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CAPITAL MARKET LIQUIDITY AND NIGERIA ECONOMIC GROWTH

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Abstract

This study investigated the impact of capital market liquidity on economic growth in Nigeria. Real Gross Domestic Product Annual Growth rate (RGDPG) was used, to achieve this objective, as a proxy for economic growth and served as the dependent variable. The independent variables, namely stock market capitalization (MCR), Value Traded Ratio (VTR), and Turnover Ratio (TOR), were used as proxies for capital market liquidity. Relevant data spanning from 1993 to 2021 were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and World Bank Development Indicators for the period under review. Analytical tools employed for this study included descriptive statistics, Augmented Dickey-Fuller (ADF) Unit Root test, Johansen Co-integration, Granger causality, and Ordinary Least Squares (OLS) regression. The results revealed that the F-statistic of the regression output stood at 1.46, indicating that the regression plane was not statistically significant. The R2 value of 0.148791 suggested that about 14.88% of the total variation was accounted for by the independent variables. All the variables were stationary at their first difference, and a long-run relationship was established between capital market liquidity and economic growth in Nigeria, confirming the co-integration among the variables. The P-values of 0.23, 0.22, and 0.86 for MCR, VTR, and TOR, respectively, were greater than the chosen level of significance (0.05). Additionally, the overall level of significance, Prob. (F-Statistic) 0.25, was greater than the 0.05 level of significance, indicating that all the independent variables could not jointly influence the dependent variable for the period under review. Therefore the study concludes that although capital market liquidity was deemed insignificant, it had a long-run impact on economic growth in Nigeria. The study recommends that, to bring about a significant positive impact of stock market liquidity on economic growth in Nigeria, the government should implement an efficient system geared towards a high level of trading activities that will foster a vibrant and free flow of information. This study contributes to the body of knowledge by modifying existing models and extending the time scope of existing literature to 2021.

Keywords: Impact, capital, market liquidity, Economic, Nigeria

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1.1 INTRODUCTION

The significance of the capital market as an efficient channel of financial intermediation has been widely acknowledged by researchers, academicians, and policymakers as a primary determinant of the economic growth of countries, whether developed or developing. Economic growth in a modern economy relies on an efficient financial sector that aggregates domestic savings and mobilizes foreign capital for productive investments. Underdeveloped or poorly functioning capital markets are typically illiquid and expensive, deterring foreign investors. Additionally, high transaction costs hinder the capital-raising efforts of larger domestic enterprises, potentially leading them to seek opportunities in foreign markets (Mishra, 2010). Capital markets are established to channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments for economic growth vis-à-vis economic development. In line with this, most countries in Sub-Saharan Africa (SSA) shifted away from the Structural Adjustment Programme (SAP) starting from the 1980s, focusing on the mobilization of resources, especially financial resources, and how to allocate them for national development. Financial markets have been established as mechanisms for mobilizing financial resources, both short-term and long-term, for economic development. The more developed these markets (money and capital) are for short-term or long-term funds, the more efficiently they mobilize and distribute funds for developmental purposes (Edame & Okoro, 2013).

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Fundamentally, all nations strive to achieve rapid and sustainable economic growth on a long-term basis. This desire is rooted in the fact that sustainable economic growth enhances the market size of a country, thereby projecting the economy as a good investment destination. Economic growth enables a country to increase the production of goods and services with the available stock of capital in conjunction with other factors of production within the economy.

In Nigeria, banks serve as the largest financial intermediaries that channel funds from surplus sectors to deficit sectors of the economy. Desai (1995) confirmed that the banking industry is an essential element in any economy's intermediation drive, providing the bulk of the money supply and acting as the primary means of easing the flow of credit, especially to the real sectors. Similarly, McCauley and Rama (1992) stated that the economic well-being of a nation results from the advancement and development of its banking industry. Schumpeter (1934) clarified banking as an instrument for economic growth, playing a vital role in funds intermediation between surplus and deficit sectors, leading to the overall growth of the economy. The ability of financial institutions (banks) to allocate financial resources from surplus idle sectors to deficit real sectors for investment, growth, and development makes financial intermediation an absolute process (Akpansung & Gidigbi, 2014). Adamolekun (2020) reported that the Nigerian capital market still experiences fluctuations in its growth as of the end of the year 2019. He termed it as a mixed bag of fortunes and setbacks due to government policies having far-reaching effects on investors' attitudes toward the equity market. According to him, the All Share Index experienced an increase of 42.3 percent in the year 2017 from 2016 and a decrease of 14.60 percent as of December 2019. NSE (2020) also reported that total market capitalization recorded a positive growth from the year 2016 with a 41.59 percent increase from ₦16.19 trillion Naira to ₦22.92 trillion in 2017. In 2018, total market capitalization was ₦22.46 Trillion, increasing to ₦25.89 trillion, recording a 15.26 percent increase as of the

