

Impact of Nigerian Capital Market Instability on the Growth of the Economy (1990-2011)

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ABSTRACT This work examined the impact of capital market reform on the growth of Nigerian economy. The purpose of this paper was to ascertain the impact of capital market reform proxied by Market Capitalization, All Share Index and Total Volume of Transaction on the growth of Nigerian economy proxied by gross domestic product (GDP). It has been postulated that if capital market reforms are effective, the economy will grow well. The scope of the study spanned from 1990 to 2011. A stationarity test was carried out using the Augmented Dickey-Fuller test (ADF) and Phillip-Perron test (PP) and stationarity found at first difference at 5% level of significance. The Johansen-Juselius co-integration technique employed in this study proved to be superior to the Engle and Granger (1987) approach in assessing the co-integrating properties of variables, especially in a multivariate context. The result of the test indicates 1 co-integration equations at 5 percent level of significance. The study also applied Vector Error Correction Model (VECM) to determine the short-run relationship between capital market reform and economic growth in Nigeria. The result of our analysis shows that capital market reform significantly influences the rate of economic growth in Nigeria. The study also found that long-run relationship exists between capital market reform and economic growth in Nigeria. We therefore recommend that, having seen that there exists a long-run relationship between GDP and explanatory variables (MACP, ALSI and TVT) through the use of co-integration test; it implies that government can adopt policies that will help capital market contribute to the growth of Nigerian economy and lastly, to boost All Share Index in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, futures, swaps, and options in the market.

1. INTRODUCTION

In both developed and developing countries, the role of the capital market to any economy cannot be overemphasized. It has been discovered that there is a direct linkage between the capital market of a nation and its economic growth (Nwankwo 2001; Olowookere and Osunubi 2007; Kalu 2009; Nwachukwu 2009 in Olaoye 2011). Since the capital market reform indicates stability in the economy and instability of capital market indicates instability in the economy of any nation, Nigeria capital market reform and its impact on the Nigerian economy cannot be left out. In Nigeria, the capital market before the recent reforms happened to be one of the most profitable investment havens in the economy (George 2009). Capital market is a market for financial assets which have a long or indefinite maturity. Unlike money market instruments the capital market instruments become mature for the period above one year. It is an institutional arrangement to borrow and lend money for a longer period of time (Obinwogu 2012). Globally, stock exchanges were established for the purpose of facilitating,

regulating and controlling the business of buying and selling securities. Also it provides facility for buying and selling securities that have been listed for trading on that exchange market (Azu 2012).

Financial market, which comprises the capital and money markets as well as other sub markets, plays crucial roles in the functioning of any modern economy. The money market provides the mechanism through which short-term funds and other financial instruments, with maturity of less than one year, are sold and purchased, while funds with maturity of more than one year are transacted in the capital market (CBN 2007). The money market is distinguished from the capital market on the basis of the degree of tenure of instruments bought and sold in each of these markets. Oyejide (1994) opined that the money market primarily exists as a means of liquidity adjustment, while capital market provides the bridge by which the saving of surplus units may be transformed into medium and long term investments in deficit units.

The recent financial crisis shows that the first financial crisis to be the Great Depression of 1929-1933 was originated in the US and was

preceded by over a hundred episodes of financial instability (CBN 2009). It is pertinent to note that 75 per cent of this instability had either been caused by the capital market or had affected the capital market which in return will effect economic growth on any nation.

Following the reforms carried out between 2003 and 2008 in the Nigerian banking sector, the capital market deepened and public awareness and involvement increased significantly. This development indicates that the interrelationship between the CBN and capital market in achieving economic growth cannot be understated.

As a segment of the financial system, the Nigerian capital market has evolved with the growth of the Nigerian economy. The market has been predominantly equities-driven with the banking sector making up an important proportion of total market capitalization.

Sequel to the 2008, the market enjoyed a decade of unprecedented growth, driven principally by the banking sector reform. Market Capitalization (MC) rose by 318.3 per cent, from N2.90 trillion in December 2005 to N12.13 trillion in March 2008, while the All-Share Index (ASI) also rose by 161.6 per cent with the index rising from 24,085.8 in December 2005 to 63,016.56 in March 2008 (NSE 2009). This increase in Nigeria capital market indicators has shown remarkable economic growth with an average economic growth of 10.03 per cent from 2001 to 2009.

