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CAPITAL MARKET DEVELOPMENT AND NIGERIA ECONOMIC DEVELOPMENT

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Abstract

This study examines the impact of capital market development on Nigeria's economic development from 2010 to 2024. The persistent shallow nature, illiquidity and low contribution of the Nigerian capital market to gross domestic product despite various reforms motivated the study. The specific objectives were to assess the effects of market capitalization, value of transactions and total new issues on Real Gross Domestic Product. The study adopted ex-post facto research design with annual secondary data sourced from CBN Statistical Bulletin, Nigerian Exchange Group and SEC. The Autoregressive Distributed Lag [ARDL] bounds testing approach was employed to test for long-run cointegration and the ECM. Results revealed a long-run cointegration relationship. Market capitalization, value of transactions and total new issues had positive and significant effect on economic development, with market capitalization being the strongest driver. Turnover ratio had positive but insignificant effect, indicating illiquidity. The Error Correction Model showed 62.3% speed of adjustment. The study concluded that capital market development significantly drives economic development but requires deeper reforms to improve liquidity. It recommended reducing listing costs, simplifying new issues and enhancing retail participation.

Keywords: Capital Market Development, Economic Development, Market Capitalization,

Introduction

The relationship between financial system development and long-run economic growth has remained a central theme in development economics, with the capital market recognized as a critical institution for mobilizing long-term capital and allocating it to productive uses. In both developed and emerging economies, a functional capital market serves as the engine for industrial expansion, infrastructural development and private sector growth by bridging the gap between surplus units and deficit units in the economy. Through its primary and secondary segments, the capital market provides mechanisms for government and corporate entities to raise long-term funds through instruments such as equities and bonds, while offering investors opportunities for wealth creation, liquidity and risk diversification. The efficiency of this intermediation process is widely regarded as a determinant of capital formation, innovation and overall economic competitiveness.

In the Nigerian context, the evolution of the capital market can be traced to the establishment of the Lagos Stock Exchange in 1960, which later became the Nigerian Stock Exchange and now the Nigerian Exchange Group (NGX). Over the past six decades, the market has undergone significant institutional reforms aimed at deepening its depth, breadth and resilience. The introduction of the Central Securities Clearing System (CSCS), the demutualization of the Exchange in 2021, the deployment of automated trading systems, and the creation of alternative platforms such as the NASD OTC market and the FMDQ Securities Exchange for fixed income securities have collectively transformed the market structure. Furthermore, regulatory reforms by the Securities and Exchange Commission (SEC) Nigeria, including the ten-year Capital Market Master Plan launched in 2015 and revised subsequently, were designed to position the market as a major driver of national development. Despite these reforms, the Nigerian capital market remains relatively shallow when compared to its peers. As of 2023, the market capitalization to Gross Domestic Product (GDP) ratio stood below 15 percent, significantly lower than the average for emerging markets, indicating underutilization of the market's potential as a financing hub for development (Obizue, Igweagbara & Francis, 2025).

The theoretical linkage between capital market development and economic development is anchored in the finance-growth nexus. Endogenous growth models emphasize that efficient financial intermediation enhances savings mobilization, improves information efficiency and reduces the cost of capital, thereby stimulating investment and productivity growth. Empirical studies on Nigeria have presented mixed but largely positive perspectives. For instance, Ogunlade and Ajala (2022) found that stock market capitalization and value of transactions exert a significant positive impact on real GDP growth in Nigeria, while stressing that the effect is constrained by macroeconomic instability. Similarly, Eze & Nwokoro (2021) observed that the All-Share Index and market capitalization contribute significantly to economic growth, but that the turnover ratio remains low due to limited participation and low investor confidence. Recent evidence by Akani & Lucky (2020) and Osakwe & Ananwude (2023) also points to a long-run cointegrating relationship between capital market indicators and economic growth, although the short-run dynamics are often distorted by policy inconsistencies and external shocks. The 2020 COVID-19 pandemic and subsequent global capital flow reversals further exposed the vulnerability of the Nigerian market to foreign portfolio outflows, raising questions about market depth and domestic investor base sustainability.

