen as a pathway to accelerated growth and improved capital formation.

2.2.3.1 Assumptions of the Supply-Leading Hypothesis

The following are the assumptions of the theory.

Financial Development Precedes Growth*:* This theory assumes that financial systems must develop first to drive economic growth.

Efficient Markets**:** Well-functioning capital markets are presumed to mobilize savings and provide capital to productive sectors efficiently.

Access to Capital Promotes Investment*:* The assumption is that access to financial resources stimulates investment in productive activities, which drives growth.

2.2.3.2 Criticisms the Supply-Leading Hypothesis

The criticisms are;

Demand-Following Hypothesis**:** Critics of the supply-leading hypothesis argue that economic growth itself drives the development of financial markets. The Demand-Following Hypothesis posits that as economies grow, they create demand for more sophisticated financial services, leading to the development of capital markets.

Timing and Sequence Issues**:** There are debates about whether financial development should precede or follow economic growth, and whether capital markets automatically lead to broader financial and economic development in developing countries.

Potential for Misdirected Investments**:** In cases where capital markets are not fully developed,

2.2.3.3 Relevance of the Supply-Leading Hypothesis

In the Nigerian context, the supply-leading hypothesis suggests that developing a robust capital market infrastructure could catalyze economic growth by providing necessary financial resources for businesses and industries. This theory highlights the importance of proactive financial development policies, including reforms to strengthen capital market efficiency.

2.3 Empirical Review

In the bid to appropriately evaluate the impact of capital market fundamentals on economic growth in Nigeria, the following are the empirical considerations.

Okey-Nwala (2025) explored how capital market structures influence the performance of Nigeria's industrial sector. Using both Ordinary Least Squares (OLS) regression and Granger causality techniques, the study analyzed the effects of five explanatory variables—Market Capitalization (MKC), Value of Shares Traded (VST), All Share Index (ASI), Share of Domestic Investment (SDI), and Recurrent Education Expenditure (SRE)—on Industrial Gross Domestic Product (IGDP). The OLS estimation revealed that VST, ASI, SDI, and SRE exert statistically significant influences on IGDP, highlighting the roles of market liquidity, investor performance, domestic capital formation, and

educational investment in driving industrial output. Moreover, Granger causality tests uncovered a two-way causal link between ASI and IGDP, reinforcing the finance-led growth hypothesis. In contrast, a one-way causality from SDI and SRE to IGDP underscored the importance of domestic investment and human capital in industrial development. These outcomes support the literature emphasizing the relevance of capital markets in channeling funds to the real sector, and they suggest the need for policy frameworks that strengthen market liquidity and support long-term education and investment strategies.

In a related analysis, Bashiru (2025) examined how selected macroeconomic indicators—specifically, the market capitalization ratio, interest rate, inflation, and exchange rate—affect Nigeria's GDP over time. Employing an Autoregressive Distributed Lag (ARDL) model, the study utilized time series data and found a model fit of $R^2 = 0.9999$, indicating that nearly all variations in GDP were accounted for by the chosen variables. The results showed a statistically significant negative relationship between market capitalization and GDP, implying that increased capitalization did not translate into growth. This counterintuitive result was attributed to possible inefficiencies within the capital market, including underperforming firms and regulatory challenges. Additionally, the interest rate exhibited a positive but statistically insignificant influence on growth, while inflation had a negative and likewise

insignificant effect. Conversely, the exchange rate was both positively and significantly associated with GDP, suggesting potential benefits from external competitiveness or favorable currency policy. These findings suggest that while monetary variables have varying impacts, the capital market's contribution to growth may be constrained by systemic weaknesses requiring structural reform and improved regulation.

Ahmed et al. (2024), in a study titled "The Impact of the Capital Market on Economic Growth in Nigeria: An Empirical Analysis," examined the long-term and short-term interactions between capital market indicators and economic performance using data from 2000 to 2020. Employing the Vector Error Correction Model (VECM), the study identified a significant and positive long-run association between capital market development and GDP growth. Specifically, variables such as market capitalization, turnover ratio, and the number of listed firms emerged as critical drivers of output expansion. The findings reinforce the proposition that a liquid and well-diversified capital market supports economic growth by improving capital allocation efficiency, deepening financial intermediation, and enhancing access to long-term funding for businesses.

Ariyo et al., (2024), the study explored the impact of the capital market on Nigeria's economic growth from 1990 to 2022. Specifically, it examined the

effects of market capitalization on economic growth, analyzed the influence of the all-share index, and assessed the impact of inflation on growth. Gross Domestic Product (GDP) was used as a proxy for economic growth (dependent variable), while market capitalization (MCAP), all-share index (ASI), and inflation rate (INFR) served as independent variables. The study employed the Auto-Regressive Distributed Lag (ARDL) model for analysis. The findings revealed that market capitalization has a positive and significant relationship with GDP in the long run. The all-share index was positively but insignificantly related to GDP, while the inflation rate also exhibited a positive but insignificant relationship with GDP in the long run. The study concluded that the capital market has a positive but insignificant impact on Nigeria's economic growth over the long term. Consequently, the study recommended that the government should implement policies to stabilize share prices and encourage both domestic and foreign investor participation in the capital market. Additionally, greater emphasis should be placed on financial sector development, particularly capital market enhancement, to foster economic growth. Furthermore, regulatory authorities should actively monitor and manage the country's inflation rate.

Ogieva and Osayi (2024), examined the relationship between foreign capital outflows and stock market performance in Nigeria from 1986 to 2021.

Variables such as foreign direct investment outflow (FDIO), foreign portfolio investment outflow (FPIO), foreign remittance outflow (FRO), official development assistance outflow (ODAO), interest rate (INTR), and inflation rate (INFR) were analyzed using the autoregressive distributed lags (ARDL) model. Augmented Dickey-Fuller (ADF) unit root tests confirmed the properties of the time series data. Their findings demonstrated that FDIO and ODAO had significant negative effects on stock market performance, while FPIO and INTR showed weak positive relationships. Inflation did not significantly impact stock market performance. The study recommended improving Nigeria's investment climate and implementing policies to reduce capital outflows, particularly in the form of remittances.

Akinbola (2024) examined the influence of capital market performance on Nigeria's economic growth using a multiple regression framework grounded in macro-financial theory. Drawing on annual data spanning 1981 to 2019—sourced from the Nigerian Stock Exchange, the Securities and Exchange Commission, and the Central Bank of Nigeria—the study modeled the relationship between four core capital market indicators (market capitalization, all-share index, total transaction value, and number of listed securities) and real Gross Domestic Product (RGDP), the proxy for economic growth.

The empirical analysis was situated within several theoretical perspectives, including the neoclassical and endogenous growth models, Efficient Market Hypothesis (EMH), Arbitrage Pricing Theory (APT), Modern Portfolio Theory (MPT), and the Capital Asset Pricing Model (CAPM). Estimation was carried out using the Ordinary Least Squares (OLS) technique, supported by diagnostic tests to validate the model. These included the Augmented Dickey-Fuller (ADF) test for stationarity, the Breusch-Pagan-Godfrey test for heteroskedasticity, and the CUSUM test for parameter stability.

The results revealed that approximately 97.9% of variations in RGDP were accounted for by the selected capital market variables, with market capitalization and the all-share index proving to be statistically significant determinants of long-term economic growth at the 5% level. The adjusted R-squared value of 97.6% confirmed the strength and explanatory power of the model. Furthermore, the speed of adjustment toward long-run equilibrium was estimated at 98%, suggesting a highly responsive system.

Despite some deviations from theoretical expectations, the findings affirmed the critical role of market capitalization and index performance in driving Nigeria's economic development. The study concluded with strategic policy suggestions aimed at enhancing capital market effectiveness and aligning financial market growth more closely with national development objectives.

Maduabuchi et al., (2023), analyzed the impact of capital market development on Nigeria's economic growth using quarterly data from 1981 to 2021 and quantile regression techniques. Their findings revealed that while the All-Share Index had a negative impact at the 0.10 quantile, it showed positive significance at higher quantiles (0.50, 0.60, 0.70, 0.80, and 0.90). Market capitalization exhibited positive impacts at all quantiles, though significance varied. The study recommended stronger regulation and institutional stability in the capital market to enhance growth.

Olarinre et al., (2023), assessed the effect of the Nigerian stock exchange on economic development using time-series data from 1986 to 2021. Their results, derived from ARDL co-integration analysis and an error correction model, indicated a significant positive long-run relationship between market capitalization, transaction value, and economic growth. They suggested that the Securities and Exchange Commission (SEC) should introduce technological advancements to boost market efficiency.

Yakubu (2023), examined the link between capital market capitalization and economic growth from 1990 to 2021 using OLS and cointegration tests. The study revealed a positive and significant relationship between market capitalization and economic growth, with unidirectional causality flowing from

market capitalization to GDP. It recommended policies to boost Nigeria's capital market and overall financial system.

Abayomi and Yakubu (2022) explored this relationship over a longer timeframe (1990–2020) using the Autoregressive Distributed Lag (ARDL) approach. Their study incorporated a broader set of variables, including equity instruments, government securities, bonds, preference shares, and Foreign Direct Investment (FDI). The ARDL bounds test confirmed a stable long-run relationship, with equity and government stock exhibiting strong positive effects on GDP. However, bonds and preference shares showed a marginally negative association, highlighting the differential impact of various financial instruments on growth outcomes.

Omimakinde and Otite (2022) adopted an Ordinary Least Squares (OLS) framework to assess capital market reforms from 1985 to 2020. Their analysis revealed that market capitalization, interest rates, and trading volume (proxied by the number of deals) positively influenced GDP. Conversely, the all-share index, number of listed companies, transaction values, and inflation were found to hinder growth. These findings imply that while market depth enhances economic performance, excessive speculation (reflected in index volatility) and inflationary pressures may undermine these benefits.

Omodero and Alege (2022) evaluated the growth impact of different government bonds between 2003 and 2019. Multiple regression analysis indicated that Federal Government bonds and Treasury bills significantly boosted GDP, whereas Treasury bonds and inflation exerted adverse effects. This underscores the importance of debt instrument design and macroeconomic stability in shaping growth outcomes.

Ihenetu and Iwo (2022) analyzed data from 1999 to 2020 using OLS, finding that market capitalization positively affected GDP, while the all-share index had a negative effect. New capital raised through equity issuances showed no significant impact, suggesting that secondary market liquidity (rather than primary market activity) may be more critical for growth in Nigeria's context.

