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Assessment of Nigeria Stock Market Development on Gross Domestic Product

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Abstract

The study looked at the evolution of the Nigerian stock market from 1990 to 2020 to determine whether there was any correlation and how it could aid in economic development. Expost facto research was employed for this study. From 1990 through 2020, a sample of stock market capitalisation and GDP at year-end is chosen. Stock market turnover ratio and stock market value traded ratio versus GDP were employed as measures of stock market development in the study. The R-squared value (0.705770) suggests that the exogenous variables (Stock Market Value Traded Ratio (VTR) and Stock Market Turnover Ratio (TOVR) in the model explain 71 percent of the total fluctuations in Gross Domestic Product. The Fstatistic (6.853455) shows that the entire model correctly and significantly explains the phenomena. The evidence from the long-run regression estimate demonstrates that Gross Domestic Product has a considerable positive effect on the Stock Market Value Traded Ratio (VTR) and Stock Market Turnover Ratio (TOVR). The Nigerian stock market is hence illiquid and has a high transaction cost. Low liquidity means that investors will have a harder time converting their stocks to cash. It is recommended that, in order to improve liquidity, the cost of transactions in the Nigerian stock market and the methodology used to determine stock prices be reviewed, among other things, to make raising capital more affordable.

Keywords*: Stock market, Gross domestic product, Stock market value, Stock market turnover, Market liquidity.*

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Background to the Study

The growth of the Nigerian stock market opens up opportunities for increased money mobilization, corporate finance, resource allocation efficiency, and the availability of important information for appraisal (Inanga and Emenuga, 1997). Long-term financial securities such as ordinary shares, long-term debt securities such as debentures, unsecured loan stock, and convertible bonds are traded on stock exchanges. Stock exchanges also trade government bonds and other public securities. In today's economy, a well-functioning stock market is critical for achieving an effective transfer of monetary resources from savers to those who need capital and will be able to put it to better use. The stock market can influence the quality of investment decisions. Stock market development, according to Demirguc-Kurt and Maksimonic (1996), tends to enhance the amount of other business. Due to an increase in privatization listings, the use of bond instruments in international debt settlements, and some effective implementation of economic stabilization programs, several emerging stock markets have seen a major increase in foreign investment.

The Nigerian stock market is seen as a complex organization having an intrinsic system for mobilizing, harnessing, and making available to various sectors of the economy long-term money from the major sector of the Nigerian economy, which includes households, corporations, and government (Nyong, 1997). However, according to Osinubi (2004), the Nigerian stock market needs to develop quickly in order for Nigeria to reap the full benefits of stock market-economic growth links. During the study's thirty-year period (1990-2020), After controlling for a variety of other potential sources of development, Levine and Zervos (1996), discovered that stock market liquidity, evaluated in several ways, is a reliable predictor of real per capita gross domestic product growth, physical capital growth, and productivity growth. This implies increasing cash to support long-term, high-return investments that increase productivity growth. This demonstrates that the stock market delivers some services that have an economic impact. As a result, the primary goal of this research is to evaluate the evolution of the Nigerian stock market from 1990 to 2020 and how it might aid the country's economic development.

Literature Review

The Concept of Stock Market

Long-term financial securities, such as ordinary shares and long-term debt securities such as debentures, unsecured loan stock, and convertible bunds, are traded on stock exchanges. The structure of any stock market, according to Murinde (2006), includes three components and plays three critical roles. Long-term funds can be generated by enterprises from people having funds to invest, such as financial institutions and private investors, in the primary market for new issuance by firms and other institutions. The secondary market is where shareholders can resell their existing assets on the stock exchange to other interested buyers or buy new ones to expand their portfolios. The derivative market, on the other hand, is used to facilitate the exchange of securities created by the exchange and whose value is derived from the underlying securities. The stock market's complementary role to financial institutions is an important aspect of its structure. Demirquc-Kunt and Levine (1996), argue that having an active stock market boosts a firm's debt capacity; in this context, equity markets and financial intermediaries complement one another, resulting in a higher volume of business for financial intermediaries when the stock market is active. The Nigeria Stock Exchange is the country's only stock exchange, where securities (stocks, bonds, and shares) can be bought and sold.