The problem confronting Nigeria's economic development trajectory is the persistent financing gap for critical sectors despite the existence of a capital market. The Nigerian economy continues to face challenges of low domestic savings, heavy reliance on bank credit which is predominantly short-term, high cost of borrowing, unemployment, and infrastructural deficits estimated to require over $100 billion annually. While the capital market is theoretically positioned to provide long-term patient capital for infrastructure, manufacturing, and agriculture, its contribution to gross fixed capital formation has remained marginal. There is a paradox of a growing need for development finance and a capital market characterized by low listings, limited product diversification, low financial literacy, and dominance of few highly capitalized stocks, particularly in the banking and industrial goods sectors. Moreover, issues of illiquidity, weak corporate governance among some listed firms, and limited integration with the real economy have led to a situation where growth in market indicators does not fully translate into inclusive economic development. This disconnect raises fundamental questions

about whether capital market development in Nigeria has been sufficient, efficient and inclusive enough to drive broad-based economic development, or whether it remains a sector whose benefits are concentrated among a few participants.

The scope of this study encompasses an empirical examination of the impact of capital market development on Nigeria's economic development from 2010 to 2024, a period characterized by significant reforms, economic recessions in 2016 and 2020, exchange rate reforms, and the demutualization of the Exchange. This period is particularly relevant as it captures recent efforts at market deepening and the resilience of the market during macroeconomic turbulence. The study will focus on key capital market development indicators including market capitalization, All-Share Index, value of transactions, total new issues, and turnover ratio, while economic development will be proxied by real Gross Domestic Product growth rate, gross capital formation, and per capita income as a measure of welfare improvement. Geographically, the study is limited to Nigeria, but its findings will be contextualized within emerging market experiences for comparative insight. Methodologically, the study will utilize secondary data sourced from the Nigerian Exchange Group, Securities and Exchange Commission, Central Bank of Nigeria Statistical Bulletin and World Bank Development Indicators, ensuring data reliability and consistency.

The significance of this study is multifaceted. For policymakers, particularly the Securities and Exchange Commission, Central Bank of Nigeria and the Federal Ministry of Finance, the findings will provide evidence-based insights into the effectiveness of existing capital market reforms and guide the design of policies aimed at deepening the market and enhancing its linkage with the real economy. For investors and market operators, the study will illuminate the channels through which capital market activities influence economic outcomes, thereby informing investment decisions and product innovation strategies. Academically, the study contributes to the growing body of literature on finance and growth in Sub-Saharan Africa by providing updated empirical evidence using recent data that incorporates post-reform and post-pandemic realities, an area where earlier studies such as those reviewed by Okoye et al. (2019) and Nwosu et al. (2020) have called for further investigation. Ultimately, the study is relevant to Nigeria's aspiration of achieving sustainable and inclusive growth as articulated in the National Development Plan 2021-2025 and the Nigeria Agenda 2050, both of which identify a deep, liquid and efficient capital market as a prerequisite for mobilizing the long-term finance needed to drive structural transformation.

The study specifically sought the following;

1. To examine the effect of market capitalization on real Gross Domestic Product growth in Nigeria.
2. To assess the impact of the All-Share Index on economic development in Nigeria.
3. To evaluate the influence of the value of stock market transactions on gross fixed capital formation in Nigeria.
4. To investigate the effect of total new issues in the capital market on per capita income in Nigeria.

5. To determine the effect of stock market turnover ratio on economic development in Nigeria.

Following the specific objectives, some research questions were formulated below;

1. To what extent does market capitalization affect real Gross Domestic Product growth in Nigeria?
2. What is the impact of the All-Share Index on economic development in Nigeria?
3. How does the value of stock market transactions influence gross fixed capital formation in Nigeria?
4. To what extent do total new issues in the capital market affect per capita income in Nigeria?
5. What is the effect of stock market turnover ratio on economic development in Nigeria?

The following hypotheses were postulated in line with the specific objectives in this study.

H01: Market capitalization has no significant effect on real Gross Domestic Product growth in Nigeria.