Umar (2022) the study examines the relationship between capital market performance and economic growth. The study, using the Systematic Quantitative Assessment Technique (SQAT), meticulously reviews 51 peer-reviewed journal articles, focusing primarily on works conducted within Nigeria, while also including studies from other global regions. The primary objective was to identify recurring themes, methodologies, and research gaps in the existing literature on capital markets and their influence on economic performance. The findings reveal that most of the studies reviewed affirm a strong linkage between capital market development and economic growth, although the strength

and nature of this relationship vary across countries. This variation is largely attributed to differences in the level of development, structure, and efficiency of capital markets in different regions. For instance, while Nigerian-based studies often report significant impacts of market indicators such as market capitalization and turnover ratio on GDP growth, studies from more developed economies provide more nuanced or sometimes mixed outcomes. Despite the diversity of findings, there is a common consensus that capital markets play a vital role in economic development through mobilization of long-term funds and resource allocation. One of the limitations noted in Umar's study is the restricted access to high-quality academic databases, which led to a reliance on Google Scholar for sourcing relevant literature. This limitation, while necessary, may affect the comprehensiveness and academic rigor of the review. Nevertheless, the study contributes significantly to understanding the landscape of capital market research and identifies a growing scholarly interest in examining capital markets as mechanisms for promoting sustainable economic growth. The study concludes by recommending further empirical investigation into capital markets, especially in developing countries, where institutional weaknesses and market inefficiencies may obscure the true potential of these financial systems. The study calls for enhanced data accessibility and broader regional focus in future research to strengthen the global understanding of capital market dynamics and their implications for economic policy formulation.

Olawoye (2022), employed multiple regression analysis to examine whether capital market indices significantly impacted Nigerian economic growth, as measured by GDP. The study revealed a positive relationship between the capital market and economic growth, and suggested measures such as attracting more foreign investors, utilizing advanced technologies like automated trading, and boosting market confidence to address declining market capitalization.

Bello et al., (2022), examined the relationship between capital market performance and economic development in emerging economies from 2012 to 2022, using a qualitative descriptive synthesis. Their study revealed that 30% of empirical findings did not align with expectations, with inconsistent results due to the use of various methodologies. They suggested encouraging domestic capital production to finance enterprises and standardizing research methods to ensure consistency in findings.

Usman (2021), investigated the relationship between Nigeria's capital market and economic development from 2012 to 2021, employing the Software Quality Assurance and Testing (SQAT) method. The findings showed that the capital market had a significant impact on GDP growth, but variations were noted across different states due to the maturity of global financial markets. The study emphasized the importance of capital market health in driving economic progress.

Fapetu et al., (2021), investigated the performance of Nigeria's capital market and its relationship with macroeconomic indicators from 1993 to 2020 using a vector error correction model. Their results showed a significant long-term relationship between macroeconomic dynamics and capital market performance. The study also highlighted the applicability of Arbitrage Pricing Theory (APT) in Nigeria.

Emmanuel et al., (2021), investigated the effect of the capital market on economic development in Nigeria and South Africa, using the human development index (HDI) as a proxy for economic development. The study covered the period from 1990 to 2018 and used several econometric tests, finding a positive but insignificant relationship between market capitalization and economic development in both countries. However, the HDI was significantly influenced by the value of securities traded and stock market turnover ratio in both nations. While the all-share index negatively impacted HDI in Nigeria, it had a positive and significant effect in South Africa. The study recommended policies to attract local and foreign participants to the capital markets to drive economic development.

Celina et al., (2021), examined the impact of the capital market on Nigeria's economy, using the Vector Error Correction Model and Cointegration test. They found a positive but statistically insignificant effect of market capitalization and

the all-share index on Nigeria's GDP, recommending that the government stabilize share prices to encourage both local and foreign investment, which would in turn boost market capitalization and the all-share index, benefiting the economy.

Udo et al. (2021), analyzed the effect of financial market expansion on Nigeria's economic growth from 1983 to 2016, using the Augmented Dickey-Fuller unit root test and ARDL bounds test. Their findings indicated that the All-Share Index and number of listed securities significantly impacted both short- and long-term economic growth. They recommended the removal of tax, legal, and regulatory barriers that hinder investment and urged the government to ensure policy consistency to boost investor confidence and support capital market development.

Adolphus and Samuel (2021), explored Nigeria's capital market development and economic growth from 1981Q1 to 2017Q4, using the Augmented Dickey-Fuller Test and Vector Auto Regression. Their results showed that market capitalization proportion significantly predicted financial development ($p = 0.0205$), while stock percentage and banking framework capitalization had minimal impact on real GDP, suggesting that market capitalization plays a central role in Nigeria's capital market.

Imade (2021), compared the performance of the U.S. and Nigerian capital markets and their impact on GDP growth from 1990 to 2017, using an error correction model and cointegration analysis. The study found that gross fixed capital formation was the only factor that influenced Nigeria's economic development in both the short and long term, recommending stronger regulation of the capital market to ensure long-term growth.

Ibrahim and Mohammed (2022) explored the relationship between capital market operations and economic growth using quarterly data from 2009 to 2018. They concluded that market capitalization, stock value, and the All-Share Index positively impacted GDP, with every increase in market capitalization significantly raising GDP.

Adolphus and Dibiah (2021), explored the relationship between capital market development and economic growth in Nigeria from 1981 to 2017, using the Vector Auto Regression (VAR) estimation method. Their study found that stock proportion and banking framework capitalization ratio were insignificant in determining Nigeria's GDP. In contrast, Okpoto (2015) analyzed the impact of capital market performance on Nigerian economic growth from 1980 to 2013, concluding that the capital market and economic growth were co-integrated, and indicating long-run equilibrium between the two.

Algaeed (2021) conducted a study analyzing the impact of capital market development on Saudi Arabia's economic growth, using annual time-series data from 1985 to 2018. The research measured economic development through per capita GDP, while capital market performance was assessed using variables such as the share price index, market capitalization, liquidity, the number of share transactions, and the volume of shares traded. The study employed econometric techniques, including the Autoregressive Distributed Lag (ARDL) model, Fully Modified Ordinary Least Squares (FMOLS), and Johansen cointegration tests. The findings revealed that market capitalization and liquidity had a negative effect on growth, whereas the share price index, the number of shares traded, and transaction volume exhibited positive impacts, aligning with theoretical expectations. However, a limitation of this study was its reliance on yearly data and the exclusion of real GDP as a growth indicator.

Imade (2021) investigated the relationship between capital market performance and economic growth in Nigeria and the United States from 1990 to 2017. Using cointegration analysis and the error correction model (ECM), the study found that only gross fixed capital formation had a significant influence on Nigeria’s economic growth in both the short and long run. The research recommended stronger government oversight of capital market operations to enhance their contribution to economic development. However, a key limitation

was the use of annual time-series data with fewer than 30 observations, which falls short of the standard requirement for robust time-series analysis.

Tan and Shafi (2021) explored the impact of Malaysia's capital market on economic growth using quarterly data from Q1 1998 to Q4 2018. Economic growth was proxied by per capita real GDP, while capital market variables included Sukuk bonds, stock market capitalization, total stock turnover, real savings, and employment growth rates. The Autoregressive Distributed Lag (ARDL) bounds test confirmed a long-run equilibrium relationship between capital market development and economic growth. This study adopted a quantitative approach with quarterly time-series data, providing a more granular analysis compared to annual data studies.

Grbic (2020) analyzed the relationship between stock market development and economic growth in Serbia using quarterly time-series data from Q1 2000 to Q4 2018. Real GDP was the dependent variable, while the independent variables—market capitalization, total value ratio, and turnover ratio—were examined using a Vector Autoregressive Model with the Toda-Yamamoto-Dolado-Lutkepohl approach for Granger causality. The study found a unidirectional Granger causality from stock market development to economic growth.

Onisanwa and Adaji (2020), investigated stock market development and investment growth in Nigeria, employing the Autoregressive Distributed Lag (ARDL) model to assess the long-run relationship between the two. Gross capital formation served as a proxy for investment growth, while market capitalization ratio, total value traded ratio, and turnover ratio represented stock market indicators. Using data from 1981 to 2018, the study revealed that the turnover ratio had a negative and significant impact on investment growth, while the total value traded ratio had a positive and significant effect on gross capital formation both in the short and long run.

Stephen and Ajayi (2020), evaluated the relationship between Nigeria's capital market and GDP growth from 2000 to 2018, using Pearson correlation, Ordinary Least Squares (OLS), heteroskedasticity, and Ramsey reset tests. The results indicated that market capitalization and the all-share index had a positive but statistically insignificant effect on economic growth, while the total transaction value showed a positive and significant correlation. The authors recommended immediate capital market reforms, emphasizing its role in mobilizing medium- to long-term capital for investment and fostering economic growth.

Preye and Bingilar (2020), studied the link between Nigeria's GDP growth and capital market development from 2008 to 2018 using multiple regression

analysis. They found that stock market growth positively and significantly impacted GDP growth, though the relationship was relatively weak. The authors advised the government to discourage stock hoarding and enhance the communication infrastructure to improve market efficiency. Investments in infrastructure were also recommended to boost corporate performance and economic output.

Ubesie et al. (2020), examined the effect of Nigeria's capital market on economic development from 1990 to 2018, using Autoregressive Distributed Lag Bounds Testing Approach for Cointegration (ARFF) and Error Correction Model (ECM) tests. All variables, except for the labor force, were found to be statistically significant in explaining economic development. The study concluded that the model used was an appropriate fit for the variables and recommended government initiatives to improve living standards.

Keji (2020), assessed the impact of the Nigerian capital market on economic development from 1980 to 2017, employing bound cointegration and an auto-regressive distribution-lag model. The findings showed a long-term relationship between the capital market and GDP growth. The study recommended enhancing market technology infrastructure to simplify transactions, promote internationalization, and increase competition. Additionally, regulatory authorities like the SEC were urged to tighten oversight to reduce fraudulent activities.

Agundu et. al. (2018), studied the factors influencing stock prices in capital markets are numerous and varied, prompting researchers in accounting and finance to periodically investigate them with a contextual focus. From basic philosophical approaches to more advanced econometric methods, analysts from different schools of thought have explored this topic, producing a range of outcomes. While some factors are commonly observed across most stock markets, specific conditions in each environment contribute to unique dynamics. This underscores the reality that each market operates under its own set of rules, regulations, country-specific characteristics, and investor profiles, all of which contribute to its distinctiveness. In this conceptual analysis, Earnings per Share (EPS), Dividend per Share (DPS), and the Price-Earnings Ratio (P/E ratio) emerge as key determinants of stock prices, with the latter being particularly significant. This highlights the ongoing relevance of financial statement information derived from corporate accounting reports, reinforcing the need for stock market regulators to uphold rules that ensure adherence to best practices. The alternative to reliable information is institutional instability, as a loss of investor confidence leads to liquidity shortages, market inefficiency, and reduced investment. Thus, regulatory and administrative mechanisms must prioritize enhancing reporting compliance and ensuring higher standards of due diligence, accountability, and responsibility in line with global standards.

Araoye, et al. (2018) represents one of the most thorough examinations of the Nigerian stock market's impact on economic development. Spanning nearly three decades from 1985 to 2014, their research employed sophisticated econometric techniques to isolate the specific contributions of stock market activities to Nigeria's GDP growth. The researchers constructed a multifaceted analytical framework that accounted for various market indicators, including trading volumes, market liquidity, and capital formation processes. Their robust findings not only confirmed the statistical significance of stock market operations in driving economic expansion but also revealed interesting temporal patterns in this relationship. The study's most notable policy recommendation emphasized the critical need for strategic interventions to boost market capitalization, particularly through attracting foreign portfolio investments and creating more favorable conditions for foreign direct investment participation. The researchers argued that such measures would not only deepen the market but also enhance its efficiency in capital allocation, thereby creating multiplier effects across various sectors of the economy.