Market Liquidity

Liquidity, in general, refers to the ease with which one can acquire and sell securities. Liquid equity markets, according to Demirque-Kunt and Levine (1996), allow enterprises to have permanent access to capital through stock offerings on the one hand, and investors can switch out of equities if they need funds or wish to modify the composition of their portfolios on the other. Increased liquidity can stifle growth in three ways: first, it can reduce saving rates through income and substitution impacts; second, it can stifle growth through the use of credit; and third, it can stifle growth through the use of credit. Because of the equivocal impacts of uncertainty on savings, increased stock market liquidity may diminish saving rates; third, increased stock market liquidity fosters investor myopia, affecting market value and thus economic development. According to Levine and Zervos (1998), It should be mentioned that market liquidity is measured in two ways. To begin, the turnover ratio is calculated by dividing the total value of domestic shares traded by the market capitalization. The turnover ratio compares the size of the market to the amount of domestic shares traded on domestic exchanges. High turnover is frequently mistaken for cheap transaction costs. Importantly, a large stock market does not always imply a liquid market; a large but inactive market will have a high market capitalization ratio but a low turnover ratio; the value traded ratio, which equals the total value of domestic shares traded on the stock market exchange divided by GDP, is the second measure of market liquidity.

While the value traded ratio is not a direct measure of trading expenses or the level of uncertainty associated with trading on a certain exchange, it was directly influenced by theoretical models of stock market liquidity and economic growth (Levine, 1991)

Theoretical Framework

Efficient Market Hypothesis (EMH)

Fama is the author of this hypothesis (1967). This research is influenced by the works of Kareen, Sanni, Raheem, and Bakare (2013). Financial markets are efficient, according to EMH, when prices are traded assets that have already reflected all known information and are thus unbiased since they represent all investors' collective expectations about future prospects. Previous empirical investigations on EMH, on the other hand, depended on long-term equity reliance. According to Kareen, Sanni, Raheem, and Bakare (2013), when the market is overly speculative, investors will be hesitant to part with their money for fear of financial losses, and hence will abandon the market. It suffices to remark that the capital market's effectiveness is an essential prerequisite for Nigeria's growth and development, since the stock market acts as a vehicle for attracting foreign direct investment, thereby expanding the economy's investment resources.

Empirical Review

Haruna (2017), The auto correction test was run on the null hypothesis that subsequent share prices on the NSE are not serially linked with past share prices, concentrating on weak-form efficiency in the Nigerian stock market. The test result indicates that the null hypothesis should be rejected, indicating that daily share prices have strong auto-correlation. The auto-correlation coefficient is considerably different from zero at all lags for the entire data period, showing that share prices are serially dependent. As a result, share values can be predicted based on historical data. As a result, the auto-correlation result contradicts the random walk assumptions, and the null hypothesis of no serial correlation in subsequent share price fluctuations in the Nigerian stock market is rejected by the auto-correlation test. Over the period 1981-2010, Sulaiman and Mohammed (2014) looked at the impact of foreign direct investment and macroeconomic stability on the level of development of the Nigerian stock market. The error correction mechanism (ECM) and Hohenson co-integration approaches were used. Their findings demonstrate that the factors have a long-run relationship, with FDI having a positive but small impact on stock market development.

According to the report, international companies operating in Nigeria should be encouraged to go public in order to improve macroeconomic stability and attract additional FDI. To assess and predict translated and untranslated Nigeria stock market values, Akinwale, Arugundale, and Adekoya (2009), employed a regression neural network using a back-propagation method (NSMP). Their research examined the performance of neural networks with translated and untranslated NSMP inputs, and found that the network with translated NMSP inputs beat the network with untranslated NSMP inputs in terms of forecasting. In terms of prediction accuracy, the translated NSMP network accurately predicted 1.3 percent of stock prices, compared to the untranslated NSMP network model's 2.7 percent prediction accuracy. These analyses did not take into account the development of the Nigerian stock market in order to attract investors. This is something we want to figure out for the Nigerian stock market. The motivation stems from the fact that accurate and dependable predictions are critical for government planning and policy-making, as well as for enterprises and other investors. Ezeoha, Ogamba, and Okereke (2009) investigated the nature of the relationship between stock market development and investment flow in a country with high macroeconomic instability, and whether the stock market plays a uniform role in attracting both domestic and foreign investments in such a situation.