Across the globe, the year 2011 was a dull year for equity markets as uncertainty underlay key economies for the most part of the year and as the worsening Eurozone debt crisis and the lack of definite direction on solutions to the problem triggered further flight by investors to safety. In the Nigerian market, for instance, the major capital market indicators had recorded significant losses in the year 2011, with the Nigerian Stock Exchange's All-Share Index falling by 16.3 per cent from 24,770.52 points in January 2011 to 20,730.63 points on the last trading day of 2011. Similarly, the market capitalisation of the 186 listed equities lost 17.4 per cent from N7.91tn at the beginning of the year to N6.53tn, December 30, 2011. The Nigerian capital market has also recorded some instability since the beginning of this year 2012, with the market capitalisation of the listed equities dropping by N77bn or 1.2 per cent from N6.579tn at the

beginning of February to N6.502tn. Similarly, the Nigerian Stock Exchange's All-Share Index has recorded a decline by 244.45 basis points or 1.2 per cent in the same period (CBN 2012).

Oke and Adeusi (2012) opine that the capital market has over the years been performing its traditional role. Also the capital market has been identified as an institution that contributes to the socio-economic growth and development of emerging and economies. This is made possible through some of the vital roles played such as channeling of resources, promoting reforms to modernize the financial intermediation capacity so that it can link deficit to the surplus sector of the economy and a veritable tool in the mobilization and allocation of savings among competitive uses which are critical to the growth and efficiency of the economy. With the help of reforms in Nigerian capital market, the market can help to channel capital or long-term resources to firms with relatively high and increasing productivity thus embracing economic expansion and growth (Alile 1997).

The Nigeria capital market which is supposed to be an avenue for sourcing long-term funds to finance long-term projects is not as developed as her foreign counterpart. It has therefore not been able to judiciously perform its primary obligation of meeting long-term capital needs of the deficit sectors, through efficient mobilization of funds from the surplus unit of the economy, and effectively channeling the mobilized funds for more economic use which leads to capital market reform. According to the generalized Fisher hypothesis, equity stocks, which represent claims against the real assets of a business, may serve as a hedge against macroeconomic indicators. Consequently, investors would sell financial assets in exchange for real assets when expected inflation is pronounced. In such a case, stock prices in nominal terms should fully reflect expected rate of macroeconomic indicators and the relationship between these two variables should be found positively correlated (Mondher et al. 2013; Arunma 2013; Owolabi and Ajayi 2013; Kingsley 2013). Sequel to this, this study is faced with the problem of ascertaining the impact of capital market reform on the growth of Nigerian economy.

This paper is organized as follows; section one is the introduction while section two reviews the empirical and theoretical literature on monetary policy instrument; section three discusses the models and methodology while section four

provides data and empirical evidence and the final section which is section five provides the summary, conclusion and recommendations of the study.

1.1 Objectives of the Study

The main objective of this study is to investigate the impact of capital market instability on the growth of Nigerian economy. Specifically, the study seeks to determine the impact of all share index, market capitalization, total value of transaction on economic growth in Nigeria.

The assumption of this theory is that, capital market reform is not achieved automatically in deviations of the actual rates of growth from the guaranteed rate and it gives rise to cyclical fluctuations; deviations of the guaranteed rate of growth from the natural rate (that is, from the rate of growth corresponding to the rate of growth of the population) cause protracted negative trends in the form of economic stagnation or inflation.

The maintenance of stable economic growth in any nation requires the stability of the country's capital market, the government intervention in terms of regulation and the use of monetary policies to regulate and ensure price stability in Nigerian capital market.