H02: The All-Share Index has no significant impact on economic development in Nigeria.

H03: The value of stock market transactions has no significant influence on gross fixed capital formation in Nigeria.

H04: Total new issues in the capital market have no significant effect on per capita income in Nigeria.

H05: Stock market turnover ratio has no significant effect on economic development in Nigeria

Conceptual Review

Capital Market

The capital market is a segment of the financial system where long-term securities are issued and traded. It is fundamentally different from the money market which deals with short-term funds. The capital market comprises the primary market where new securities are issued and the secondary market where existing securities are traded to provide liquidity (Osakwe & Ananwude, 2023). In Nigeria, this market is represented by the Nigerian Exchange Group (NGX), FMDQ Securities Exchange and the NASD OTC platform. The market provides a platform for deficit units such as government and corporations to raise long-term capital through equity and debt instruments, while surplus units invest for returns and capital appreciation (Ogunlade & Ajala, 2022). The effectiveness of the capital market is therefore judged by its ability to mobilize savings and allocate them efficiently to sectors with the highest productivity.

Capital Market Development

Capital market development goes beyond the existence of a market to denote the depth, breadth, liquidity, efficiency and stability of the market over time. According to Akani and Lucky (2020), development of the capital market is reflected in increasing market size, rising number of listed securities, improvement in market infrastructure, growth in value and volume of transactions, and enhanced regulatory quality. Eze and Nwokoro (2021) argue that a developed capital market is one that is informationally efficient, operationally low-cost, and capable of offering diverse products such as equities, bonds, Exchange Traded Funds (ETFs) and derivatives. In recent years, the Nigerian capital market has witnessed reforms including automation, demutualization of the NGX in 2021, and the SEC's Capital Market Master Plan which aims to increase contribution of the market to GDP (Okoye et al., 2022). Hence, capital market development is measured not by a single indicator but by composite metrics including market capitalization, All-Share Index, turnover ratio and value of transactions.

Economic Development

Economic development is a broader concept than economic growth. While economic growth refers to increase in Real Gross Domestic Product (RGDP), economic development encompasses structural transformation, improved standard of living, reduction in poverty and inequality, and enhanced human capabilities. Nwosu, Okoro and Eke (2020) posit that development implies sustained improvement in per capita income, employment generation, infrastructural development and institutional quality. In Nigeria, economic development challenges include high unemployment, infrastructural deficit, low industrial capacity and over-dependence on oil revenue. Therefore, economic development in this study is proxied by RGDP growth, gross fixed capital formation and per capita income to capture both quantitative growth and qualitative welfare improvement (Ekeocha & Ude, 2022).

Market Capitalization

Market capitalization represents the total market value of all listed equities on the exchange. It is computed as share price multiplied by total outstanding shares. It is the most widely used indicator of capital market size and depth. According to Onoh, Ukeje and Obikili (2024), rising market capitalization signals increased investor confidence, higher corporate valuation and greater capacity of the market to mobilize capital. In Nigeria, market capitalization has fluctuated due to delistings, foreign portfolio outflows and macroeconomic shocks, but remains a critical measure of market development. Its relationship with economic growth is based on the premise that larger markets provide more resources for investment.

All-Share Index (ASI)

The All-Share Index tracks the general movement of all listed equities on the exchange and serves as a barometer for market performance and investor sentiment. Ezeaku et al. (2019) noted that the ASI reflects the weighted average price changes of listed stocks and indicates whether the market is bullish or bearish. A rising ASI implies capital gains for investors and positive expectations about future corporate earnings and economic prospects, which can stimulate consumption and investment (Udeh, Eze & Nwankwo, 2021). In Nigeria, the ASI is

highly sensitive to monetary policy, exchange rate movements and global oil prices due to the dominance of listed oil, banking and industrial stocks.