In the analysis, they employed a co-integration approach, and the annual data was extrapolated into quarterly data series. To overcome the problem of a lack of quarterly data from the official database in Nigeria, they employed the sandee and lisman technique to estimate quarterly data from annual data. According to the report, the development of the Nigerian stock market has been able to promote increase in domestic private investment flows over time, although Using data from 47 countries from 1976 to 1993, Levine and Zervos (1998), investigate whether measures of stock market liquidity, size, volatility, and integration with the world's capital markets are robustly correlated with current and future rates of economic growth, capital accumulation, and productivity improvement. The major theoretical disagreements on the relationship between the stock market and long-run economic growth can be empirically supported through investigation. The research also looks at whether banking stock market indicators are strongly linked to current and future economic development, capital accumulation, productivity growth, and private savings.

They discovered that stock market liquidity is positively and significantly correlated with current and future rates of economic growth, capital accumulation, and productivity growth, as measured by the value of stock trading relative to the size of the market and the value of trading relative to the size of the economy.

Methodology

The study employs an ex post facto research design. From 1990 through 2020, a sample of stock market capitalisation and GDP at the end of the year is chosen. Stock market turnover ratio and stock market value traded ratio versus GDP were utilized as measures of stock market development in this study. The data in this study was primarily derived from secondary data obtained from the CBN bulletin.

Data Presentation

Table 1.

Year	Stock Market Total Turnover Ratio	Stock Market Value Traded Ratio	GDP
1990	0.7875	0.0896	19,305.63
1991	0.82365	0.0986	19,199.06
1992	0.9905	0.1076	19,620.19
1993	1.2658	0.1088	19,927.99
1994	1.8567	0.1324	19,979.12
1995	2.3129	0.1897	20,353.20
1996	3.10013	0.6160	21,177.92
1997	3.88736	0.9164	21,789.10
1998	5.47332	1.1163	22,332.87
1999	1.72902	0.1896	22,449.41
2000	7.58344	0.2096	23,688.28
2001	10.3182	0.2286	25,267.54
2002	8.59686	0.2295	28,957.71
2003	11.8475	0.2314	31,709.45
2004	11.2751	1.2323	35,020.55
2005	9.80273	1.1093	37,474.95
2006	12.6521	1.5237	39,995.50
2007	29.4023	6.2984	42,922.41
2008	23.2224	4.9605	46,012.52
2009	12.7086	1.5392	49,856.10
2010	12.4158	1.4124	54,612.26
2011	8.643	0.9560	57,511.04
2012	8.61965	0.8985	59,929.89
2013	9.13153	1.2243	63,218.72
2014	7.12705	0.9389	67,152.79
2015	7.97186	0.8391	69,023.93
2016	4.30678	0.3731	67,931.24
2017	7.09016	0.5871	68,490.98
2018	8.6524	0.6511	69,799.94
2019	8.8564	0.6062	71,387.83
2020	9.0254	0.5741	75,892.51

Source: Central Bank of Nigeria (CBN) Statistical Bulletin Vol 29, 2020

The model

$$GDP_i = \beta_0 + \beta_1 TOVR_i + \beta_2 VTR_i + \varepsilon_i$$

Where;