2. REVIEW OF LITERATURE

2.1 Empirical Review

There has been growing concern on the role of capital markets on the growth of any nation's economy (Oyejide 1994; Levine and Zervos 1996; Demirgüç-kunt and Levine 1996; Nyong 1998; Sule and Momoh 2009; Ewah et al. 2009). There have been mixed results; while some are in support of a positive relationship, some negative relationship and others do not find any empirical evidence to support such conclusion. For instance, Ezeoha et al. (2009) using quantitative research design to investigate the relationship that exists between stock market development and the private investment growth in Nigeria. They discovered that stock market development promotes domestic private investment growth and that the stock market development has not been able to encourage the flow of foreign private investment into Nigeria.

Ahmed (2009) studied the effect of liberalization on the stock return volatility in Nige-

rian Stock Exchange using ARCH model. He found out that the capital market has the capacity to create wealth and provide long-term capital needed for development of nation's economy. Ujunwa and Salami (2010) used ordinary least square regression to investigate stock market development and economic growth in Nigeria. They found out that stock market size and turnover ratios are positive in explaining economic growth while stock market liquidity coefficient was negative in explaining long-run growth in Nigeria.

Aremu et al. (2011) used quantitative research design to investigate the impact of Nigerian capital market operations on the local investment in Nigeria. The result shows that there is a strong empirical relationship between Nigerian capital market operations and the local investors in the market. Kolapo and Adaramola (2012) used Johansen co-integration and Granger causality tests to investigate the impact of the Nigerian capital market on economic growth. Their result shows that the Nigerian capital market and economic growth are co-integrated; meaning that there is relative positive impact the Nigerian capital market on the economic growth of the country.

Oke and Adeusi (2012) in a study "Impact of Capital Market Reforms on Economic Growth: The Nigerian Experience" using co-integration and ordinary least square regression. The study reveals that capital market reform positively impact on the growth of Nigerian economy on the long run.

In a recent study by Mondher et al. (2013) on impact of macroeconomic factors on stock exchange prices: Evidence from USA, Japan and China using Autoregressive Distributive LAG ARDL Co-integration approach. The study found different result from one country to another. The result shows that USA Economy was most affected by financial crises in 2007; Japanese economy slump after 1990 and China is least affected economy by financial crises, 2007. Samina and Ayub (2013) used co-integration and error correction techniques to investigate the impact of bank specific and macroeconomic indicators on the profitability of commercial banks. The study found out that there is significant impact of bank specific variables (asset size, total deposits to total assets, credit) and macroeconomic variables on ROE and credit risk and

interest rate have also a significant impact on ROA. This study falls to recommend the next line of action after identifying the effect of macroeconomic variables and bank specific indicators on bank profitability and did not state whether the effect is negative or positive which is a research gap.

2.2 Theoretical Framework

The theoretical framework we used in this study is the Capital Asset Price theory developed by William (1964). In exposition, Capital Asset Pricing theory predicts the behaviour of capital market in absence of a positive microeconomic theory dealing with the condition of risk involved in the market.

2.3 Capital Market Reform

Capital market reforms are predicted upon the need for reorientation and repositioning of existing market in order to attain an effective and efficient capital market. Okeke (2009) in Oke and Adeusi (2012) posits that reforms are deliberate actions by the government to fast track, jump start and consolidate specified sector of the economy to achieve desired objectives.

Also, financial reforms, according to Ebong (2006) are deliberate policy responsible for impending financial crises and subsequent failure. Reforms in the capital market are aimed at addressing issues such as government, risk management and operational inefficiencies. Like other emerging economies, Nigeria has been involved in financial reforms on a regular basis aimed at responding to the challenges posed by some factors and developments such as system crises, deregulation, globalization and technological innovations Oke and Adeusi (2012).

In Nigeria, financial sector reform was a component of the Structural Adjustment Programme (SAP) which kicked off in 1986. The introduction of Structural Adjustment Programme was on the heels of the rejection of IMF loan packaged with conditionality, a decision that rejected the consensus of a national debate. Some of the reforms created for the money market indirectly affected the capital market activities simultaneously. These include deregulation of interest rates, exchange rate, entry/exit into the banking business, establishment of the Nigeria Deposit Insurance Corporation (NDIC) to strengthening the regulatory and supervisory institu-

tions, upward review of capital adequacy, sectorial credit guidelines, capital market deregulation and the introduction of direct monetary policies instruments (Nnanna et al. 2004).