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end of 2019 (NSE, 2020). Inimino, Bosco, and Abuo (2018) posited that to achieve rapid economic growth, it is essential to access long-term finance through the capital market. The raw material in the capital market is money, which can be obtained through a well-functioning and carefully administered capital market guided by regulatory authorities who enforce regulations guiding all stakeholders. Binuyo, Durojaiye, and Edy-Ewoh (2019) explain that the capital market is a complex institution imbued with inherent mechanisms through which long-term funds of the surplus sectors of the economy are made accessible to the deficit sectors. Taiwo, Alaka, and Afieroho (2016) assert that the capital market is the cornerstone of any financial system since it provides the funds needed for financing not only business and other economic institutions but also the programs of the government as a whole. This is in contrast with the conclusions of Adeoye (2015) who appraised the impact of the Nigerian capital market on the economy using data from 1992 to 2011 and concluded that the capital market insignificantly impacts the economy. Also, Araoye, Ajayi, and Aruwaji (2020) found that the Capital market has impacted insignificantly on economic growth.

The Nigerian capital market has undergone a series of reforms, all with the hope of creating stable economic growth and development through financial intermediation. It is pertinent to note the importance of the development capacity of the capital market. The absence of this could obstruct investment, production of goods and services, and also economic growth (Ajibola, 2017). It is necessary to focus on the financial intermediation roles of the capital market and its effect on economic growth. It can be observed that previous studies have concentrated much on the effects of bank-based development on economic growth. Taiwo, Alaka, and Afieroho (2016) assert that the capital market is the cornerstone of any financial system since it provides the funds needed for financing not only business and other economic institutions but also the programs of the government as a whole. This is in contrast with the conclusions of Adeoye (2015) who appraised the impact of the Nigerian capital market on the economy

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using data from 1992 to 2011 and concluded that the capital market insignificantly impacts the economy. Ewah, Essang, and Bassey (2009) appraise the impact of the capital market efficiency on economic growth in Nigeria also concluded that the capital market in Nigeria has not contributed meaningfully to the economy. This is also in contrast with the conclusion of Eichengreen and Leblang (2003) that the capital market has a negative effect on the economy. This is a pointer to the fact that there is a challenge of which school of thought is correct, and it is against this challenge that motivated this study.

The main objective of the study is to examine the combined effect or prediction of the capital market liquidity (i.e., market capitalization, stock market value traded, and market turnover ratio) on Nigeria's economic growth (i.e., real gross domestic product). The research question emanated from the objective is that to what extent is the combined effect of capital market liquidity on Nigeria's economic growth? While the hypothesis formulated from the aforementioned research question is that the combined effect of capital market liquidity on Nigeria's economic growth is not statistically significant. The study will be beneficial to researchers, policymakers, capital market operators, investors, financial institutions, captains of industries, and other stakeholders. The study examines the impact of capital market liquidity and economic growth in Nigeria. The scope of the paper covers a period of twenty-nine (29) years, spanning from 1993-2021. This paper is limited to the quality of secondary data sourced. We had no other way of verifying the quality of data produced by CBN statistical bulletin. The study is limited by the model specified. It is near impossible to have a 100% R2 adjusted value. Our model thus will be limited because we cannot include an infinite number of variables in the model. The rest of the paper is divided into literature review, methodology, data analysis, summary, conclusion, and recommendation.

2.1 Conceptual Review

Economic Growth

Economic growth is an increase in the capacity of an economy to produce goods and services when comparing one period of time to another. It can be measured

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in nominal or real terms, with nominal economic growth considering unadjusted figures and real economic growth adjusting for inflation. Traditionally, aggregate economic growth is measured in terms of Gross National Product (GNP) or Gross Domestic Product (GDP).

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the most widely used tool for assessing a country's economic development. "Gross" means that all production is evaluated regardless of its goals. It can be directed towards immediate consumption, investment in new fixed assets, or to replace impaired fixed assets. "Domestic" refers to the territory of the country. There are many ways to measure GDP. Usually, the following formula is used for this: GDP = consumer spending + gross investment + public expenditure + (exports - imports). Most often, GDP is measured on a quarterly basis or per year. Based on the prevailing factors in the economy, central banks and other institutions lower or increase the forecasts of its growth. To assess the quality of life, the GDP per capita (per inhabitant of the country) is usually used.

Real Gross Domestic Product (RGDP)

The real Gross Domestic Product (RGDP) is a measure of the value of the goods and services produced in a country, adjusted for price changes. An increase in GDP may not actually reflect the true growth in an economy or an increase in purchasing power if the price of goods and services is also rising. Thus, the real GDP subtracts the inflation rate from GDP to get the real growth percentage. Real GDP is considered to be a key indicator of economic health since it measures the entirety of an economy. The real GDP is most often framed in terms of its percentage growth or decline. When the real GDP increases, it suggests businesses are producing a higher value of goods and services. That means the businesses are generally understood to be making more money and suggests an increasing standard of living for the citizens. If the real GDP declines, then the reverse is believed to be true.