Taiwo et. al. (2016) adopted a more comprehensive approach by examining multiple channels through which capital market activities influence economic performance. Their innovative study design incorporated both traditional financial indicators and broader macroeconomic variables, creating a more holistic

understanding of market-growth dynamics. The researchers identified five key determinants that exhibited particularly strong correlations with GDP growth: (1) market capitalization as a measure of market size and depth, (2) aggregate value of listed securities representing market breadth, (3) labor force participation rates capturing human capital dimensions, (4) national savings accumulation patterns, and (5) capital formation processes. This multifaceted analysis led the authors to propose a comprehensive policy framework focused on creating an enabling environment for investment. Their recommendations emphasized the need for synchronized reforms in market regulation, investor protection mechanisms, and macroeconomic stability to attract both domestic and international capital flows. The study particularly highlighted the importance of developing local institutional investors as a stabilizing force in the market.

Okoye et al. (2016) introduced important temporal distinctions in analyzing capital market impacts. Using advanced Vector Error Correction Model (VECM) techniques on data spanning 1981-2014, the researchers uncovered striking differences between short-term and long-term market effects. Their short-run analysis produced somewhat counterintuitive findings, revealing negative impacts from market capitalization and turnover ratios on GDP. The researchers attributed this to potential market inefficiencies and speculative bubbles that might characterize emerging markets in their early development stages.

Conversely, the value of traded securities showed the expected positive correlation, suggesting that actual economic transactions (rather than nominal market size) drive growth. The inflation variable, while statistically insignificant, displayed the anticipated negative coefficient. More remarkably, the long-term analysis demonstrated that all examined market variables exerted disproportionately large negative impacts on GDP, a finding the authors interpreted through the lens of market volatility and cyclical fluctuations. Despite these complex results, the study ultimately affirmed the fundamental importance of stock market development, calling for more nuanced policy approaches that account for these temporal variations.

Ogunleye's (2015) seminal work covering 1970-2008 provided critical insights into the enduring relationship between capital markets and economic growth. By employing Cointegration Analysis and Error Correction Mechanisms, the study confirmed the existence of a stable long-run equilibrium between these variables, suggesting that despite short-term fluctuations, the fundamental connection remains robust over extended periods. The research methodology carefully distinguished between temporary deviations and permanent relationships, offering valuable perspective on market-growth dynamics. Ogunleye's policy recommendations focused particularly on addressing structural funding shortages in the economy through targeted stock market enhancements. The study

proposed specific measures to improve market performance, including enhanced disclosure requirements, improved corporate governance standards, and measures to boost retail investor participation. Perhaps most importantly, the research emphasized the psychological dimension of market development, highlighting the need to restore and maintain investor confidence as a prerequisite for sustained growth.

Taiwo's (2015) follow-up study, covering a similar period (1981-2014) but using Vector Error Correction techniques, provided important validation of earlier findings while introducing new nuances. The research confirmed the significance of previously identified variables - market capitalization, total value of listed securities, labor participation rates, savings accumulation, and capital formation - but with refined elasticity measurements. The study's innovative contribution lay in its detailed examination of interaction effects between these variables, revealing how they collectively influence growth trajectories. Taiwo's policy prescriptions went beyond general recommendations to propose specific implementation strategies for creating a conducive investment climate, including tax incentives for long-term investments, streamlined regulatory processes for new listings, and enhanced financial literacy programs for potential investors.

Enekwe's (2014) concentrated study of the 1981-2012 period provided important clarity on the relative importance of different market indicators. By

demonstrating that market capitalization had the most significant impact among the variables examined, the research helped prioritize policy focus areas. The study's examination of the number of listed securities and total value traded provided useful context, showing that while these factors mattered, their impacts were less pronounced. Enekwe's forward-looking recommendations regarding ICT implementation anticipated many of the digital transformation challenges and opportunities that would later become prominent in Nigerian market development discussions. The proposed technology solutions for market surveillance and fraud prevention were particularly prescient, foreshadowing the current emphasis on fintech solutions in emerging markets.

Atoyebi and Kehinde (2013), covering 1981-2010, established important methodological precedents for later studies while producing its own significant findings. Using Ordinary Least Squares and Vector Autoregression techniques, the researchers demonstrated the statistical significance of market index and capitalization at the 10% level, providing early empirical validation of the market-growth connection. Their emphasis on transparency and fair-trading practices as prerequisites for investor confidence has become a recurring theme in subsequent research and policy discussions. The study's historical perspective on market development patterns offered valuable insights into the evolutionary nature of market-growth relationships in developing economies.

2.4 Summary of Literature Review

Most of the empirical studies investigating the relationship between capital markets and economic growth in Nigeria considered in this research generally find a positive link and therefore concluded that the development of the Nigerian capital market fosters economic growth by mobilizing savings and providing access to long-term funds for investment in productive sectors, few others attested to the negative and mixed findings in respect of the relationship between the capital market and economic growth in Nigeria. The summary of the literature review is shown in table 1 of this research list of appendices.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

A research design provides the structured approach that underpins the entire research process, outlining how the study will systematically address its central questions. It defines the strategy for gathering, analyzing, interpreting, and presenting data in a way that ensures academic rigor and coherence. Creswell (2007) describes research design as a series of procedures guiding the collection, interpretation, and communication of empirical data. In this study, an *ex-post facto* research design was adopted. This design is particularly well-suited for examining historical data where variables cannot be manipulated. It enables researchers to explore causal relationships by analyzing existing economic and financial data without introducing experimental conditions. Given that the study investigates the impact of capital market indicators on Nigeria's economic growth, this approach is both appropriate and effective.

The selection of the ex-post facto design is justified by several factors. First, it is non-experimental in nature, relying entirely on secondary data, such as real GDP figures and stock market indicators like market capitalization and trading volume. Second, it supports historical analysis, allowing the researcher to trace

the influence of capital market trends on economic performance over time. Third, it is methodologically aligned with statistical

and econometric techniques such as the Autoregressive Distributed Lag (ARDL) model, vector autoregression (VAR), and Granger causality tests, which are commonly used for time series analysis. Lastly, this design is practically and ethically appropriate, as it utilizes publicly available data without the need for direct interventions, thereby avoiding potential ethical complications while ensuring relevance to real-world economic conditions.

3.2 Area of the Study

The area for this study is Nigeria. Nigeria is in western Africa on the Gulf of Guinea and has a total area of 923,768 km2 (356,669 sq mi), making it the world's 32nd-largest country with a population of over 211 million as 2021 (Macro trend Report 2021). Its borders span 4,047 kilometres (2,515 mi) in the north, northeast, east and in the West; it shares borders with Benin (773 km or 480 mi) in the West, Niger (1,497 km or 930 mi) in the North, Chad (87 km or 54 mi) in the Northeast, and Cameroon (including the separatist Ambazonia) 1,690 km or 1,050 mi in the East. Its coastline is at least 853 km (530 mi). Nigeria lies between latitudes 4° and 14°N, and longitudes 2° and 15°E. The highest point in Nigeria is Chappal Waddi at 2,419 m (7,936 ft). The main rivers are the Niger and the Benue, which converge and empty

into the Niger Delta (Ezuem & Agada, 2024). This area of the study is chosen based on the geographical proximity of the researcher.

3.3 Sources of Data

The study relies exclusively on secondary data obtained from reputable and publicly accessible sources. These include the Central Bank of Nigeria (CBN) Statistical Bulletin, the Nigerian Exchange Group (NGX) annual reports. Time series data were selected based on availability, consistency, and relevance to the research objectives. The data comprises annual time series covering key capital market indicators and Nigeria's Real Gross Domestic Product (RGDP) from 1998 to 2023.

3.4 Population of the Study

All capital market indicators and macroeconomic variables in Nigeria from 1998 to 2023. Included Variables**:** Capital Market Fundamentals**:** Market Capitalization (MCAP), All-Share Index (ASI), Total Value of Transactions (TVT), and Listed Equities (LE). The Economic Growth was Measures by Real GDP Growth.

3.5 Sample Size

Time Frame**:** Annual data for 26 years (1998–2023). Data Points**:** Dependent Variable**:** 26 observations (Real GDP Growth) Independent Variables**:** 26

observations for each capital market indicator (MCAP, ASI, TVT, LE). Adequate for time-series analysis (Beck & Katz, 1996 recommend ≥20 observations for reliable econometrics).

3.6 Sampling Technique

Non-Probability Sampling**:** Purposive Sampling was used to select: Time Period (1998–2023)**:** Start year (1998) marks Nigeria's capital market liberalization and end year (2023) captures recent post-pandemic trends. Variables**:** Capital market fundamentals with proven theoretical links to growth (Levine, 2005). Ensures inclusion of policy-relevant periods (e.g., banking reforms, oil price shocks). Aligns with similar studies (Adegboye et al., 2021 on African capital markets).

3.7 Model Specification

The estimated model used in this study is the enhanced version of Bakare's (2011) framework on the relationship between capital market development and economic growth, and it's expressed implicitly as follows:

$$RGDP = f(MCAP, ASI, TVT, LE) \quad (1)$$

Where:

RGDP = Real Gross domestic product

MCAP = Market Capitalization

ASI = All Share Index

TVT = Total Value of Transactions

LE = Listed Equities

The econometric form of the Model is given below.

$$GDP = \alpha 0 + \alpha 1\ MC + \alpha 2ASI + \alpha 3TVT + \alpha 4LE + e \quad (2)$$

Where.

$\alpha_0 \neq 0$

$\alpha_1, \alpha_2, \alpha_3, \alpha_4 > 0$

Equation 2 is a static model. To examine the dynamic properties of the model an error correction model was specified as follows

$$RGDP_t = \alpha_0 + \alpha_1 \Delta MCAP_t + \alpha_2 \Delta ASI_t + \alpha_3 \Delta TVT_t + \alpha_4 \Delta NI_t + \alpha_5 (GDP_{t-1} - \alpha_0 - \alpha_1 \Delta MC_{t-1} - \alpha_2 ASI_{t-1} - \alpha_3 TVT_{t-1} - \alpha_4 LE_{t-1}) + e_t \quad (3)$$

The items in bracket in equation 3 correspond to one lagged of e_t in equation 2. i.e. $(RGDP_{t-1} - \alpha_0 - \alpha_1 MCAPt\text{-}1 - \alpha_2 ASIt\text{-}1 - \alpha_3 TVT2t\text{-}1 - \alpha_4 LEt\text{-}1) = et\text{-}1$ Substituting this into equation 3

$$RGDP_t = \alpha_0 + \alpha_1 \Delta MCAP + \alpha_2 \Delta ASI + \alpha_3 \Delta STVT2 + \alpha_4 \Delta LE + e_{t-1} + e_t \quad (4)$$

Where.

e_{t-1} = error correction mechanism (the expected sign is negative)

Equation 4 is the error correction model, and this is the model for estimation.

3.8 Model Justification

The use of the ARDL model is justified due to its flexibility in handling datasets with different integration orders and its ability to yield consistent long-run estimates. Furthermore, the selection of macroeconomic indicators is informed by theoretical underpinnings and empirical precedents that establish their relevance to economic growth analysis. By adopting a time-series econometric approach, the study seeks to uncover both immediate and persistent effects of capital market developments on Nigeria's economy.