2.4 Functions of Nigerian Capital Market

There are salient functions which are performed by capital market in any economy. According to Ewah et al. (2009), functions of the Nigerian Capital Market include, among others, the following:

1. Provision of an additional channel for engaging and mobilizing domestic savings for productive investment
2. Fostering the growth of the domestic financial services such as life insurance and pension funds
3. Improving the efficiency of capital
4. Facilitating the transfer of business enterprises from the public sectors to the private sector
5. Providing access to finance for small and medium companies (Real Sector and Financial Analysis Sector Division 2007).
6. It provides opportunities for companies to borrow funds needed for long-term investment purposes.
7. It provides avenue for the marketing of shares and other securities in order to raise fresh funds for expansion of operations leading to increase in output/production.
8. It provides a means of allocating the nations real and financial resources between various industries and companies. Through the capital formation and allocation mechanism, the capital market ensures an efficient and effective distribution of scarce resources for the optimal benefit to the economy.
9. It reduces the over reliance of the corporate sector on short term financing for long term projects and also provides opportunities for government to finance projects aimed at providing essential amenities for socio-economic development.
10. The capital market can aid the government in its privatization programme by offering her shares in the public enterprises to members of the public through the stock exchange.
11. The capital market also encourages the inflow of foreign capital when foreign

companies or investors invest in domestic securities, provides needed money for creative capital development and acts as a reliable medium for broadening the ownership base of family owned and dominated firms (Sule and Momoh 2009).

However, the Nigerian capital market has performed fairly despite the numerous challenges and problems. Some of such bottlenecks militating against its effective performance include: the buy and hold attitude of Nigerians; ignorance of a large population of the Nigerian public of the nature and benefits of the capital market; few investment outlets in the market; lack of beneficial economic policies and political instability; public sector led economy; and less than full operation of innovations such as the Automated Trading System (ATS), Central Securities Clearing System (CSC), On-line and Remote Trading, Trade Alerts and Capital Trade points of the Nigerian Stock Exchange (Nwite 2005).

3. METHODOLOGY

3.1 Research Design

To capture the impact of capital market reform on the growth of Nigerian economy, the explanatory variables used are Market Capitalisation, All Share Index and Total Volume of Transaction. The growth of Nigerian economy was proxied by GDP at 1990 constant price. The data covers the period from 1990 to 2011. All the variables are taken on annual basis from various issues of the Central Bank of Nigeria (CBN) Statistical Bulletin.

3.2 Model Specification

The primary model showing the relationship between Economic Growth and Capital Market Reform is specified thus:

$$GDP = f(MACP, ALSI, TVT) \quad (1)$$

$$GDP_t = \alpha_0 + \alpha_1 MACP + \alpha_2 ALSI + \alpha_3 TVT + \mu \quad (2)$$

Where

GDP is Gross Domestic Product as a proxy for Economic Growth

MACP is the Market Capitalization, ALSI is the All Share Index, TVT is the Total Volume of Transaction,

α_0 is the constant term, 't' is the time trend, and ' μ ' is the random error term.

3.2 Estimation Technique

3.2.1 Unit Root Test

The first step involves testing the order of integration of the individual variables under consideration. Researchers have developed several procedures for the test of order of integration. The most popular ones are Augmented Dickey-Fuller (ADF) test due to Dickey and Fuller (1979, 1981), and the Phillip-Perron (PP) due to Phillips (1987) and Phillips and Perron (1988). Augmented Dickey-Fuller test relies on rejecting a null hypothesis of unit root test (the variables are non-stationary) in favor of the alternative hypotheses of stationarity. The tests are conducted with and without a deterministic trend (t) for each of the variables.