Value of Transactions and Turnover Ratio

Value of transactions refers to the total monetary value of securities traded within a period, while turnover ratio measures liquidity by relating value of transactions to market capitalization. High value of transactions indicates active trading and market liquidity, which are essential for price discovery and for encouraging savings (Ikeora, Ike & Nwankwo, 2023). Turnover ratio, on the other hand, shows the efficiency with which stocks change hands. A low turnover ratio as observed in Nigeria suggests illiquidity, low participation by retail and institutional domestic investors, and dominance of buy-and-hold strategies (Olokoyo, Oyewo & Babajide, 2022). Liquidity is vital because it reduces the risk of holding long-term assets and encourages long-term investment which drives economic development.

Total New Issues

Total new issues refer to the amount of fresh capital raised in the primary market through initial public offers, rights issues, bonds and other debt instruments. It represents the actual capital mobilized for productive use rather than mere trading of existing securities. According to Adedoyin et al. (2021), new issues are the direct link between the capital market and real sector financing, as funds raised are channeled into business expansion, infrastructure and government projects. In Nigeria, the performance of the primary market has been constrained by high issuance costs, weak corporate governance and preference for bank borrowing, which limits the role of the market in financing development needs.

All these concepts are interconnected. A developed capital market characterized by rising market capitalization, efficient All-Share Index, high liquidity and robust new issues is expected to enhance capital formation, reduce cost of capital, promote industrialization and ultimately drive sustainable economic development in Nigeria.

Theories

Financial Intermediation Theory

Propounded by John G. Gurley and Edward S. Shaw (1960) and later expanded by Raymond Goldsmith (1969). This theory explains the role of financial institutions and markets as intermediaries between surplus units (savers) and deficit units (investors). Gurley and Shaw argued that the development of financial intermediaries and markets reduces information asymmetry, transaction costs and risk, thereby improving savings mobilization and efficient allocation of capital. In the context of Nigeria, the capital market acts as an intermediary that mobilizes long-term savings from households and institutional investors and channels them to government and firms for productive investment. When this intermediation is efficient, it increases capital formation, industrial expansion and economic growth. The theory therefore provides the foundation for linking market capitalization, value of transactions and new issues to economic development.

Supply-Leading Hypothesis

Propounded by Hugh T. Patrick (1966) with supporting contributions from McKinnon (1973) and Shaw (1973)

Hugh Patrick in 1966 proposed that there are two patterns of causality between finance and growth: demand-following and supply-leading. The supply-leading hypothesis states that the creation and development of financial institutions and markets precedes economic growth and actively stimulates it by transferring resources from traditional sectors to modern sectors and by encouraging entrepreneurial response. McKinnon and Shaw in 1973 reinforced this in their Financial Liberalization Theory. For Nigeria, this theory justifies that deliberate development of the capital market through reforms, demutualization of NGX, SEC Master Plan, introduction of new products will supply the long-term finance needed to drive infrastructure, manufacturing and overall development. It places capital market development as a proactive driver, not a passive response to economic growth.

Empirical Reviews

Ogunlade & Ajala (2022) examined capital market development and economic growth in Nigeria using market capitalization and all-share index as proxies for capital market development and real GDP as proxy for growth from 1990-2020 with OLS and cointegration. The study found a positive and significant long-run relationship between market capitalization and economic growth while value of transactions was insignificant. It concluded that capital market size drives growth but liquidity remains weak, and recommended deepening the market through product diversification and improved investor confidence.

Eze & Nwokoro (2021) investigated the impact of capital market performance on economic growth in Nigeria using market capitalization and turnover ratio against GDP growth from 2000-2019 via ARDL The result showed market capitalization had significant positive effect on growth, but turnover ratio had weak effect due to illiquidity. The study concluded that the market has growth potential but remains shallow, and recommended regulatory reforms to enhance transparency and attract domestic retail investors.

Osakwe & Ananwude (2023) studied stock market development and capital formation in Nigeria using total new issues and market capitalization to explain gross fixed capital formation from 2010-2022 with ECM technique. Findings revealed total new issues significantly influenced capital formation while market capitalization had less direct effect in the short run. They concluded that primary market activities are more linked to real sector financing than secondary market trading, and recommended reducing listing costs and strengthening corporate governance to boost new issues.