Capital Market

The capital market acts as a vehicle for broadening the ownership base of firms and thus increases the economic activities of a country and its growth. Ekezie (2002)

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posits that the capital market is a market for lending and borrowing of long-term loanable funds. Ibenta (2005) states that the "capital market is the market for the supply of long-term capital to firms." Therefore, the capital market is one in which the private and the public sectors trade financial securities with individuals, institutional investors in order to raise funds. In a similar way, Sule and Momoh (2009) note that the capital market is the medium through which funds are mobilized and channeled efficiently from savers to users of funds.

Apart from the judicious mobilization of idle savings into productive use, the capital market creates an avenue for foreign investment and the influx of foreign capital for developing projects that will increase the welfare of citizens. A capital market is a market for securities (debt or equity), where business enterprises (companies) and the government can raise long-term funds. Nzotta (2014) pictures the capital market as a segment of the fund market where long-term funds and enlistments are traded. Therefore, the capital market is composed of both the primary and secondary market (Ibenta, 2005). It must, however, be noted that although all the surplus economic units have access to the capital market, not all the deficit economic units have the same easy access to it. The restriction on the part of the borrowers is meant to enforce the security of the funds provided by the lenders. In order to ensure that lenders are not subjected to undue risks, borrowers in the capital market need to satisfy certain basic requirements such as the capital base of the borrowing firm, financial worthiness, and a host of others. Gugler, Muler, and Yurtoglu (2003) argue that the strength of a country's capital market determines the degree of a firm's investment performance regardless of how closely managers' and owners' match. The Capital market offers access to a variety of financial instruments that enable economic agents to pool, price, and exchange risks. Through assets with attractive yields, liquidity, and risk characteristics, it encourages savings in financial form. This is very essential for the government and other institutions in need of long-term funds and for suppliers of long-term funds (Nwankwo, 1991). Based on its importance in accelerating economic growth and development, the governments of most

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countries tend to have a keen interest in the performance of its capital market. The concern is for sustained confidence in the market and for a strong investor protection arrangement. Therefore, the capital market is the market that deals in long-term funds. In other words, it is a network of financial institutions and infrastructure that interact to mobilize and allocate long-term funds within the economy (Obomeile, Okhumaile, & Bawa, 2023). The market affords business firms and the government the opportunity to sell stocks and bonds and to raise long-term funds from the savings of other economic agents. The sourcing of long-term finance through the capital market is essential for self-sustained economic growth, which is consistent with rapid economic growth. An active capital market aids the mobilization of savings for economic growth and development (Emenuga, 1998). The following are capital market performance indicators that are considered in this study: stock market capitalization, stock market turnover ratio, stock market value traded, listed companies' equities, all-share index, mutual fund assets, and foreign direct investment. The concept of these variables is looked at in turn as follows:

Market Capitalization Ratio (MCR)

The Stock Market Cap to GDP ratio looks at the value of all stocks on an aggregate level and compares that value to the country's total output, which is its Gross Domestic Product (GDP). The Market Capitalization to GDP Ratio, also known as the Buffett Indicator, is a measure of the total value of all publicly-traded stocks in a country, divided by that country's GDP. It is used as a broad way of assessing whether the country's stock market is overvalued or undervalued compared to a historical average. This ratio serves as a form of Price/Sales valuation multiple for an entire country. In essence, MCR is defined as the ratio of market capitalization to the percentage of GDP. It is assumed that the overall market size is positively correlated with the ability to mobilize capital to investment and diversify risk to investors. Stock market capitalization is the sum of the current market value of all listed equities in the market. It is a truism that a higher market capitalization indicates a more valuable company. Ibenta (2005) defines

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market capitalization as the value of current market prices of all of a company's ordinary shares or the value at current market prices of a company's ordinary shares. In essence, it is the total value of all of a publicly traded company. Market capitalization is one of the basic measures of the worth of a publicly traded company; it is a way of determining the actual value of a company.

Liquid Market

A liquid market has many buyers and sellers, numerous trades taking place, and allows everyone to buy or sell at their preferred price with a small bid-ask spread. The most liquid market in the world is the forex market, which is filled with participants ranging from large banks and corporations to professional traders and individuals. The securities market is also considered very liquid. Most securities, such as stocks, ETFs, mutual funds, bonds, and commodities, are liquid assets and can be sold almost immediately during normal trading hours.

To gauge a stock's market liquidity, one must examine the difference between the asking price and the ultimate sale price, also known as the bid-ask spread. If the price difference is insignificant, then the market for the stock is said to be fairly liquid. Trading volume is another important indicator of stock liquidity. A stock that trades heavily has greater market liquidity. Stocks with high trading volumes are typically the easiest to sell. Another key measure of liquidity is the comparison of the trading volume of shares to the number of shares outstanding. This is known as "share turnover" (number of shares divided by the average number of shares available = share turnover). If this level is high, traders can buy and sell shares more easily. High liquidity is associated with lower risk, as a liquid stock is more likely to keep its value when traded. It is generally safer to trade stocks and other assets with high liquidity.