3.2.2. The Cointegration Test

The second step is the testing of the presence or otherwise of cointegration between the variables of the same order of integration through forming a cointegration equation. The basic idea behind cointegration is that if, in the long-run, two or more variables move closely together, even though the variables themselves are trended, the difference between them is constant. It is possible to regard these variables as defining a long-run equilibrium relationship, as the difference between them is stationary (Hall and Henry 1989). A lack of cointegration suggests that such variables have no long-run relationship: in principle, they can wander arbitrarily far away from each other (Dickey 1991). We employ the maximum-likelihood test procedure established by Johansen and Juselius (1990) and Johansen (1991) in testing.

4. DATA AND EMPIRICAL RESULTS

4.1 Unit Root Test

This involves testing for the stationarity of the individual variables using both the Augmented Dickey Fuller (ADF) and Phillips – Perron (PP) tests to find the existence of unit root in each of the time series variables. The results of both the ADF and PP tests are reported in Tables 1(Levels) and 2 (First Difference).

All the variables were not found stationary in levels but at first differencing. This can be

Table 1: ADF unit root test for stationarity

<i>Variables</i>	<i>T. statistics</i>	<i>Critical levels: 1%</i>	<i>5%</i>	<i>10%</i>	<i>Decision</i>
GDP	-1.700	-4.356	-3.595	-3.233	1(1)
MACP	-1.799	-4.356	-3.595	-3.233	1(1)
ALSI	-2.267	-4.374	-3.603	-3.238	1(1)
TVT	-2.0154	-4.356	-3.595	-3.233	1(1)

Table 2: PP unit root test for stationarity

<i>Variables</i>	<i>T. statistics</i>	<i>Critical levels: 1%</i>	<i>5%</i>	<i>10%</i>	<i>Decision</i>
GDP	-1.730	-4.356	-3.595	-3.233	1(1)
MACP	-1.799	-4.356	-3.595	-3.233	1(1)
ALSI	-2.059	-4.374	-3.603	-3.238	1(1)
TVT	-2.561	-4.356	-3.595	-3.233	1(1)

Source: E-View 7.0

seen by comparing the observed values (in absolute terms) of both the Augmented Dickey Fuller (ADF) and Phillips – Perron (PP) test statistics with the critical values (also in absolute terms) of the test statistics at the 1%, 5% and 10% level of significance. Result from Table 1 provides strong evidence of non-stationarity in level. Therefore, the null hypothesis is accepted and it is sufficient to conclude that there is a presence of unit root in the variables at levels.

As a result of the above result, all the variables were differenced once and both the Augmented Dickey Fuller (ADF) and Phillips – Perron (PP) tests were conducted on them as shown in Table 2. The coefficients compared with the critical values (1%, 5% and 10%) reveals that all the variables were stationary at first difference and on the basis of this, the null hypothesis of non-stationary is rejected and it is safe to conclude that the variables are stationary. This implies that the variables are integrated of order one, that is, 1(1).

4.2 Cointegration Test Result and Analysis

The result of the cointegration condition (that is the existence of a long term linear relation) is presented in Table 3 (Trace Statistics) and Table 4 (Maximum Eigenvalue) using methodology proposed by Johansen and Juselius (1990).

In the Cointegration tables, both trace statistic and maximum Eigenvalue statistic indicates 1 cointegration equation at the 5 percent level of significance, suggesting that there is cointegrating (or long-run) relationship between monetary policy instruments and economic growth in Nigeria. Since the null hypothesis was rejected, there is need to further subject the vari-

Table 3: Cointegration test results

<i>Hypotheses</i>	<i>Eigen-value</i>	<i>T. statistics</i>	<i>5% Critical value</i>	<i>Probability</i>
None*	0.764310	85.78639	47.85613	0.000
At most 1	0.410223	27.97695	29.79707	0.000
At most 2	0.144071	6.856530	15.49471	0.0023
At most 3	0.015721	0.633832	3.841466	0.0196

() denotes rejection of the hypothesis at 5% significance level.

Table 4: Max-Eigen statistic result

<i>Hypotheses</i>	<i>Eigen-value</i>	<i>Max. statistics</i>	<i>5% Critical value</i>	<i>Probability</i>
None*	0.764310	57.80944	27.58434	0.000
At most 1	0.410223	21.12042	21.13162	0.000
At most 2	0.144071	6.222698	14.26460	0.0023
At most 3	0.015721	0.633832	3.841466	0.0196

() denotes rejection of the hypothesis at 5% significance level

ables to vector error correction test which has led us to examine the errors that exist between monetary policy instruments and economic growth in Nigeria.