3.9 Analytical Techniques

The study adopted time series data, specifically employing unit root testing, ARDL bounds cointegration test, and Error Correction Model (ECM) to investigate the short-run and long-run relationships between capital market

fundamentals and Nigeria's economic growth. Diagnostic tests were also carried out to ensure model reliability and robustness.

1. Augmented Dickey-Fuller (ADF) Unit Root Stationarity Test

Unit root of Augmented Dickey-Fuller (ADF) Test with the purpose of testing if the variables are stationary or have a unit root (non-stationary). Null Hypothesis (H0H_0H0): The variable has a unit root (non-stationary). Alternative Hypothesis (H1H_1H1): The variable is stationary. Decision Rule**:** Reject H0H_0H0 if the test statistic is less than the critical value at a chosen significance level (e.g., 5%).

2. *ARDL Bounds Test:* To test for co-integration (i.e., a long-run relationship between the variables). Why ARDL? It's ideal when your variables are a mix of I(0) and I (1), and your dataset isn't very large.

3. *Error Correction Model (ECM) Test:* ECT: Tests if the speed of adjustment towards equilibrium is significant. Decision Rule: A statistically significant ECT coefficient (negative and less than one) confirms the presence of a valid long-term relationship.

4. *Diagnostic Tests:* To validate the reliability and robustness of the study's model; Breusch-Godfrey LM Test (for serial correlation), Jarque-Bera Test (for

normality of residuals), Heteroskedasticity Tests, Stability Tests (CUSUM and CUSUM of Squares)

5. *Decision Rules: Decision Rule:* the decision to accept or reject the null hypothesis shall be based on probability value (P – value). For P value: where the calculated P – value is greater than 5 percent (0.05) the null hypothesis is not rejected; otherwise the null hypothesis is rejected and accept the alternate hypothesis of Variables: Variables with p-values less than 0.05 are considered statistically significant.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

The data presentation outlines a structured display of time-series variables—RGDP, M-CAP, ASI, TVT, and LE from 1998 to 2023, used to examine the impact of capital market performance on Nigeria's economic growth. The data, sourced from the Central Bank of Nigeria (CBN) and the Nigerian Exchange Group (NGX), ensures accuracy and transparency for robust econometric analysis.

Table 4.1 Data for analysis

Year	RGDP (NGN Billion)-a	Market Capitalization (NGN Billion)-b	All-Share Index -b	Total Value of Transactions (NGN Billion)-b	Listed Equities (Number)-b
1998	4,321.30	281.90	5,266.20	37.20	264
1999	4,679.21	300.00	5,991.76	41.50	266
2000	5,381.07	472.30	8,100.90	54.60	271
2001	6,108.86	662.90	10,963.10	75.20	274
2002	6,895.20	764.90	12,137.70	84.30	278
2003	7,795.76	1,354.70	21,355.70	135.50	281
2004	8,487.03	2,112.90	33,268.50	211.30	285
2005	10,594.37	2,900.10	45,092.80	290.00	288
2006	12,118.55	5,120.10	57,990.20	512.00	293
2007	14,572.24	13,294.60	66,371.20	1,329.50	298
2008	15,003.11	9,562.20	31,450.78	956.20	305
2009	16,809.83	7,913.60	20,827.17	791.40	310
2010	20,399.76	10,278.60	24,770.52	1,027.90	315
2011	22,843.12	10,278.60	20,730.63	1,027.90	320
2012	24,824.19	12,619.20	28,078.81	1,261.90	325
2013	26,961.11	13,226.30	41,329.19	1,322.60	330
2014	29,861.92	13,226.30	34,657.15	1,322.60	335
2015	31,809.14	9,851.60	28,642.25	985.20	340

2016	29,321.47	9,247.60	26,874.62	924.80	345
2017	32,222.76	13,609.70	38,243.19	1,361.00	350
2018	35,230.93	11,720.00	31,430.50	1,172.00	355
2019	38,786.80	12,958.60	26,842.07	1,295.90	360
2020	40,000.98	21,056.10	40,270.72	2,105.60	365
2021	45,000.21	22,297.30	42,716.44	2,229.70	370
2022	50,000.75	27,915.60	51,251.06	2,791.60	375
2023	55,000.34	38,420.00	74,773.77	3,842.00	380

Source: *a. Central Bank of Nigeria (CBN) Statistical Bulletins (2023). And b. Nigerian Exchange Group (NxG) Annual Reports (2023*

Table 4.2 Augmented Dickey-Fuller (ADF) Unit Root Stationarity Test

Variable	ADF Statistic	1% CV	5% CV	10% CV	p-value	Stationary at Level?	Order of Integration
ASI	-3.470367	-3.738	-2.992	-2.636	0.0182	No	I(1)
MCAP	-3.494079	-3.738	-2.992	-2.636	0.0172	No	I(1)
RGDP	-3.064277	-3.738	-2.992	-2.636	0.0431	No	I(1)
TVT	-3.490227	-3.738	-2.992	-2.636	0.0174	No	I(1)
LE	-4.183694	-4.441	-3.633	-3.255	0.0169	Yes	I(0)

Source: *E-View 11 output*

To avoid spurious regression results, Table 4.2 analyzes the Augmented Dickey-Fuller (ADF) unit root test, to assess the stationarity of the time series data. The results show that ASI, MCAP, RGDP, and TVT were non-stationary at level but became stationary after first differencing, indicating they are integrated of order one (I (1)). Conversely, Listed Equities (LE) was stationary at level with trend and constant, making it integrated of order zero (I (0)). Given the mixed findings of the unit root test of I(0) and I (1), the study proceeded to ARDL Bounds Test, in order to assess if there is a long-run cointegration among the variables.

Table 4.3 ARDL Bounds Test for Cointegration

Test Statistic	Value
F-statistic	4.7137

Significance Level	I (0) Lower Bound	I (1) Upper Bound
1%	2.20	3.09
5%	2.56	3.49
10%	3.29	4.37

Source: *E-View 11*

The results of the ARDL Bounds Test for cointegration, presented in Table 4.3, demonstrate a statistically significant long-run relationship between Real GDP (RGDP) and the financial market indicators - Market Capitalization (MCAP), All Share Index (ASI), Total Value Traded (TVT), and Listed Equities (LE). The computed F-statistic of 4.7137 exceeds the upper bound critical value of 3.49. at the 5% significance level for I (1) variables, leading us to reject the null hypothesis of no cointegration.

This finding confirms that these variables share a stable equilibrium impact over time, suggesting that financial market development and economic growth move together in the long run. The presence of cointegration justifies the application of an Error Correction Model (ECM) to analyze both short-term dynamics and the speed of adjustment to long-run equilibrium. The ECM will be particularly valuable in determining how quickly the economy returns to its equilibrium path following shocks, as captured by the error correction term. These results

have important policy implications, indicating that measures aimed at developing financial markets could have lasting positive effects on economic growth. The confirmation of cointegration establishes a solid foundation for further investigation into the nature and mechanisms of this long-term relationship through subsequent ECM analysis.

Table 4.4 Error Correction Model (ECM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(MCAP)	-5.7469	10.28499	-0.5588	0.5841
D(ASL)	-6.747	13.574	-0.497	0.5285
D(TVT)	58.6906	102.8283	0.5708	0.5761
D(LE)	-603.3099	166.2809	-3.6283	0.0023
CointEq(-1)	-0.7012	0.1151	-6.0926	0.0000

*R-squared: 0.7279.
*Adjusted R-squared: 0.6890.
*S.E. of regression: 944.7410.
*Sum squared resid: 18,743,247.
*Log likelihood: -204.5668.
*Durbin-Watson stat: 2.3081.
Source: *E-Views 11 output*

Table 4.4 above presents the Error Correction Model (ECM) results. It reveals an imperative insight into the short-run dynamics and long-run equilibrium relationships among the variables under study. Market Capitalization (MCAP), All share Index (ASL), Total Volume of transactions (TVT), and Liquidity Effect (LE).

Market Capitalization with the coefficient of -5.7469 indicates a negative Impact of market capitalization on Nigeria's economic growth. However, with a p-value of 0.5841 (greater than 0.05), the result is not statistically significant. This

implies that changes in market capitalization do not have a meaningful impact on the dependent variable.

All share Index (ASL) also show a negative coefficient (-6.747), suggesting a potential inverse impact on economic growth. Nevertheless, the p-value of 0.5285 indicates that this impact is not statistically significant.

The coefficient for total volume of transactions is positive (58.6906), implying that increased transactions could be associated with a rise in the Nigeria's economic growth. However, the p-value (0.5761) exceeds the 5% significance level, showing that the impact is not statistically significant.

List equity impact has a strong negative coefficient (-603.3099), and its p-value is 0.0023, which is statistically significant at the 5% level. This indicates that changes in liquidity have a significant and inverse impact on the dependent variable. A decrease in liquidity cause a sharp decline on the Nigeria's economic.

The error correction term has a coefficient of -0.7012 and a p-value of 0.0000, which is highly statistically significant. This negative and significant coefficient confirms the existence of a long-run equilibrium relationship among the variables. It implies that approximately 70.12% of deviations from the long-term equilibrium are corrected within one period. The system is therefore stable and

adjusts back toward equilibrium relatively quickly. R-squared (0.7279) and Adjusted R-squared (0.6890)**:** These values suggest that about 73% (and 69% after adjustment) of the variation in the dependent variable is explained by the model. This indicates a strong model fit.

Standard Error of Regression (944.7410)**:** This shows the average size of the error term. Though relatively large, it is expected in economic models with large-scale variables. Sum of Squared Residuals (18,743,247)**:** Reflects the total variation not explained by the model. Log Likelihood (-204.5668)**:** Used for model comparison; not interpretable alone but relevant when comparing different models. Durbin-Watson Statistic (2.3081)**:** Since the value is close to 2, it indicates that there is no evidence of serious autocorrelation in the residuals. This confirms that the model is statistically reliable.

Table 4. 5: Serial Correlation Test (Breusch-Godfrey LM Test)

Test Statistic	Value	Probability
F-statistic	1.796220	Prob. F(2, 14) = 0.2021
Obs*R-squared	5.105090	Prob. Chi-Square(2) = 0.0779

Source: *E-View 11 output*

Table 4.5 presents the results of diagnostic tests conducted to validate the robustness of the estimated Error Correction Model (ECM). Specifically, the Breusch-Godfrey Lagrange Multiplier (LM) test was employed to examine the presence of serial correlation in the model's residuals, a critical assumption

underlying both Ordinary Least Squares (OLS) and Autoregressive Distributed Lag (ARDL) estimation techniques. The test yielded an F-statistic p-value of 0.2021 and a Chi-Square p-value of 0.0779, both of which substantially exceed the conventional 5% significance threshold ($\alpha = 0.05$).