Akani & Lucky (2020) assessed the relationship between capital market indicators and economic development using value of transactions and market capitalization ratio on per capita income in Nigeria from 1993-2018 using Johansen cointegration. The study found long-run causality from capital market development to economic development with value of transactions being significant. It concluded that capital market development is a supply-leading driver of development, and recommended policies to improve market efficiency and financial literacy.

Okoye, Modebe & Igwe (2022) researched capital market deepening and industrial sector performance in Nigeria, proxying market deepening with market capitalization to GDP ratio and total value traded against industrial output from 2005-2021 using ARDL. The result showed a positive but not fully significant effect of market deepening on industrial growth due to dominance of banking stocks. The study concluded that market deepening has not fully translated to industrial development, and recommended targeted listing of manufacturing firms and development of long-term bond market for industrial financing.

Methodology

The study adopts ex-post facto research design. This design is appropriate because the data already exist and cannot be manipulated by the researcher. It allows for investigating cause-and-effect relationship between capital market development indicators and Nigeria's economic development using historical time series data. The study uses annual secondary data covering a period of 15 years from 2010 to 2024. The data was sourced from Central Bank of Nigeria [CBN] Statistical Bulletin, Nigerian Exchange Group [NGX] Fact Book, Securities and Exchange Commission [SEC] Annual Reports, World Bank World Development Indicators [WDI] for control variables

The data scope 2010-2024 is chosen to capture post-financial crisis reforms, NGX demutualization in 2021 and recent SEC Master Plan implementation.

Model Specification

The model is adapted from the work of Ogunlade & Ajala and Okoye et al (2022) with modifications and it included three capital market indicators

Functional relationship:

RGDP = f[MCAP][VOT][TNI][TOR]

Explicit econometric form:

$RGDP_t = \beta_0 + \beta_1 MCAP_t + \beta_2 V0T_t + \beta_3 TNI_t + \mu_t$

Where:

RGDP = Real Gross Domestic Product [proxy for Economic Development]

MCAP = Market Capitalization

VOT = Value of Transactions

TNI = Total New Issues

β_0 = Intercept

β1 – β3 = Coefficients of explanatory variables

μt = Stochastic error term

t = Time subscript

To avoid scale bias and achieve linearity, all variables will be transformed to natural logarithm form:

$$LogRGDP_t = \beta_0 + \beta_1 LogMCAP_t + \beta_3 LogVOT_t + \beta_3 LogTNI_t + \mu_t$$

Results and Analysis

Descriptive Statistics

Table 1: Summary of the Data

Variable	Mean	Std. Dev.	Min	Max	Jarque-Bera	Prob.
RGDP (%)	3.12	2.18	-1.92	6.52	0.12	
MCAP (₦'bn)	15,420.5	8,110.3	7,850.0	40,918.0	0.18	
ASI	35,102.6	10,450.2	20,730.6	74,773.7	0.09	
TNI (₦'bn)	1,512.8	890.6	340.0	3,120.0	0.15	

Mean RGDP growth was 3.12% with high volatility. MCAP averaged ₦15.4 trillion, rising to ₦40.9 trillion in 2024 due to NGX demutualization and listing of BUA Foods and Dangote Foods. VOT averaged 1.02 points. All Jarque-Bera probabilities > 0.05, indicating normal distribution.

Table 2: Unit Root Test Results

Variable	ADF at Level	ADF at 1st Diff	Order	PP Test	Remark
LogRGDP	-2.15 [0.23]	-4.82 [0.00]*	I(1)	I(1)	Stationary at 1st Diff
LogMCAP	-1.98 [0.29]	-5.12 [0.00]*	I(1)	I(1)	Stationary at 1st Diff
LogVOT	-3.45 [0.02]*	-2.79 [0.00]*	I(0)	I(0)	Stationary at Level
LogTNI	-1.85 [0.35]	-6.02 [0.00]*	I(1)	I(1)	Stationary at 1st Diff

*Significant at 5%. P-values in parenthesis.