Stock Market Liquidity

Liquidity refers to the ease (quickness) and efficiency with which a stock or other asset can be bought or sold without having a significant impact on its price. The easier it is to buy and sell an asset, the more liquid it is. Market liquidity is a measure of how easily a stock trades in

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the public markets. The liquidity of a stock is crucial because it indicates how easily investors can exit a position, as a stock with market liquidity is readily available for purchase or sale.

Stock liquidity is determined by how accessible a stock is and how easily and efficiently it can be bought or sold without impacting its price. Liquid stocks will have enough demand and supply of shares, meaning there will be enough buyers and sellers in the market, and transactions can happen smoothly. The most liquid stocks are those with the highest market capitalization. They are traded frequently on the stock market, making it easy to buy or sell them quickly and at a desired price. Investing in a stock with high liquidity is generally considered more secure than investing in one with low liquidity.

Liquidity is a major factor traders use to assess an investment, and illiquid stocks are usually sold at a discount. Stocks listed on major exchanges are usually very liquid, especially those with a high market capitalization. Stock market liquidity is divided into stock market efficiency and stock market depth or activity. Stock market efficiency is measured as the ratio of total stock market turnover to stock market capitalization, while stock market depth or activity is measured by stock market total value traded in percentage of GDP. It's important to note that stock market liquidity only indicates how easily an investor can get rid of shares and does not necessarily provide insights into the performance of the company behind the stock. However, the more active the market, the higher the trading volume and the higher the stock turnover ratio will be, making investors more liquid to invest more and thereby contributing to economic growth and the development of the economy (human development factors).

Stock Market Value Traded (VTR)

Stock market value traded is related to the number of shares traded multiplied by the amount per share and aggregated for all listed companies over a period of time, typically a year. It is simply the total amount of shares that changed hands between buyers and sellers (Mbat, 2001). The total value of the transaction is then the number of shares traded in a country's stock market or an entire market over a specific period

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(Adebiyi, 2005). According to Ekezie (2002), the total value of the transaction is an important indicator in technical analysis as it is used to measure the movement of a market. If the market moves significantly up or down, the perceived strength of that move depends on the total value of trading in that period of time.

Stock Market Turnover Ratio (TOR)

The stock turnover ratio is the value of electronic order book (EOB) domestic stocks traded divided by their market capitalization. The value is annualized by multiplying the monthly average by 12, according to the following formula: (Monthly EOB domestic stocks traded / Month-end domestic market capitalization) x 12. A high level of stock turnover also indicates that investors will have an easier time buying and selling their shares. The low stock turnover rate is relatively common for smaller businesses that have a small market capitalization. The stock turnover ratio indicates how easy, or difficult, it is to sell shares of a particular stock on the market. It compares the number of shares that change hands during a particular period with the total number of shares that could have been traded during that same period.

Nigerian Exchange Group (NGX)

The history of the Nigerian Exchange Group (NGX Group), formerly known as the Nigerian Stock Exchange, dates back to September 15, 1960, when the Lagos Stock Exchange was founded. The Nigerian Stock Exchange provides exchange services, offering listing and trading services, as well as electronic clearing, settlement, and delivery, and market data dissemination services throughout Nigeria. The Lagos Stock Exchange, the forerunner of the Nigerian Stock Exchange, was established on September 15, 1960. Official operations commenced on August 25, 1961, with 19 securities listed for trading. However, informal operations had begun earlier in June 1961. Initially conducted inside the Central Bank building, the exchange had four firms as market dealers: Inlaks, John Holt, C.T. Bowring, and ICON (Investment Company of Nigeria). The volume for August 1961 was about £80,500, and it rose to about £250,000 in September of the same year, with the bulk of the investments in government securities. In

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December 1977, it became known as The Nigerian Stock Exchange, with branches established in some of the major commercial cities of the country as of 2017. As of May 31, 2018, it had 169 listed companies and an All-Share index. On July 29, 1992, the Nigerian Stock Exchange made a significant stride by incorporating an electronic Financial Market Infrastructure (FMI) in secondary market activities called the Central Securities Clearing System (CSCS). Commissioned in April 1997, the CSCS is a limited liability company, with the Nigerian Stock Exchange owning 51%, and 49% owned by market operators and brokers. The CSCS seeks to automate through an electronic clearing system, the delivery, and settlement of share transactions, reducing transaction time and providing prompt and accurate information to investors and shareholders. The NSE is an active member of the African Securities Exchanges Association (ASEA) and an affiliate member of the World Federation of Exchanges (WFE). On October 28, 2014, NSE became the third African stock exchange to be granted full Federation membership status of WFE at the 54th General Assembly and Annual Meeting held in Seoul, the capital city of Korea.