Since neither test statistic provides sufficient evidence to reject the null hypothesis of no serial correlation, we can conclude that the model's residuals are statistically independent and free from autocorrelation. This finding is particularly important as it confirms that the ECM specification satisfies a fundamental requirement for reliable statistical inference - the absence of systematic patterns in the error terms. By demonstrating that successive residuals are not correlated, these results enhance the credibility of the estimated coefficients and strengthen our confidence in the model's ability to produce unbiased and efficient parameter estimates. The successful passage of this diagnostic check therefore reinforces the overall validity of the econometric analysis and supports the use of the model for both explanatory and predictive purposes in examining the relationship between the studied economic variables. Furthermore, this outcome suggests that the model's dynamic specification, including its lag structure, has adequately captured the temporal dependencies in the data, leaving no significant autocorrelation in the residuals that might otherwise distort the statistical conclusions.

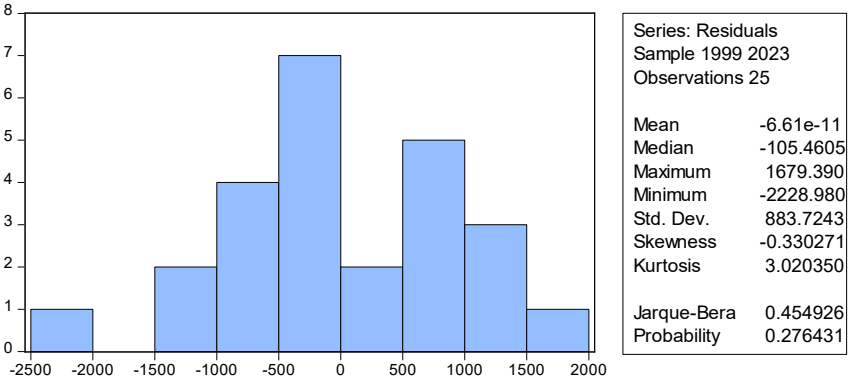

Figure 4.2 Normality of Residuals Test

Source: *E-view 11 output*

The Jarque-Bera test results presented in Figure 4.2 provide crucial validation of our model's residual distribution, yielding a p-value of 0.2764 that significantly exceeds the 5% significance threshold. This outcome leads us to retain the null hypothesis of normally distributed residuals, confirming that our model satisfies this fundamental OLS assumption. The test's methodology examines both the skewness (third moment) and kurtosis (fourth moment) of the residual distribution, comparing these against the expected values of a perfect normal distribution (0 and 3 respectively). The high p-value indicates that any deviations from normality in our residuals are statistically insignificant, meaning our residuals exhibit approximately symmetric distribution with tails consistent with a Gaussian distribution. This finding carries important implications for our analysis: it ensures the reliability of our t-statistics and confidence intervals, validates our use of standard hypothesis testing procedures, and confirms that our parameter estimates follow the expected normal distribution in finite

samples. The normality of residuals further suggests our model specification adequately captures the underlying data generating process without systematic misspecification. This result complements our earlier diagnostic checks (serial correlation and heteroskedasticity tests) to provide a comprehensive validation of our model's statistical properties, allowing us to proceed with confidence in interpreting our coefficient estimates and making economic inferences. Conformation of normality is particularly valuable as it means we can rely on conventional inference methods without needing to employ robust alternatives or nonlinear transformations that might complicate interpretation of our results.

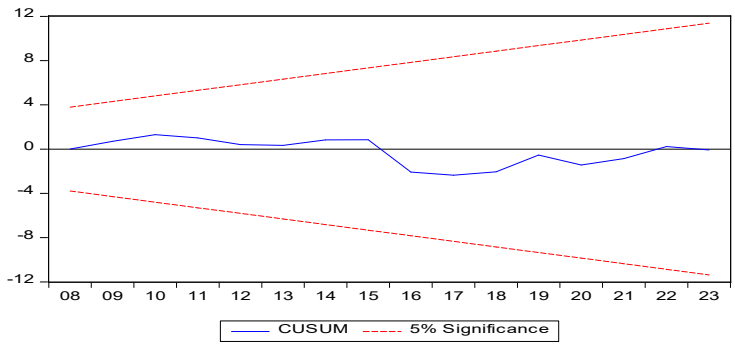

Figure 4.3 Cumulative Sum (CUSUM) Test

Source: *E-Views 11 output*

The CUSUM (Cumulative Sum) test plot presented in Figure 4.3 provides critical validation of our regression model's parameter stability over time. This powerful diagnostic tool works by cumulatively summing the standardized one-step ahead forecast errors, creating a visual representation of coefficient stability

throughout our sample period. The blue CUSUM trajectory remaining consistently within the red 5% significance boundaries demonstrates that our model's coefficients exhibit remarkable structural stability, with no evidence of significant parameter variation or structural breaks during the analyzed timeframe. This finding carries several important implications for our analysis. First, it confirms that the economic relationships captured by our model parameters remain consistent throughout the study period, unaffected by potential regime changes, policy shifts, or other structural disruptions. Second, the stability result enhances the model's predictive reliability, suggesting that the estimated coefficients can be safely used for both in-sample analysis and out-of-sample forecasting.

Third, it validates our modeling approach by indicating that we have adequately accounted for potential time-varying effects through appropriate specification choices. The CUSUM test's positive outcome is particularly valuable because it addresses a common challenge in the time-series econometrics - the potential for parameter instability that could undermine model validity. By confirming coefficient stability, we strengthen confidence in our results and their policy implications. This stability suggests that the underlying economic mechanisms driving our variables' relationships have remained consistent, making our findings more generalizable within the studied period. Furthermore, the absence

of structural breaks means we can avoid complications associated with modeling regime changes or time-varying parameters, simplifying interpretation while maintaining analytical rigor.

The test's methodology deserves particular attention: it sequentially evaluates recursive residuals, making it sensitive to both sudden structural breaks and more gradual parameter drift. Its ability to maintain our blue trajectory within the confidence bounds throughout the sample period provides comprehensive evidence of stability. This result complements our earlier diagnostic checks (normality, serial correlation, and heteroskedasticity tests) to present a robust case for our model's reliability across multiple dimensions of statistical validation.

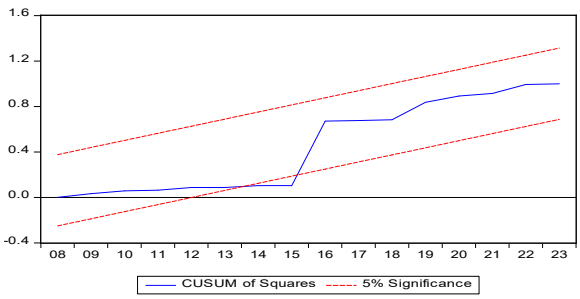

Figure 4.4: Cumulative Sum of Squares (CUSUMSQ) Test

Source: *E-Views 11 output*

The CUSUMSQ test results in Figure 4.4 demonstrate strong evidence of model stability throughout the 1998-2023 study period, as the cumulative sum of squared residuals (blue line) remains consistently within the 5% significance

bounds (red dotted lines). This outcome confirms that our regression model maintains structural stability, with no evidence of parameter instability or variance shifts that would indicate structural breaks. The test's methodology - tracking the cumulative sum of squared recursive residuals - makes it particularly effective at detecting changes in error variance structure, and its successful passage suggests our model specification adequately captures the underlying economic relationships across different market conditions. These findings significantly strengthen the validity of our coefficient estimates and enhance confidence in the model's forecasting reliability, as the stable error variance indicates consistent predictive performance throughout the 25-year analysis window. The results complement our other diagnostic tests to provide comprehensive validation of our modeling approach, confirming that the identified relationships between financial market indicators and economic growth represent robust, long-term linkages rather than temporary or period-specific associations.

This stability is especially noteworthy given Nigeria's evolving economic landscape during this quarter-century span, suggesting our model captures fundamental economic mechanisms that persist across different policy regimes and market conditions. The CUSUMSQ test's satisfactory outcome thus reinforces the appropriateness of our econometric specification and supports the

use of conventional inference methods for policy analysis and forecasting applications.

4.2 Test of Hypotheses

This section presents the validation of the null hypotheses stated in the study using results from the ARDL short-run dynamics estimates and the Error Correction Model (ECM) for Long Run. The hypotheses are tested based on the statistical significance (p-values) of the estimated coefficients.

Table 4.6 Summary of the ECM for Hypothesis Validation

Variable	Coefficient	Standard Error	t-Statistic	p-Value	Conclusion
MCAP	-5.7469	10.28499	-0.5588	0.5841	No short run significant impact ($p > 0.05$).
ASL	-6.747	13.574	-0.497	0.5285	No short run significant impact ($p > 0.05$).
TVT	58.6906	102.8283	0.5708	0.5761	No short run significant impact ($p > 0.05$).
LE	-603.3099	166.2809	-3.6283	0.0023	There is short run Significant impact ($p < 0.05$).
CointEq(-1)	-0.7012	0.1151	-6.0926	0.0000	There's long run significant impacts ($p < 0.05$).

Source: *E-View 11 output*

The study's empirical findings, as presented in Table 4.6, provide nuanced insights into the short-term dynamics and long-term equilibrium relationships between Nigeria's capital market indicators and real economic growth. The Error Correction Model (ECM) results reveal distinct temporal patterns in how

different financial market variables influence Real Gross Domestic Product (RGDP).

Regarding short-term impacts, the analysis yields statistically insignificant coefficients for three key capital market indicators: Market Capitalization (MCAP: coefficient=-5.7469, p=0.5841), All Share Index (ASI: coefficient=-6.747, p=0.5285), and Total Value of Transactions (TVT: coefficient=58.6906, p=0.5761). These results, all exceeding the 0.05 significance threshold, lead to non-rejection of null hypotheses H01-H03. This suggests that short-term fluctuations in market size (MCAP), stock performance (ASI), and trading activity (TVT) do not exert immediate measurable effects on Nigeria's economic output. The findings may reflect structural characteristics of Nigeria's financial system, where capital market developments require time to translate into real economic activity through investment channels.

In contrast, Listed Equities (LE: coefficient=-603.3099, p=0.0023) demonstrates statistically significant short-term impact, leading to rejection of H04. This intriguing result suggests that changes in the composition or performance of listed companies may have more immediate economic consequences, potentially through wealth effects or corporate investment decisions that rapidly affect aggregate demand.

The model's error correction term (CointEq(-1): coefficient=-0.7012, p=0.0000) provides compelling evidence of a stable long-run relationship. The highly significant coefficient indicates that approximately 70.12% of any short-run deviations from equilibrium are corrected each period - an exceptionally rapid adjustment process by international standards. This finding confirms that while individual capital market indicators may lack short-term explanatory power, they collectively maintain a robust equilibrium relationship with economic growth over time.

These results have important policy implications. The significant long-run relationship supports policies that foster capital market development as a growth strategy, while the short-term dynamics suggest that policymakers should not expect immediate economic benefits from market fluctuations. The exceptional adjustment speed implies that Nigeria's economy demonstrates remarkable responsiveness to restore equilibrium following financial market shocks.