GDP = Gross Domestic Product

TOVR = Stock market total turnover ratio

VTR = Stock market value traded ratio

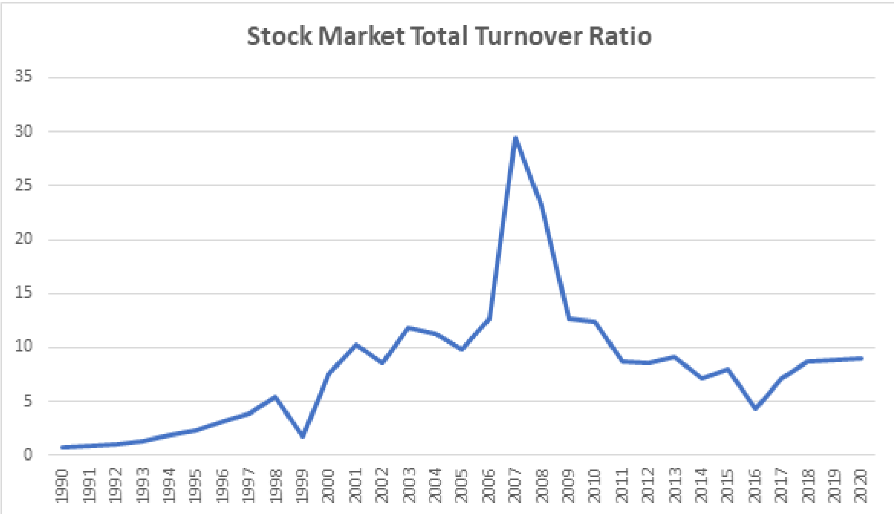
ε = Error term or disturbance term

Data Analysis and Interpretation of Result

Attempts are frequently undertaken in econometric analysis to uncover and establish existing relationships between the various economic variables involved in the investigation. To that end, the impact of the Nigerian stock market on GDP was examined in this paper (1990-2020). This is accomplished by determining the type of relationship that exists between the dependent variable (GDP) and the independent variables (stock market turnover ratio and stock market value traded ratio). For regression analysis, the paper used Econometric views (E-views 12), stationarity tests with Augmented Dickey-Fuller Unit Root Tests, and Johansen Cointegration.