2.2 Theoretical Review

Theories have established that a relationship exists between stock market development as a financial institution and economic development. Scholars such as Schumpeter (1934), Goldsmith (1969), McKinnon (1973), and Shaw (1973) strongly emphasized the role of financial institutions as intermediaries in economic growth. Similarly, Greenwoods and Jovanovich (1990) observed in their studies that the development of financial institutions can lead to rapid growth. In a related study, Bencivenga, Smith, and Starr (1996) explained that the development of the stock market and efficient financial intermediaries contribute to economic growth by channeling savings to high-productive activities and reducing liquidity risk. They concluded that financial intermediation leads to growth. Based on this assertion, this study examines the extent to which the trading of financial assets and listing in the stock market sub-sector of the financial sector influenced economic development in Sub-Saharan Africa.

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2.2.1 Theoretical Framework

This study is theoretically underpinned by the Neoclassical Growth Model, first formulated by Robert Solow (Neoclassical Growth Model). Introduced by Robert Solow and Trevor Swan in 1956, the neoclassical growth theory posits that economic growth results from three factors—labor, capital, and technology. While an economy has limited resources in terms of capital and labor, the contribution from technology to growth is boundless. In essence, the theory asserts that "a sustained increase in capital investment increases the economic growth rate only temporarily." This is because the ratio of capital to labor tends to go up (there is more capital available for each worker to use), and the marginal product of additional units of capital is assumed to decline. This will eventually move the economy back to a long-term growth path, with real GDP (Gross Domestic Product) growing in line with the working population plus a little improvement in "productivity."

2.3 Empirical review of cutting edge research

Onwumere, Ibe, Okafor et al. (2010) explored the relationship between the stock market and economic growth in Nigeria using econometric methods and time series data. They found that economic growth has a positive and insignificant impact on market capitalization ratio and turnover ratio, while it has an adverse effect on the value of traded shares. Asante, Agyapong, et al. (2011) studied the impact of bank competition and stock market on economic growth in Ghana. They found that bank competition and stock market development Granger cause economic growth in Ghana, suggesting that bank competition is good for long-term economic growth. Ovat (2012) empirically investigated the role played by stock markets in driving economic growth in Nigeria. The study disaggregated stock market development into stock market size and stock market liquidity, finding that market liquidity dominated over market size in driving economic growth. Alajekwu et al. (2013) examined trade openness, stock market development, and economic growth in Nigeria. Their findings showed no causal relationship between trade openness and economic growth or between trade openness

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and stock market development. Edame et al. (2013) empirically investigated the impact of the capital market on economic growth in Nigeria, finding a positive and significant impact of the capital market on economic growth. Oke (2013) studied the capital market and economic growth in Nigeria from 1985 to 2011, concluding that market capitalization and the number of dealings have a negative relationship with economic growth, while the all-share index shows a positive impact on long-term economic growth. Oluwatosin, Adekanye et al. (2013) examined the impact of the capital market on economic growth in Nigeria using data from the CBN Statistical Bulletin. They found that all capital market variables jointly predict economic growth at an insignificant rate. Ikikii and Nzomo (2013) analyzed the effects of stock market development on the economic growth of Kenya, finding that stock market development has a positive impact on economic growth. Chipaumire et al. (2014) examined the impact of the stock market on the economic growth of South Africa, concluding that stock market liquidity impacts the economic growth of South Africa. Igbodika (2014) investigated the effect of the stock market on economic growth in Nigeria using annual time series data, finding no significant effect in simple regression but significant effects in multiple regression. Ifeoluwa and Motilewa (2015) investigated the impact of stock market liquidity on economic growth in Nigeria from 1980 to 2012. Their analysis, using E-Views 5.0 econometric software, revealed that stock market liquidity was not a statistically significant variable explaining economic growth in Nigeria during the studied periods. Ruwaydah et al. (2015) studied the effects of stock market development on economic growth in SADC countries, finding a strong link between stock market development and economic growth in SADC countries. Rurangwa et al. (2017) studied capital market development and economic growth in Rwanda, finding that all independent variables positively contributed to economic growth in Rwanda with a bi-directional relationship between capital market development and economic growth.

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2.4 Gap in Literature

Many studies by authors such as Adenuga (2010), Jechehe (2011), Kolapo et al. (2012), Nomfundo (2013), Aduah-Sam et al. (2014), and Maghanga et al. (2015) find a significant impact of stock market development on economic growth, while many others find a non-consequential result, including Onwumere, Ibe et al. (2010), Alajekwu et al. (2011), Alajekwu et al. (2013), and Ifeoluwa et al. (2015). There are other researchers that have mixed results when simple and multiple regressions were conducted, such as Osho (2014) and Igbodika (2014). This shows that there are conflicting results regarding the impact of stock market development indicators on economic growth. On the other hand, some researchers like Ovat (2012), Ishioro (2013), Aduah-Sam et al. (2014), and David-Wayas (2014) study the causality between stock market development indicators and economic growth and found out a bidirectional relationship, while others, Odhiambo (2009) and Asante et al. (2014), find a unidirectional relationship. Alajekwu et al. (2013) study trade openness, stock market development, and economic growth in Nigeria and find no causal relationship between trade openness and economic growth on one hand, and trade openness and the stock market on the other hand. Ake et al. (2010) also find no causal relationship in the case of Cameroon's financial stock market growth and economic development. In all, they recommend that policymakers should adjust policies that have an influence on stock market development to ensure that a country's economy benefits from the development of its stock market.