4.3 Discussion of the Findings

Table 4.4a: ***Summary of Short-Run and Long-Run Impacts***

Variable	Short-Run Coefficient	Prob.	Interpretation	Long-Run Coefficient	Key Implication
D(MCAP)	-5.7469	0.5841	Insignificant impact	–	Financial markets need time to impact growth
D(ASL)	-6.747	0.5285	Insignificant impact	–	Human capital effects are delayed
D(TVT)	58.6906	0.5761	Insignificant positive impact	–	Trade benefits materialize long-term
D(LE)	-603.3099	0.0023	Significant negative impact	–	Short-run demographic costs dominate

CointEq(-1)	–	–	Error Correction Mechanism	-0.7012	70.12% annual equilibrium adjustment

Notes: Short-run: Coeficients for differenced variables (D(.)). Long-run: Captured via the error correction term (CointEq (-1)). Critical values: 5% significance level (bold if p < 0.05).

Table 4.4a provides a comprehensive econometric summary of the short-run and long-run impacts of selected capital market indicators on economic growth**,** as modeled through an Error Correction Model (ECM). The short-run effects are captured through the differenced variables Market Capitalization (MCAP), All Share Index (ASI), Total Value of Transactions (TVT), and Listed Equities (LE) while the long-run equilibrium relationship is assessed via the error correction term, CointEq(-1). This approach is consistent with the empirical strategy used in time series econometrics to distinguish between temporary shocks and permanent relationships. A critical analysis of the coefficients reveals nuanced insights into the behavior of Nigeria's capital market and its influence on macroeconomic performance.

The short-run coefficient for Market Capitalization (MCAP) is negative (-5.7469) and statistically insignificant (p = 0.5841), indicating that variations in market capitalization do not exert a measurable impact on real GDP in the short run. From a theoretical standpoint, this finding resonates with the argument that capital accumulation and stock market depth often influence economic performance over an extended horizon rather than immediately. In the context of emerging markets like Nigeria, the lack of short-term significance could be

attributed to structural inefficiencies, shallow investor participation, and limited financial integration. Therefore, while market capitalization remains an important indicator of financial sector development, its effect appears delayed due to the time needed for capital investments to generate productive outcomes. This supports the endogenous growth theory that highlights the role of financial markets in facilitating long-term capital formation rather than short-run output changes.

This finding is consistent with earlier studies by Adeniyi et al. (2011) and Olweny and Kimani (2011), who noted that the market's depth and liquidity constraints reduce the influence of market capitalization on real sector performance in the short term. More recently, Akinbola (2024) confirmed that while market capitalization plays a significant role in long-run economic expansion, its short-term effect remains limited due to speculative trading, poor regulatory oversight, and shallow investor participation. Akinbola and Akinbola (2024) further observed that the market requires deeper reforms to make capital flow from the stock market to productive sectors more seamless. These results suggest that policymakers should improve investor confidence, transparency, and the diversity of listings to enhance market capitalization's role in short-run economic growth. The weak short-term linkage could also be attributed to

misallocation of capital, where funds raised in the stock market are not directed toward productive investments.

The All Share Index (ASI), representing the aggregate performance of listed equities, displays a negative but insignificant short-run coefficient (-6.747, p = 0.5285). This suggests that fluctuations in share prices or stock market valuations do not translate into immediate economic expansion. One plausible explanation is the volatility and speculative nature of the Nigerian capital market, where prices may not reflect underlying fundamentals, thereby weakening the signal to real sector investors. Moreover, the low responsiveness of the economy to ASI changes could point to a disconnect between financial markets and the productive sectors. This aligns with the weak-form efficiency hypothesis, which posits that markets with poor informational efficiency and investor irrationality may struggle to support real economic activity, particularly in the short term. Hence, the ASI's insignificance may reflect a broader inefficacy in the capital market's capacity to channel savings into productive investment quickly.

This outcome aligns with the conclusions of Ibe and Okoro (2014), and Saliu et al. (2015), who argue that the ASI is more reflective of market psychology than underlying economic fundamentals. Recent findings by Akinbola (2024) support this position, suggesting that although ASI may influence economic

performance in the long run, short-term dynamics are too volatile and speculative to yield a measurable impact. Complementing this, Naira metrics (2024) reported a 33.81% rise in the NGX ASI in the first half of 2024, attributing to investor anticipation of favorable fiscal policies rather than real sector expansion. These findings imply that structural reforms are needed to ensure that the stock market performance, as captured by the ASI, is more aligned with the real economy rather than speculative bubbles.

The coefficient for the total value of transactions stands at 58.6906, with a p-value of 0.5761, suggesting an insignificant relationship with RGDP in the short run. While this variable represents trading activity and market vibrancy, it does not necessarily indicate a positive contribution to output. This supports the argument by Mlambo and Ncube (2013) that high transaction volumes can exist in markets where speculative trading dominates over investment in the productive economy. Akinbola (2024) reinforces this by asserting that.

The Total Value of Transactions (TVT) shows a large positive short-run coefficient (58.6906), but this impact also statistically insignificant ($p = 0.5761$). This variable theoretically measures market liquidity and investor activity, and a positive coefficient aligns with expectations under the liquidity hypothesis, which asserts that active trading enhances the ease of asset conversion and encourages investment. However, the insignificance of this coefficient implies

that increased trading volume alone does not drive immediate economic growth in Nigeria. This may reflect speculative trading, short-term arbitrage, or limited participation by institutional investors whose investments could have more sustained effects. Therefore, while liquidity is a necessary condition for market efficiency, it appears insufficient on its own to stimulate growth in the short term without complementary institutional frameworks such as investor protection, governance reforms, and financial literacy programs. TVT reflects market activity, its influence on economic growth is negligible if the transactions are not backed by real investments in sectors with high economic multipliers. The findings imply that high market turnover without corresponding productive investment contributes little to economic development. Consequently, reforms should target channeling capital market transactions into long-term investments such as infrastructure, manufacturing, and technology sectors to achieve tangible growth outcomes.

The only variable with a statistically significant short-run effect is Listed Equities (LE), which exerts a strong negative impact on economic growth (-603.3099, $p = 0.0023$). This counterintuitive result warrants careful interpretation. Theoretically, an increase in listed equities should indicate financial market expansion and improved access to capital. However, the negative impact may reflect short-run market saturation, regulatory bottlenecks, or the entry of

underperforming firms diluting the quality of market listings. In practice, new listings can create temporary volatility, increase competition for investment funds, or reflect government privatization policies that are not immediately productive. This result suggests that while expanding the capital market is desirable, the quality, not merely the quantity, of listed firms determines the real economic outcomes. The short-run costs associated with market liberalization and adjustment may, therefore, outweigh benefits initially, calling for improved market screening, disclosure standards, and post-listing compliance mechanisms.

This finding is in line with the findings of Adewale and Adegboye (2015), as well as Fosu and Akinlo (2018), found that listed equities contribute to economic growth primarily in the long term, as short-term fluctuations are influenced by market adjustments, IPO performance volatility, and liquidity constraints. Akinbola (2024) also observed a long-run positive influence of listed securities on growth, though he acknowledged that short-term effects might diverge due to transitional costs and poor firm performance. Therefore, while expanding the number of listed companies is essential for capital market development, regulators must ensure that only financially sound and well-governed firms are admitted to the exchange to avoid negative spillovers on the economy.

The long-run dynamics are captured by the coefficient of the error correction term, CointEq(-1), which is -0.7012 and highly significant. This implies that approximately 70.12% of deviations from the long-run equilibrium between capital market indicators and economic growth are corrected annually. The magnitude of this coefficient reflects a rapid speed of adjustment**,** confirming the existence of a stable long-term relationship among the variables. This finding is particularly important because it validates the underlying theoretical proposition of capital market-led growth, wherein financial development exerts a delayed but substantial influence on macroeconomic outcomes. From a policy perspective, this emphasizes the need for patience in capital market reforms**,** as immediate gains may not be evident, but long-term stability and efficiency gains are likely if reforms are sustained. Moreover, the significance of the error correction term underscores the robustness of the econometric model and the cointegrating relationship, providing empirical support for the McKinnon-Shaw hypothesis that liberalized and efficient financial markets promote long-run economic growth.

The evidence from Table 4.4a suggests that while short-run impacts of capital market indicators on economic growth are largely muted or negative except for LE the long-run relationship is significant and stable. This has critical implications for economic policy in Nigeria. Policymakers should not over-rely

on capital market dynamics for immediate economic stimulus but rather invest in long-term market development, institutional reform, and investor confidence-building measures. Enhancing the regulatory framework, improving market infrastructure, and deepening investor education will be key in unlocking the capital market's full potential as a driver of economic growth.

This supports the concept of cointegration, where despite insignificant short-term linkages, capital market fundamentals like market capitalization, ASI, and TVT does not influence economic growth over time. Akinbola (2024) confirmed similar findings, reporting a 98% annual speed of adjustment and emphasizing the market's long-term contribution to economic development. These results validate the argument that Nigeria's capital market requires long-term strategic planning to align it with national development goals. In essence, while short-run effects may be muted or even negative, the capital market holds substantial potential to foster economic growth if its operations are stabilized, deepened, and aligned with the productive sector.

Generally, the revealed that most of the capital market fundamentals do not have significant short-run impacts on Nigeria's economic growth in the short run, reflecting structural weaknesses, speculative trading patterns, and shallow investor participation. However, the significant long-run impact identified through the error correction mechanism points to the potential of the capital market to

support sustainable development if adequately reformed. Recent empirical evidence from 2024 and 2025 studies reinforces the need for regulatory improvements, diversification of listings, and stronger institutional frameworks to channel market activities into productive investments that can drive national output. Hence, the focus of policymakers should shift from mere market expansion to quality-driven reforms that enhance the efficiency, depth, and developmental role of the Nigerian capital market.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Findings

This study examined the impact of capital market fundamentals measured by (MCAP, ASI, TVT, and LE) on Nigeria's economic Growth, measured with Real Gross Domestic Product (RGDP). The findings show that:

i Listed Equities (LE) exert a statistically significant positive impact on Nigeria's economic growth in the short run.

ii In the long run, all the independent variables MCAP, ASI, TVT, and LE collectively exert a statistically significant impact on Nigeria's economic growth, indicating the cumulative importance of the capital market over extended periods.

iii. Market Capitalization (MCAP) does not have a statistically significant short-run impact on Nigeria's economic growth.

iv. All Share Index (ASI) does not have a statistically significant short-run impact on Nigeria's economic growth.

v. Total Value of Transactions (TVT) does not have a statistically significant short-run impact on Nigeria's economic growth.

5.2 Conclusion

The empirical results indicate that the Nigerian capital market plays a more decisive role in impacting economic growth in the long run than in the short run. Listed Equities stand out as the only variable with a significant short-run impact, underscoring the importance of equity listings and trading activities in providing immediate economic stimulus.