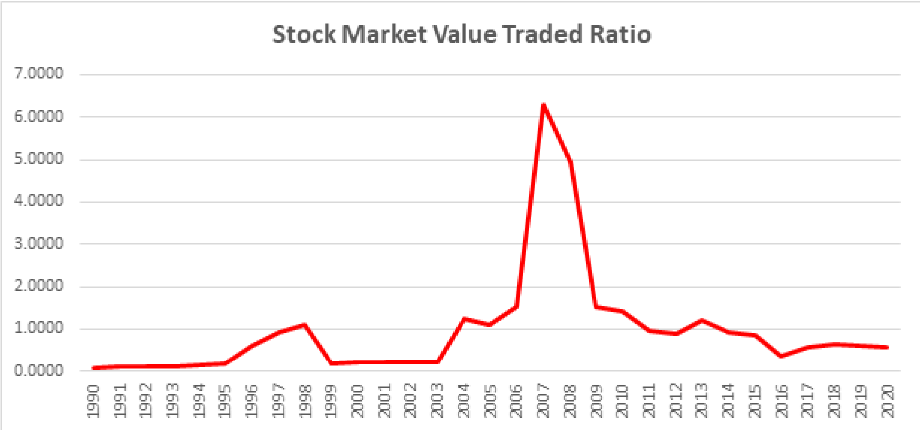
Descriptive Analysis

Fig. 1: Stock Market Total Turnover Ratio



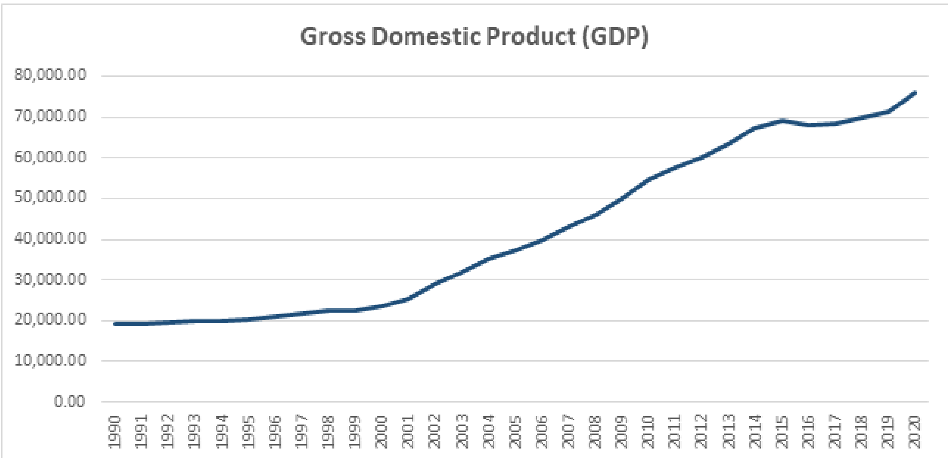
Stock Market Turnover Ratio had a stationary trend from 1990 to 1998 and later experienced a gradual and fluctuating upward movement from 1999 to 2006. Stock Market Turnover Ratio experienced a sharp rise from 2006 to 2007 and later experienced a fluctuation between 2009 to 2018 and later experienced a relatively stable trend between 2018 and 2020

Fig. 1: Stock Market Value Traded Ratio



Stock Market Value Traded Ratio had a stationary trend from 1990 to 2003. There was a sharp upward trend between 2004 and 2007. Stock Market Value Traded Ratio had a sharp downward trend between 2007 and 2010 and later fluctuated gradually between 2011 and 2020.

Fig. 2: Gross Domestic Product (GDP)



Gross domestic product had a stationary trend from 1990 to 2001 and later experienced a steady upward movement from 2002 to 2015 and later Gross Domestic Product experienced an upward trend from 2016 - 2020

Unit Root Test

Table 2 Augmented Dickey-Fuller Unit Root Test

The Result of the unit root tests are presented in table 2

Table 2: Results of Unit Root Test

Variable	ADF Lags	ADF test statistics with constant but no linear trend	Critical Value for ADF at 95%	Order of Integration
D (TOVR)	1	-5.434321	-2.967767	1
D (VTR)	1	-5.353242	-2.971853	1
D(GDP)	2	-4.611125	-2.971853	1

Table 2 shows that, with the exception of GDP, all variables (stock market turnover ratio and stock market value traded ratio) have a stationary trend in their initial difference. Each's ADF test results are smaller than the absolute value, or 95 percent critical value. The Augmented Dickey-Fuller test statistic should be bigger than the chosen critical values if the variables are stationary. Except for GDP, all variables (stock market turnover ratio and stock market value traded ratio) are stationary at the first different level of differencing, as indicated in table 2. However, after the first differencing, the levels of the differencing demonstrate that the stock market turnover ratio and stock market value traded ratio remain stationary.

Co-Integration Test

Table 3: Johansen co-integration test Result

Date: 10/11/21 Time: 10:43
Sample (adjusted): 1992 2020
Included observations: 29 after adjustments
Trend assumption: Linear deterministic trend
Series: TOVR VTR GDP
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.401265	22.89804	29.79707	0.2511
At most 1	0.239481	8.022886	15.49471	0.4630
At most 2	0.002892	0.084001	3.841465	0.7719

Trace test indicates no cointegration at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

The Johansen co-integration test is used to find co-integrating sectors utilizing unit root test residuals and ordinary least square (OLS) regression analysis. There are co-integration vectors in the non-stationary time series, according to the Johansen co-integration test result. However, the presence of co-integration implies that the series have a fixed long-run connection. There is also a stationary long term equilibrium relationship between the variables, according to the Johansen co-integration test at a 5% significance level (Gross Domestic Product, Stock market turnover ratio and stock market value traded ratio). The hypothesis of any long-run equilibrium link between the variables was examined using Johansen co-integration methodology in this study.

In the long run, co-integrated factors will restrict the relationship to equilibrium. In non-stationary time series, the Johansen technique uses maximum likelihood estimations to determine the presence of co-integrating vectors. The number of co-integrating vectors is determined by the trace and eigen value tests. This implies that the variables have fixed long-run equilibrium relationships.