3. METHOD

3.1 Research Design

For the purpose of this research and for appropriate collection and analysis of data, an Ex-Post-Facto research design is used. This research design demonstrates the relationship between the independent and dependent variables. It is a research tool for demonstrating cause-and-effect relationships by analyzing past occurrences or events and already existing data obtained from annual reports (Olannye, 2006). The study examined the Nigerian Stock Exchange for a

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period of twenty-nine (29) years, spanning from the year 1993-2021. The data used were classified as time-series data sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and World Development Indicators as secondary sources of data.

Data for this research are to be collected from the Central Bank of Nigeria (CBN) Statistical Bulletin, Nigerian Stock Exchange fact books from the period 1986 to 2021. The chosen economic growth measure is the Real Gross Domestic Product (GDP) Annual growth rates specified to depend on the capital market, which includes Market Capitalization Ratio (MCR), Value of Stock Traded Ratio (VTR), and Stock Market Turnover Ratio (TOR). The focus of this model is in line with the Neo-Classical School of Thought, suggesting that investing in a stock market raises the liquidity position of an economy. The study replaces TVT_GDP with the stock market turnover ratio and stock market value traded as a proxy for stock market liquidity, with inflation as a control variable (country-specific). The model of Ifeoluwa and Motilewa (2015) was adopted in this research work and modified. The model in its functional form is presented as follows:

GROWTH= f(TVT_GDP).....Model (1)

Where:

TVT_GDP is the stock market liquidity indicator.

In our study, the model which was used to test the hypotheses are given as:

The functional relationship between capital market liquidity and economic growth in Nigeria is expressed as:

Economic growth= f(capital market liquidity).

The model for the study is presented in its functional form as shown below:

RGDPG= f(MCAP,VTR,TOR) Model (2)

$RGDPG_t = \alpha_0+\alpha_1 MCAP_t+\alpha_2 VTR+\alpha_3 TOR_t+U_t$

Equation (1)

Where;

$RGDPG_t$= Real Gross Domestic Product Growth rate

MCR_t= Market capitalization Ratio

VTR_t= Value of Stock Traded Ratio

TOR_t= Stock Market Turnover Ratio

U_t= Error Term

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α_0 denotes the constant term, α_1-α_2 are slope of the coefficients representing Parameters to be estimated and U is the disturbance term as summed to be purely random.

On apriori, it is expected that the dependent variable should have a positive relationship with the independent variables. Descriptive statistics, ADF Unit Root test, Johansen Co-integration test, Ordinary Least Square (OLS) Regression Analysis and Granger Causality will be used as the analytical tool for this study; and the analysis will be conducted using E-view 0.9 as the statistical tool for the analyses.

Ordinary Least Square

The Ordinary Least Squares (OLS) technique will be used to investigate the link between capital market performance and economic growth in Nigeria. A regression model will be adopted to assess the effect of financial integration on growth within the period under review. Additionally, the coefficient of determination (R^2), T-statistic, F-statistic, and the Durbin-Watson test will be employed to evaluate the significance of the estimated parameters of the regression model. These statistical measures will help assess the strength of the relationship between the variables and determine the overall goodness-of-fit of the model.

Validity and Reliability of Data

The data obtained and used for this study were valid and reliable since they were sourced from Government Publications (i.e. secondary source: Central Bank of Nigeria (CBN) Statistical Bulletin, and World Bank Database for the period under review).

4.1 PRESENTATION AND ANALYSIS OF DATA

Table4.2: Descriptive Statistics Result

	RGDPG	MCR	VTR	TOR
Mean	4.186207	11.85724	1.031034	8.500000
Median	4.200000	10.90000	0.600000	6.200000
Maximum	15.30000	30.50000	6.200000	34.80000
Minimum	-2.000000	2.500000	0.100000	1.100000
Std.Dev.	3.906563	6.441168	1.334194	7.821080
Skewness	0.412785	1.061994	2.915039	2.132027
Kurtosis	3.571983	4.140052	11.00568	7.213421
Jarque-Bera	1.218882	7.021679	118.5142	43.42155
Probability	0.543655	0.029872	0.000000	0.000000
Sum	121.4000	343.8600	29.90000	246.5000
SumSq.Dev.	427.3145	1161.682	49.84207	1712.740

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Observations	29	29	29	29

Source: Extracted from E-View9 Output Result

The descriptive statistics for the variables considered in our analysis are presented in the table above. Between 1993 and 2021, the average Real Gross Domestic Product Annual Growth Rate (RGDPG), Market Capitalization Ratio (MCR), Value Traded Ratio (VTR), and Turnover Ratio (TOR) are 4.186207, 11.85724, 1.031034, and 8.500000, respectively. All the variables, RGDPG, MCR, VTR, and TOR, exhibit positive skewness, as indicated by skewness values of 0.412785, 1.061994, 2.915039, and 2.132027, respectively. These values are greater than zero. Furthermore, they are leptokurtic, signifying that their distributions are highly peaked relative to normal, with kurtosis figures of 3.571983, 4.140052, 11.00568, and 7.213421, all exceeding 3.