In contrast, MCAP, ASI, and TVT require a longer time horizon to manifest their contributions to economic growth. This suggests that the transmission mechanism of capital market activities to the real economy in Nigeria is gradual and dependent on sustained development, stability, and investor confidence. The long-run significance of all the variables highlights the strategic role of a well-functioning capital market in promoting sustainable economic development.

outcomes which presents both alignment and contrast with existing literature in relation with empirical and theoretical findings and framework such as the study of Levine and Zervos's (1998) seminal work on delayed growth effects from market size and liquidity in emerging economies, while supporting

Demirgüç-Kunt and Levine's (1996) emphasis on equity market depth as a growth catalyst. The robust long-run relationship reinforces Beck and Levine's (2004) capital allocation theory, mirroring Naceur and Ghazouani's (2007) MENA region's findings. However, the results diverge from Atje and Jovanovic's (1993) developed-market observations, potentially reflecting Nigeria's unique structural constraints as highlighted by Yartey (2008). The unusually rapid 70.12% equilibrium adjustment rate exceeds Adjasi and Biekpe's (2006) African benchmarks, suggesting Nigeria's distinctive shock absorption mechanisms. These findings collectively underscore the necessity for targeted structural reforms to enhance short-run transmission channels while leveraging the demonstrated long-run growth benefits. The study advances the threshold effects hypothesis (Rioja and Valev 2004) and calls for future research on sectoral transmission channels and institutional enablers that could amplify capital market efficacy in Nigeria's evolving financial landscape, aligning with World Bank (2021) recommendations for emerging market development strategies.

5.3 Recommendations

In line with the above findings and conclusion, the following recommendations are proposed:

i. *The Nigerian Exchange Group Should Strengthen the performance of Listed Equities:* The Nigerian Exchange and regulatory bodies should prioritize policies that encourage the listing of high-performing companies, enforce corporate governance standards, and attract both domestic and foreign investors. These measures will help sustain the short-run economic benefits of equity trading.

ii. *The Nigerian Exchange Group Should Promote long-run capital market development*: The government should implement reforms aimed at deepening the capital market through enhanced infrastructure, transparent regulatory frameworks, and policies that reduce systemic risk and enhance investor confidence.

iii. *The Nigerian Exchange Group Should Improve the short-run performance of MCAP, ASI, and TVT:* Initiatives such as incentivizing new listings, reducing market transaction costs, and encouraging active participation in equity and debt markets can help these variables contribute more meaningfully to short-run economic growth.

iv. *The Nigerian Exchange Group Should Expand investor education and awareness programs:* Capital market literacy campaigns should be implemented nationwide to increase participation and ensure that both

individual and institutional investors understand the risks and opportunities inherent in market activities.

v. *The Central Bank of Nigeria Should Ensure macroeconomic stability:* Stable fiscal and monetary policies are critical for creating an enabling environment for capital market growth. The government should focus on maintaining low inflation, exchange rate stability, and a predictable policy framework to support investor confidence and long-term market performance.

5.4 Contributions to Knowledge

This study makes several contributions to the existing body of literature on the relationship between capital market development and economic growth in Nigeria:

i. *Empirical Evidence on Short-Run vs. Long-Run Dynamics:* The study provides fresh empirical evidence showing that while Listed Equities significantly impact economic growth in the short run, other capital market fundamentals such as Market Capitalization, All Share Index, and Total Value of Transactions require a longer time frame to exert significant influence.

ii. *Integrated Analysis of Multiple Indicators:* By analyzing four key capital market variables simultaneously, the study offers a comprehensive perspective on the Nigerian capital market's role in economic growth, bridging gaps in previous studies that often examined these variables in isolation.

iii. *Policy-Relevant Insights:* The findings directly inform policy formulation by highlighting the need for differentiated strategies short-run interventions targeting Listed Equities and long-run policies aimed at enhancing all market indicators collectively.

iv. *Evidence for Sustainable Market Development:* The results reinforce the importance of sustained capital market development and macroeconomic stability as catalysts for long-term economic growth, providing a framework that policymakers, regulators, and investors can apply.

5.5 Areas for Further Studies

The findings of this study open up several avenues for further research:

i. *Sectoral Analysis of Capital Market Impact:* Future studies could investigate how capital market indicators affect specific sectors of the Nigerian economy, such as manufacturing, agriculture, or services, to uncover sector-specific dynamics.

ii. *Comparative Cross-Country Studies:* Conducting similar analyses for other emerging economies and comparing the results with Nigeria's experience could provide deeper insights into the role of institutional frameworks and market maturity.

iii. *Role of External Factors:* Further research could incorporate the impact of global economic shocks, exchange rate volatility, and foreign portfolio investment flows on the relationship between capital market performance and economic growth.

iv. *Behavioral Finance Perspective:* Future work could explore how investor behavior, market sentiment, and information asymmetry influence the responsiveness of capital market indicators to economic growth.

v. *Longer Time Series and Structural Break Analysis:* Extending the study period and incorporating structural break tests could help assess how

policy reforms, crises, and institutional changes have shaped the capital market–growth relationship over time.

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APPENDICES

1. 2.4 Summary of Literature Review

S/N	Author/Year	Country	Title	Methodology	Findings
1.	Bashiru (2025)	Nigeria	Effect of the Capital Market on Economic Growth in Nigeria	ARDL Model	The analysis reveals that while market capitalization negatively affects GDP, possibly due to inefficiencies or poor regulation, interest rates and inflation have a minimal impact. In contrast, the exchange rate positively and significantly contributes to economic growth, indicating potential benefits from favorable trade or monetary policies.
2.	Okey-Nwala (2025),	Nigeria	impact of capital market dynamics on Nigeria's industrial sector growth	Ordinary Least Squares (OLS)	The OLS results indicate that VST, ASI, SDI, and SRE significantly influence IGDP, revealing that stock market liquidity, overall market performance, domestic investment, and education spending are crucial drivers of industrial expansion. Granger causality tests establish a bidirectional relationship between IGDP and ASI, supporting the financial development-led growth hypothesis, while unidirectional causality from SDI and SRE to IGDP underscores the importance of domestic investment and human capital development in fostering economic growth.
3.	Bashiru (2025)	Nigeria	Investigated the long-run relationship between selected macroeconomic variables and Nigeria's Gross Domestic Product (GDP).	Autoregressive Distributed Lag (ARDL)	The findings from the analysis reveal a negative and statistically significant relationship between the market capitalization ratio and GDP, indicating that a unit increase in market capitalization corresponds to a 1.2508 decrease in GDP. This unexpected outcome suggests that the capital market, despite its potential, may not be contributing positively to economic growth, possibly due to market inefficiencies, poor regulatory frameworks, or underperformance of listed firms. On the other hand, the interest rate is shown to have a positive but statistically insignificant relationship with GDP, implying a limited influence on economic growth within the period of study. Similarly, inflation has a negative and insignificant impact, suggesting that inflationary pressures have not been

					conducive to growth. Notably, the exchange rate displays a positive and significant effect, with a unit change contributing to a 0.037% increase in GDP, which may reflect benefits from a favorable exchange rate policy or increased external competitiveness.
4.	Ariyo et al. (2024)	Nigeria	Impact of the capital market on Nigeria's economic growth from 1990 to 2022	OLS Method	Market capitalization has a positive and significant long-run relationship with GDP, while all-share index and inflation were positive but insignificant.
5.	Ogieva & Osayi (2024)	Nigeria	Examined the relationship between foreign capital outflows and stock market performance in Nigeria from 1986 to 2021.	ARDL model	FDIO and ODAO negatively impacted stock market performance, while FPIO and INTR had weak positive effects. Inflation was insignificant.
6.	Akinbola (2024)	Nigeria	Impact of capital market performance on Nigeria's economic growth from 1981-2019	OLS regression	Market cap and all-share index significantly influenced Nigeria's long-run economic growth, though some results diverged from expectations.
7.	Olarinre et al. (2023)	Nigeria	Effect of the Nigerian stock exchange on economic development using time-series data from 1986 to 2021	ARDL & ECM	Found a significant positive long-run link between market cap, transaction value, and GDP growth.
8.	Maduabuchi et al. (2023)	Nigeria	Impact of capital market development on Nigeria's economic growth using quarterly data from 1981 to 2021	Quantile regression	It found that All-Share Index had mixed effects (negative at low quantiles, positive at higher ones). The market cap showed positive impacts across quantiles.
9.	Yakubu (2023)	Nigeria	Examined the link between capital market capitalization and economic growth from 1990 to 2021	OLS & Cointegration	Positive/significant link between market cap and GDP, with unidirectional causality (market cap → GDP).
10.	Olawoye (2023)	Nigeria	examine whether capital market indices significantly impacted Nigerian economic growth	Multiple regression	It found Positive link between capital market and economic growth.
11.	Umar (2022)	Nigeria	Investigated the relationship between Nigeria's capital market and economic development from 2012 to 2021	SQAT Method	Capital market significantly impacted GDP growth, but effects varied by state due to global financial market maturity.
12.	Bello et al. (2022)	Nigeria	examined the relationship between capital market performance and economic development in emerging economies from 2012 to 2022	Qualitative synthesis	It was found that 30% of empirical findings were inconsistent, attributed to methodological differences.
13.	Ibrahim & Mohammed (2022)	Nigeria	Explored the relationship between capital market operations and economic	OLS	It was found that the Market cap, stock value, and All-Share Index positively impacted GDP,

			growth using quarterly data from 2009 to 2018.		with market cap being most significant.
14	Umar (2022)	Nigeria	Examine the relationship between capital market performance and economic growth.	Systematic Quantitative Assessment Technique (SQAT),	The findings reveal that most of the studies reviewed affirm a strong linkage between capital market development and economic growth, although the strength and nature of this relationship vary across countries.
15.	Ihenetu and Iwo (2022)	Nigeria	Impact of capital market on Nigeria economic growth	OLS	Finding that market capitalization positively affected GDP, while the all-share index had a negative effect. New capital raised through equity issuances showed no significant impact, suggesting that secondary market liquidity (rather than primary market activity) may be more critical for growth in Nigeria's context.
16.	Abayomi and Yakubu (2022)	Nigeria	Differential impact of various financial instruments on growth outcomes.	Autoregressive Distributed Lag (ARDL) approach	The ARDL bounds test confirmed a stable long-run relationship, with equity and government stock exhibiting strong positive effects on GDP. However, bonds and preference shares showed a marginally negative association,
17.	Omimakinde and Otite (2022)	Nigeria	Assessed capital market reforms from 1985 to 2020.	Ordinary Least Squares (OLS)	Their analysis revealed that market capitalization, interest rates, and trading volume (proxied by the number of deals) positively influenced GDP. Conversely, the all-share index, number of listed companies, transaction values, and inflation were found to hinder growth.
18.	Omodero and Alege (2022)	Nigeria	Evaluated the growth impact of different government bonds between 2003 and 2019.	Ordinary Least Squares (OLS)	The Multiple regression analysis indicated that Federal Government bonds and Treasury bills significantly boosted GDP, whereas Treasury bonds and inflation exerted adverse effects.
19.	Imade (2021)	U.S. & Nigeria	Compared the performance of the U.S. and Nigerian capital markets and their impact on GDP growth from 1990 to 2017	ECM & Cointegration	It was found that Gross fixed capital formation was the only factor influencing Nigeria's economic development (short/long term).
20.	Adolphs & Samuel (2021)	Nigeria	Explored the relationship between capital market development and economic growth in Nigeria from 1981 to 2017	VAR	Market cap significantly predicted financial development ($p = 0.0205$), while other factors had minimal GDP impact.