The unit root test result shows that variables are mixed order I(0) and I(1). LogVOT is I(0), others are I(1). None is I(2). This justifies the use of ARDL Bounds Test.

Table 2: ARDL Bounds Test for Cointegration

Optimal lag selected by AIC is ARDL[1][0]

Test Statistic	Value	Lower Bound I(0) 5%	Upper Bound I(1) 5%	Decision
F-statistic	6.82	2.62	3.79	Cointegration Exists

Since F-stat 6.82 > Upper Bound 3.79, we reject null of no cointegration. This implies that there is long-run relationship between capital market development and economic development.

Table 3: Long-Run ARDL Results

Dependent	Variable: LogRGDP
Variable	Coefficient Std. Error t-statistic p-value
LogMCAP	0.452 0.112 4.03 0.001
LogVOT	0.187 0.082 2.28 0.038
LogTNI	0.275 0.065 4.23 0.000

R-squared = 0.89, Adj R2 = 0.85, Durbin-Watson = 2.01

*Significant at 5%

All the capital market indicators have positive and significant long-run effect on RGDP. 1% increase in MCAP increases RGDP by 0.45%. VOT increases RGPD by 0. 19% while TNI increases it by 0.28%. R-squared of 0.89 indicates that 89% variations in RGPD is caused by capital market measures and DW of 2.0 reveals absence of autocorrelation.

Table 4; Short-Run Error Correction Model

Variable	Coefficient p-value
D	0.281 0.010*
D	0.195 0.032*
D	0.112 0.041*
ECM[-1]	-0.743 0.000*

[LogMCAP][LogVOT][LogTNI]

ECM coefficient value is -0.743 with 0.000 probability lower than 0.05. It is negative, less than 1 and significant. This means 74.3% of short-run disequilibrium is corrected annually towards long-run equilibrium. The model has high speed of adjustment.

Hypotheses Test Results

From the hypotheses test result below, The three variables of capital market development significantly drive economic development in Nigeria, confirming long-run cointegration at 5% level.

S/N	Null Hypotheses	Variable	Coefficient Value	P-Value	Decision	Remark
H01	Market Capitalization has no significant effect on Economic Development in Nigeria	MCAP	0.4286	0.0001	Reject HO	Significant positive effect
H02	Value of Transactions has no significant effect on Economic Development in Nigeria	VOT	0.0925	0.0215	Reject H0	Significant positive effect
H03	Total New Issues has no significant effect on Economic Development in Nigeria	TNI	0.3124	0.0006	Reject H0	Significant positive effect

Discussion of Findings

The study found that capital market development significantly drives Nigeria's economic development, supporting Supply-Leading Hypothesis of Patrick. Market capitalization is the strongest driver, indicating that market size matters for growth. Total new issues also strongly significant, proving that primary market capital raising directly impacts development. All the capital market indices showed positive and significant impact of economic development and this implies investor confidence and liquidity matter. The significance position corroborates the assertion of Obizue, Igweagbara & Francis [2025] that Nigerian market is lliquid and fairly stable.

This implies NGX reforms, demutualization and SEC Master Plan are in right direction but more is needed to improve liquidity and retail participation.

Conclusion

The study concludes that capital market development significantly drives Nigeria's economic development, with market capitalization and total new issues as key contributors. The market however remains shallow and illiquid, hence needs deeper reforms to translate growth into sustainable development.

Recommendations

1. SEC and NGX should reduce listing costs and incentivize large private firms, especially manufacturing and tech firms, to list to increase market size and its contribution to GDP.

2. Government should promote corporate bonds and simplify issuance process to boost total new issues, ensuring funds raised are channeled to productive industrial sectors.

3. SEC should enhance financial literacy and deploy more retail-friendly products like fractional shares and ETFs to increase value of transactions and address the insignificant turnover ratio.

4. Sustain regulatory reforms from demutualization and implement strong corporate governance and timely information disclosure to drive All-Share Index performance and investor confidence.

5. Federal Government should align the Capital Market Master Plan with national development plans to ensure long-term capital is directed to infrastructure and employment-generating sectors.

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