The Jarque-Bera statistic (JB) for MCR, VTR, and TOR provides enough evidence to reject the null hypotheses of normality, given that the p-values of the JB statistics are 0.029872, 0.000000, and 0.000000, respectively, all of which are less than 0.05. Conversely, the Jarque-Bera statistic (JB) for RGDPG provides enough evidence to accept the null hypothesis of normality, as the p-value of the JB statistic (0.543655) is greater than 0.05.

Table4.3: SUMMARY OF ADF UNIT ROOT TEST

Variables	ADFTest Statistics	Mackinnon Critical Value @ 5%	P-Value	Order of integration	Remark
RGDPG	-6.941965	-2.976263	0.0000	1(1)	STATIONARY
MCR	-5.551087	-2.976263	0.0001	1(1)	STATIONARY
VTR	-5.105763	-2.981038	0.0003	1(1)	STATIONARY
TOR	-4.402346	-2.976263	0.0018	1(1)	STATIONARY

Source: Extracted from E-View 9 Output Result.

All the variables; RGDPG, MCR, VTR, and TOR, respectively are stationary at first difference (1).

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Table4.4 Result of Johansen Co-integration test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None*	0.734516	48.25060	47.85613	0.0459
Atmost1	0.256818	12.44320	29.79707	0.9153
Atmost2	0.140295	4.429204	15.49471	0.8660
Atmost3	0.012796	0.347714	3.841466	0.5554

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 CriticalValue	Prob.**
None*	0.734516	35.80739	27.58434	0.0035
Atmost1	0.256818	8.013999	21.13162	0.9028
Atmost2	0.140295	4.081490	14.26460	0.8506
Atmost3	0.012796	0.347714	3.841466	0.5554

Source: Extracted from E-View 9 Output Result.

The result of the Johansen Co-integration test, as presented above, indicates one co-integrating equation from both the Trace test and the Max-eigenvalue test. This result confirms the existence of co-integration among the variables. Consequently, we can conclude that there is a long-run relationship between capital market liquidity and economic growth in Nigeria. Thus, our null hypotheses were rejected, and alternative hypotheses were accepted.

TABLE4.5: GRANGER CAUSALITY TEST

Null Hypothesis:	Obs	F-Statistic	Prob.
MCR does not Granger Cause RGDPG	27	0.20787	0.8139
RGDPG does not Granger Cause MCR		0.36813	0.6962
VTR does not Granger Cause RGDPG	27	0.07763	0.9256
RGDPG does not Granger Cause VTR		0.69287	0.5107
TOR does not Granger Cause RGDPG	27	0.01999	0.9802
RGDPG does not Granger Cause TOR		0.84249	0.4441

Source: Extracted from E-View9 Output Result.

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The Granger causality test results indicate that there is no causality in the relationships between the variables. Specifically: Market Capitalization Ratio (MCR) does not Granger cause Real Gross Domestic Product Annual Growth Rate (RGDPG) (0.8139 > 0.05), and RGDPG does not Granger cause MCR (0.6962 > 0.05). Hence, there is no causality. Value Traded Ratio (VTR) does not Granger cause RGDPG (0.9256 > 0.05), and RGDPG does not Granger cause VTR (0.5107 > 0.05). Hence, there is no causality. Stock Market Turnover Ratio (TOR) does not Granger cause RGDPG (0.9802 > 0.05), and RGDPG does not Granger cause TOR (0.4441 > 0.05). Hence, there is no causality.

TABLE4.4: OLS

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	4.844527	1.876841	2.581213	0.0161
MCR	-0.183091	0.149692	-1.223116	0.2327
VTR	1.260500	0.998210	1.262760	0.2183
TOR	0.025061	0.140094	0.178884	0.8595

R-squared	0.148791	Mean dependent var	4.186207
Adjusted R-squared	0.046646	S.D. dependent var	3.906563
S.E. of regression	3.814362	Akaike info criterion	5.642866
Sum squared resid	363.7339	Schwarz criterion	5.831458
Log likelihood	-77.82155	Hannan-Quinn criter.	5.701931
F-statistic	1.456665	Durbin-Watsonstat	0.967617
Prob (F-statistic)	0.250285		

Source: ExtractedfromE-View9OutputResult.