Table 4: Regression Analysis

Dependent Variable: GDP
Method: Least Squares
Date: 10/11/21 Time: 10:46
Sample: 1990 2020
Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	27886.88	6482.840	4.301646	0.0002
TOVR	2717.618	1197.791	2.268859	0.0312
VTR	-8477.418	5580.147	-1.519211	0.1399

R-squared	0.182728	Mean dependent var	41677.12
Adjusted R-squared	0.124352	S.D. dependent var	20265.87
S.E. of regression	18964.01	Akaike info criterion	22.63024
Sum squared resid	1.01E+10	Schwarz criterion	22.76901
Log likelihood	-347.7687	Hannan-Quinn criter.	22.67548
F-statistic	3.130163	Durbin-Watson stat	0.091509
Prob(F-statistic)	0.059311		

The result of the regression equation is presented below:

$$GDP = \beta_0 + \beta_1 TOVR + \beta_2 VTR + \varepsilon_i$$

$$\underset{(4.3016)}{GDP = 27886.88} + \underset{(2.2689)}{2717.618 TOVR} - \underset{(-1.5192)}{8477.418 VTR}$$

* The parenthesized figures below the coefficients are the t-values.

R-Square: 0.182728
Adjusted R-square: 0.124352
Standard Error: 189640
F-Statistics: 3.1302
Durbin Watson: 0.091

The Findings

With a t– ratio of 2.2689, the Stock Market Turnover Ratio is positive, and it has a positive and strong impact on Gross Domestic Product, with a coefficient of 27147.618. The sign indicates that the Stock Market Turnover Ratio's coefficient is favorably related to GDP. With a t– ratio of -1.519211, the Stock Market Value Traded Ratio is found to be negative, and it has a negative and negligible impact on Gross Domestic Product, with a coefficient of -8477.418. The sign indicates that the Stock Market Value Traded Ratio coefficient is adversely related to GDP.

Coefficient of Determination (R^2)

The R-Square is 0.182728, indicating that the dependent variable, Gross Domestic Product, and the independent variables, Stock Market Turnover Ratio and Stock Market Value Traded Ratio, have a strong positive association. The corrected R2 of 0.124352 indicates that the Independent variables are responsible for 12% of the total change in Gross Domestic Product (Stock Market Turnover Ratio and Stock Market Value Traded Ratio).

F-TEST

If F*>F, we reject the null hypothesis and if otherwise, we accept the null hypothesis. Given the results on the ANOVA table, the observed F* = 3.130163

At 5% level of significance, our theoretical F, given our level of significance and degree of freedom is $F_{0.05}$= 3.130163 comparing these values

$F^* > F_{0.05}$

i.e. 3.130163> 3.23

The conclusion from such result is that we reject our null hypothesis that all bi are zero and accept our alternative hypothesis that all bi different from zero.

Table 5: Vector Error Correction

Vector Error Correction Estimates
Date: 01/02/22 Time: 11:04
Sample (adjusted): 1993 2020
Included observations: 28 after adjustments
Standard errors in ( ) & t-statistics in [ ]