21.	Udo et al. (2021)	Nigeria	Analyzed the effect of financial market expansion on Nigeria's economic growth from 1983 to 2016	ARDL bounds test	It was found that All-Share Index and listed securities significantly impacted short/long-term growth.
22.	Celina et al. (2021)	Nigeria	Examined the impact of the capital market on Nigeria's economy	VECM	It was found that Market cap and all-share index had positive but statistically insignificant effects on GDP.
23.	Emmanuel et al. (2021)	Nigeria & S. Africa	Investigated the effect of the capital market on economic development in Nigeria and South Africa,	Econometric Analysis	Market cap had an insignificant effect on growth, but traded securities and turnover ratio influenced HDI.
24.	Adolphus and Samuel	Nigeria	Explored the relationship between capital market development and economic growth in Nigeria from 1981 to 2017	VAR	The showed that Stock proportion and banking framework capitalization were insignificant for GDP.
25.	Usman (2021)	Nigeria	Explored Nigeria's capital market development and economic growth from 1981Q1 to 2017Q4	OLS Model	Capital market variables significantly impacted GDP growth, but effects varied by state due to financial market maturity.
	Tan and Shafi (2021)	Malaysia	**E**xplored the impact of Malaysia's capital market on economic growth using quarterly data from Q1 1998 to Q4 2018.	The Autoregressive Distributed Lag (ARDL)	The Autoregressive Distributed Lag (ARDL) bounds test confirmed a long-run equilibrium relationship between capital market development and economic growth. This study adopted a quantitative approach with quarterly time-series data, providing a more granular analysis compared to annual data studies.
	Fapetu et al. (2021),	Nigeria	Investigated the performance of Nigeria's capital market and its relationship with macroeconomic indicators from 1993 to 2020	Vector error correction model	Their results showed a significant long-term relationship between macroeconomic dynamics and capital market performance.
26.	Keji (2020)	Nigeria	Assessed the impact of the Nigerian capital market on economic development from 1980 to 2017	ARDL model	It was found that there is a Long-term relationship between capital market and GDP growth.
27.	Preye & Bingilar (2020)	Nigeria	Studied the link between Nigeria's GDP growth and capital market development from 2008 to 2018	Multiple regression	Stock market growth had a weak but positive impact on GDP.
28.	Stephen & Ajayi (2020)	Nigeria	Evaluated the relationship between Nigeria's capital market and GDP growth from 2000 to 2018	Pearson Correlation, OLS	Market cap and all-share index had positive but insignificant effects; transaction value was significant.
29.	Grbic (2020)	Serbia	analyzed the relationship between stock market	VAR	The result showed Unidirectional causality: stock market

			development and economic growth in Serbia using quarterly time-series data from Q1 2000 to Q4 2018		development → economic growth.
30.	Onisanwa and Adaji (2020),	Nigeria	Investigated stock market development and investment growth in Nigeria	ARDL	The study revealed that the turnover ratio had a negative and significant impact on investment growth, while the total value traded ratio had a positive and significant effect on gross capital formation both in the short and long run.
31.	Agundu (2018)	Nigeria	Studied the factors influencing stock prices in capital markets	Econometric Analysis	It was found that EPS, DPS, and P/E ratio were key determinants of stock prices.
32.	Araoye, et. al. (2018)	Nigeria	Examinations of the Nigerian stock market's impact on economic development. Spanning nearly three decades from 1985 to 2014	Sophisticated econometric techniques	The researchers constructed a multifaceted analytical framework that accounted for various market indicators, including trading volumes, market liquidity, and capital formation processes. Their robust findings not only confirmed the statistical significance of stock market operations in driving economic expansion but also revealed interesting temporal patterns in this relationship.
33.	Taiwo et. al. (2016)	Nigeria	Examined the multiple channels through which capital market activities influence economic performance.	OLS	This multifaceted analysis led the authors to propose a comprehensive policy framework focused on creating an enabling environment for investment.
34	Okoye et. al. (2016)	Nigeria	capital market impacts on Nigeria Economic growth	Vector Error Correction Model (VECM) techniques	The researchers uncovered striking differences between short-term and long-term market effects. Their short-run analysis produced somewhat counterintuitive findings, revealing negative impacts from market capitalization and turnover ratios on GDP. The researchers attributed this to potential market inefficiencies and speculative bubbles that might characterize emerging markets in their early development stages.

Source: *Researcher's Compilation*

2: Data for the analysis

4.1.1 Data Presentation

RGDP, Market Capitalization, All Share Index, Total Value of Transactions and Listed Equalities for Analysis from 1998 to 2023

Year	RGDP (NGN Billion)	Market Capitalization (NGN Billion)	All-Share Index	Total Value of Transactions (NGN Billion)	Listed Equities (Number)
1998	4,321.30	281.90	5,266.20	37.20	264
1999	4,679.21	300.00	5,991.76	41.50	266
2000	5,381.07	472.30	8,100.90	54.60	271
2001	6,108.86	662.90	10,963.10	75.20	274
2002	6,895.20	764.90	12,137.70	84.30	278
2003	7,795.76	1,354.70	21,355.70	135.50	281
2004	8,487.03	2,112.90	33,268.50	211.30	285
2005	10,594.37	2,900.10	45,092.80	290.00	288
2006	12,118.55	5,120.10	57,990.20	512.00	293
2007	14,572.24	13,294.60	66,371.20	1,329.50	298
2008	15,003.11	9,562.20	31,450.78	956.20	305
2009	16,809.83	7,913.60	20,827.17	791.40	310
2010	20,399.76	10,278.60	24,770.52	1,027.90	315
2011	22,843.12	10,278.60	20,730.63	1,027.90	320
2012	24,824.19	12,619.20	28,078.81	1,261.90	325
2013	26,961.11	13,226.30	41,329.19	1,322.60	330
2014	29,861.92	13,226.30	34,657.15	1,322.60	335
2015	31,809.14	9,851.60	28,642.25	985.20	340
2016	29,321.47	9,247.60	26,874.62	924.80	345
2017	32,222.76	13,609.70	38,243.19	1,361.00	350
2018	35,230.93	11,720.00	31,430.50	1,172.00	355
2019	38,786.80	12,958.60	26,842.07	1,295.90	360
2020	40,000.98	21,056.10	40,270.72	2,105.60	365
2021	45,000.21	22,297.30	42,716.44	2,229.70	370
2022	50,000.75	27,915.60	51,251.06	2,791.60	375
2023	55,000.34	38,420.00	74,773.77	3,842.00	380

Source: a. *Central Bank of Nigeria (CBN) Statistical Bulletins (2023). And Nigerian Stock Exchange (NSE) Annual Reports (2023)*

3: Augmented Dickey-Fuller (ADF) Unit Root Stationarity Test

Variable	Null Hypothesis	Exogenous	Lag Length	ADF Statistic	p-value	1% Critical Value	5% Critical Value	10% Critical Value
D(ASI)	Has a unit root	Constant	0	-3.470367	0.0182	-3.737853	-2.991878	-2.635542
D(MCAP)	Has a unit root	Constant	0	-3.494079	0.0172	-3.737853	-2.991878	-2.635542
D(RGDP)	Has a unit root	Constant	0	-3.064277	0.0431	-3.737853	-2.991878	-2.635542
D(TVT)	Has a unit root	Constant	0	-3.490227	0.0174	-3.737853	-2.991878	-2.635542
LE	Has a unit root	Constant + Trend	3	-4.183694	0.0169	-4.440739	-3.632896	-3.254671

Source: *Author's Computation*

4: ARDL Bounds Test for Co-integration

Test Statistic Value

F-statistic 4.7137

Significance Level	I(0) Lower Bound	I(1) Upper Bound
10%	2.20	3.09
5%	2.56	3.49
1%	3.29	4.37
Source: *E-View 11 output*		

5: Error Correction Model (ECM)

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(MCAP)	-5.7469	10.28499	-0.5588	0.5841
D(ASL)	-6.747	13.574	-0.497	0.5285
D(TVT)	58.6906	102.8283	0.5708	0.5761
D(LE)	-603.3099	166.2809	-3.6283	0.0023
CointEq(-1)	-0.7012	0.1151	-6.0926	0.0000

R-squared: 0.7279. Adjusted R-squared: 0.6890.*S.E. of regression: 944.7410**.***Sum squared resid**:** 18,743,247.*Log likelihood: -204.5668.*Durbin-Watson stat: 2.3081

Source: *Author's Computation with E-View*

Sour

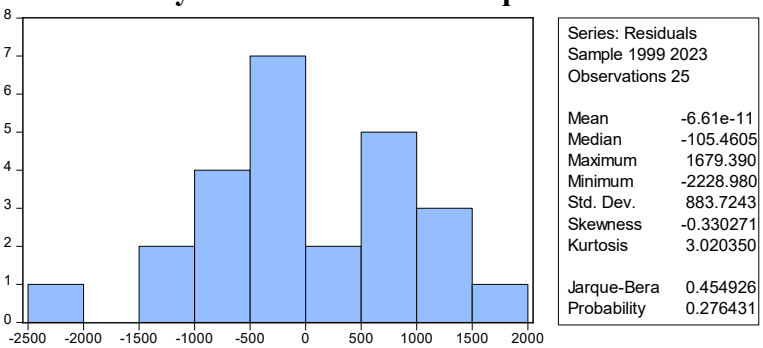
6: Serial Correlation Test (Breusch-Godfrey LM Test)

ce:

F-statistic	1.796220	Prob. F(2,14)	0.2021	
Obs*R-squared	5.105090	Prob. Chi-Square(2)	0.0779	*E-*

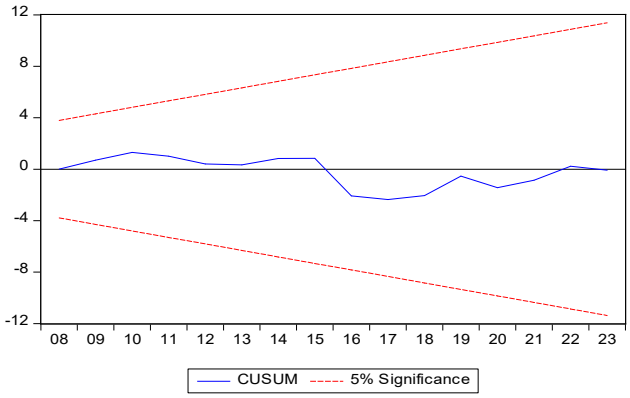
View 11 output

7: Normality of Residuals – Jarque-Bera Test



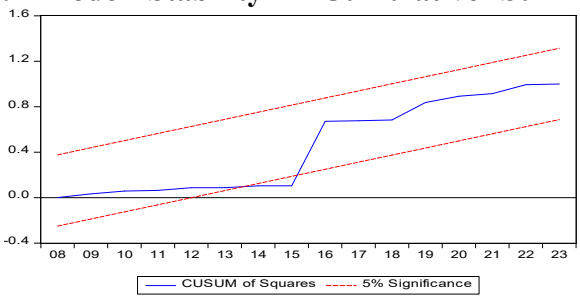
Source: E-*View 11 output*

8: Model Stability- Cumulative Sum (CUSUM) Test



Source: *E-view 11 output*

9 Model Stability – Cumulative Sum of Squares (CUSUMSQ) Test



Source: *E-View 11 output*