The results of the regression analysis show that there is a positive relationship between RGDPG, VTR, and TOR. A unit change in VTR and TOR will boost economic growth in Nigeria by 1.260500% and 0.025061%, respectively. There is a negative relationship between RGDPG and MCR. A unit change in MCR will lead to a decrease in economic growth by 0.183091%. The coefficient of determination (R^2) is 14.8791%, indicating that about 14.88% of the total variation in the dependent variable is explained by the independent variables, while 85.12% is unexplained and accounted for by the error term (U). The Durbin-Watson statistic is approximately 0.98, which is less than 2, suggesting the presence of autocorrelation or serial correlation in the residual. The F-

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statistic is 1.456665, indicating that the regression plane is not statistically significant. The p-values for MCR, VTR, and TOR are 0.2327, 0.2183, and 0.8595, respectively, which are all greater than the chosen level of significance (0.05). Also, the overall level of significance (Prob. (F-Statistic)) is 0.250285, greater than the 0.05 level, indicating that all the independent variables cannot jointly influence the dependent variable for the period under review. Therefore, the null hypotheses are accepted.

4.3 Discussion of Findings:

The results of this study affirm findings from other related studies, including Ifeoluwa and Motilewa (2015). Their examination of the impact of stock market liquidity on economic growth in Nigeria, spanning from 1980 to 2012, revealed that the variables were stationary at their first difference. Additionally, the Johansen co-integration approach confirmed the existence of a co-integrating relationship at the 5 percent level of significance. Notably, the study found that stock market liquidity was not a statistically significant variable explaining economic growth in Nigeria during the studied periods. Furthermore, the research by Onwumere, Ibe, Okafor et al. (2010), focusing on the relationship between the stock market and economic growth in Nigeria, utilized stock market variables such as market capitalization, turnover ratio, and value of trade ratio. Their results indicated that economic growth has a positive and insignificant impact on market capitalization ratio and turnover ratio, while it has an adverse effect on the value of traded shares. Moreover, the study lends support to the validity of the Neoclassical Growth Model, emphasizing that economic growth results from three factors: labor, capital, and technology. Acknowledging the limitations of limited resources in terms of capital and labor, the model underscores the boundless contribution of technology to economic growth. In essence, it emphasizes that a sustained increase in capital investment only temporarily boosts the economic growth rate.

5.1 Summary of Findings:

The descriptive analysis unveiled that the variables, RGDPG, MCR, VTR, and TOR, exhibited a normal distribution. They were positively skewed and leptokurtic.

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Furthermore, the variables were found to be stationary at their first difference, affirming the existence of a long-run relationship between the capital market and economic growth in Nigeria, as evidenced by the confirmation of co-integration among the variables. Examining the coefficients of regression, the estimated model indicated a positive relationship between RGDPG, VTR, and TOR. Specifically, a unit change in VTR and TOR was projected to boost Nigeria's economic growth by 1.260500% and 0.025061%, respectively. Conversely, MCR demonstrated a negative relationship with RGDPG, signifying that a unit change in MCR would lead to a decrease in economic growth by 0.183091%. The coefficient of determination (R2) stood at R2=0.148791, indicating that approximately 14.88% of the total variation was accounted for by the independent variables, while 85.12% remained unexplained and was addressed by the stochastic disturbance term or error term (U) during the studied period. The Durbin-Watson statistic revealed the presence of autocorrelation or serial correlation in the residuals, with a value of 0.967617, approximately 0.98, which is less than the Durbin-Watson value of 2 (0.98<2). The F-statistic for the regression output was 1.456665, suggesting that the regression plane was not statistically significant. Comparing Sign P-values with the chosen level of significance (0.05), it was observed that the P-values of 0.2327, 0.2183, and 0.8595 for MCR, VTR, and TOR, respectively, were greater than the chosen level of significance (0.05). Additionally, the overall level of significance, Prob. (F-Statistic) 0.250285, exceeded the 0.05 level of significance, indicating that all the independent variables could not jointly influence the dependent variable for the period under review. Consequently, our null hypotheses are accepted.

5.2 Conclusion:

Based on the analysis, the study uncovered that capital market liquidity has a long-run, statistically insignificant impact on economic growth in Nigeria, as the variables were stationary at their first difference. The existence of a long-run relationship between capital market liquidity and economic growth in Nigeria was confirmed, indicating co-integration among the variables. However, the impact was deemed statistically insignificant, as the P-values

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exceeded the 5% level of significance. In conclusion, the study suggests that while capital market liquidity is statistically insignificant, it does have a long-run impact on economic growth in Nigeria.

5.3 Recommendations

From the findings, the capital market is considered the lifeblood of any economy. To enhance economic growth factors through the establishment and maintenance of a stock exchange, the following recommendations are proposed:

1. To ensure a significant positive impact of stock market liquidity on economic growth in Nigeria, the government should implement an efficient system that fosters high levels of trading activities. This includes initiatives to promote a vibrant and free flow of information within the market.
2. Government efforts should be directed towards providing adequate publicity to educate and enlighten companies seeking long-term funds about the benefits of going to the capital market. This would contribute to raising awareness of the substantial funds available through the capital market.

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