Cointegrating Eq:	CointEq1		
TOVR(-1)	1.000000		
VTR(-1)	-2.310370		
	(0.59027)		
	[-3.91410]		
GDP(-1)	6.04E-06		
	(3.0E-05)		
	[0.20278]		
C	-6.427393		
Error Correction:	**D(TOVR)**	**D(VTR)**	**D(GDP)**
CointEq1	0.076043	-0.000365	346.3078
	(0.51178)	(0.13361)	(104.017)
	[0.14858]	[-0.00273]	[3.32933]
D (TOVR(-1))	-0.250399	0.043546	-160.8611
	(0.72099)	(0.18823)	(146.537)
	[-0.34730]	[0.23134]	[-1.09775]
D (TOVR (-2))	-0.573611	-0.123355	-5.896540
	(0.56926)	(0.14862)	(115.699)
	[-1.00765]	[-0.83000]	[-0.05096]
D (VTR (-1))	0.527758	-0.089593	127.2431
	(2.38827)	(0.62352)	(485.405)
	[0.22098]	[-0.14369]	[0.26214]
D (VTR (-2))	0.707429	0.022843	-52.52607
	(1.93214)	(0.50444)	(392.699)
	[0.36614]	[0.04528]	[-0.13376]
D (GDP (-1))	-0.000570	-0.000155	0.307617
	(0.00119)	(0.00031)	(0.24090)
	[-0.48080]	[-0.50177]	[1.27697]
D (GDP (-2))	-0.000548	6.73E-05	-0.358426
	(0.00107)	(0.00028)	(0.21791)
	[-0.51116]	[0.24050]	[-1.64486]
C	2.546624	0.207984	2129.289
	(2.83151)	(0.73925)	(575.494)
	[0.89939]	[0.28135]	[3.69993]
R-squared	0.194841	0.226808	0.705770
Adj. R-squared	-0.086965	-0.043809	0.602790
Sum sq. resids	446.3033	30.42088	18436281
S.E. equation	4.723893	1.233306	960.1115
F-statistic	0.691400	0.838116	6.853435
Log likelihood	-78.49340	-40.89123	-227.2971
Akaike AIC	6.178100	3.492230	16.80693
Schwarz SC	6.558730	3.872860	17.18756
Mean dependent	0.286961	0.016661	2009.726
S.D. dependent	4.530981	1.207148	1523.391
Determinant resid covariance (dof adj.)		3895329.	
Determinant resid covariance		1419581.	
Log likelihood		-317.5130	
Akaike information criterion		24.60807	
Schwarz criterion		25.89270	
Number of coefficients		27	

The R-squared value (0.194841) implies that fluctuations in the exogenous variables (Gross Domestic Product and Stock Market Value Traded Ratio (VTR) in the model account for 19% of overall variations in Stock Market Turnover Ratio (TOVR). The F-statistic (0.691400) shows that the entire model is statistically and significantly correct in explaining the phenomenon. The evidence from the long-run regression estimate demonstrates that the Stock Market Turnover Ratio (TOVR) has a considerable positive effect on Gross Domestic Product and the Stock Market Value Traded Ratio (VTR).

The R-squared value (0.226808) implies that variations in the exogenous variables (Gross Domestic Product and Stock Market Turnover Ratio (TOVR) in the model account for 23% of overall variations in Stock Market Value Traded Ratio (VTR). The F-statistic (0.838116) shows that the entire model is statistically and significantly correct in explaining the phenomenon. The long-run regression estimate demonstrates that the Stock Market Value Traded Ratio (VTR) has a considerable positive effect on GDP and Stock Market Turnover Ratio (TOVR).

The R-squared value (0.705770) implies that fluctuations in the exogenous variables (Stock Market Value Traded Ratio (VTR) and Stock Market Turnover Ratio (TOVR) in the model explain 71 percent of the total variations in Gross Domestic Product. The Fstatistic (6.853455) shows that the entire model correctly and significantly explains the phenomena. The evidence from the long-run regression estimate demonstrates that Gross Domestic Product has a considerable positive effect on the Stock Market Value Traded Ratio (VTR) and Stock Market Turnover Ratio (TOVR).

Conclusion

According to the analysis, the Nigerian stock market is illiquid and has a high transaction cost. Investors will find it more difficult to convert their equities into cash if liquidity is low.

Recommendations

The cost of transactions in the Nigerian stock market, as well as the methodology used to determine stock prices, should be evaluated in order to reduce the cost of raising capital. The cost of buying and selling stock should be lowered, and market forces should be free to set stock prices. There is a need for additional innovative products to be introduced into the market so that investors can diversify their risk and rewards in different ways.

In order to pursue market development strategies, Nigeria's present growth and investment patterns must be consolidated, if not improved, in order to infuse stronger demand for stock market activities, allowing domestic and international investors to invest safely in the market.

There is a need for efficient rules that can contribute to the transparency and efficacy of Nigerian stock market activities, as well as make the investment environment more conducive. For efficient trading activities, the infrastructure must be enhanced. More international investors will be attracted as a result, and investor trust will be restored.

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