4.3 Vector Error Correction Model Analysis Results

As a cointegration relationship has been established among the variables then error-correction model can be estimated to determine the dynamic behavior of monetary policy instruments with respect to its determinants. With the help of econometric view (e-view) package, the VECM is run and presented in Table 5.

The Vector Error Correction Mechanism was used for this exercise. The result indicates that Market Capitalization (MACP) and Total Vol-

Table 5: Vector error correction estimates

Variable	Coefficient	Std. error	t-Statistic	Prob.
C	10.81458	2.641862	4.093544	0.0002
LOG (MACP)	0.315404	0.236998	1.330828	0.0002
LOG (ALSI)	-4.474711	1.085816	-4.121060	0.0002
LOG (TVT)	1.790744	0.598230	2.993403	0.0048
ECM (-1)	-0.961247	0.224071	-4.028326	0.0003

R-squared 0.985467 Mean dependent var 6.914854

Adj R-squared 0.948654 S.D. dependent var 5.722499

Akaike info criterion 4.735906

Schwarz criterion 4.901398 F-statistic 60.74884

Durbin-Watson stat 1.647324

Prob(F-statistic) 0.000000

Source: E-view 7.0

ume of Transaction (TVT) have significant positive impact on Economic Growth in Nigeria, while All Share Index has negative impact on Economic Growth in Nigeria.

The figure from the ECM is quite revealing. That is, the coefficient estimates of the constant and explanatory variables have alternated their signs as against the long-run relationship found in the normalized cointegrating equation. This shows exactly what is needed to be done in order to absolve the short-run dynamics of the relationships. The significance of ECM holds that a negative and statistical significant error correction coefficient is a necessary condition for the variables to be cointegrated. In this case, the error correction coefficient is -0.961247. The negative sign of the coefficient satisfies one condition while the fact that 0.985467 is different from zero satisfies the second condition of statistical significance. The coefficient reveals that the speed of adjustment between the short-run and long-run realities of the cointegrating equations is 96.12% every year.

4.4 Model Adequacy

We have made use of the following parameters to ascertain the adequacy of our model;

- (i) R^2 and adjusted R^2
- (ii) Akaike and Schwarz information criteria

R^2 and Adjusted R^2 : The R^2 of the model is 0.985467 while the adjusted R^2 is 0.948654 which is the coefficient of multiple determination indicates that our model satisfies the requirements for goodness of fit. The value shows that 98.55% and 94.87% of the total variation

in the economic growth (GDP) are adequately explained by changes in Market Capitalization (MACP), All Share Index (ALSI) and Total Volume of Transaction (TVT).

Akaike and Schwarz: The values of 4.735906 and 4.901398 for the Akaike and Schwarz fall within the acceptable region of 0.05 and therefore confirm the adequacy of the chosen model. This means that the variables form a good fit for the model. Finally, the results of the study do provide a strong support for the hypotheses that Capital Market Reform has a significant effect on the growth of Nigerian economy (Gross Domestic Product): hence, acting as a blood vein to the enhancement of economic growth in Nigeria. This is because the stability of Capital Market will enhance the growth of Nigerian economy in the long-run.

5. DISCUSSION

This paper sought to examine the impact of capital market reform on the growth of Nigerian economy from 1990-2011. The capital market reform was captured using Market Capitalization (MACP), All Share Index (ALSI) and Total Volume of Transaction (TVT) while economic growth was captured using Gross Domestic Product (RGDP) as proxied. On the application of advanced econometric techniques (Augmented Dickey Fuller (ADF) and Phillips Perron (PP) unit roots, Johansen Co-integration Test and Vector Error Correction Mechanism), the following surfaced; none of the variables was stationary at zero level. This means that they all have unit roots, that is, they were all differenced before stationarity was achieved. The essence is to avoid spurious result. The four variables became stationary at first difference by ADF and PP application.

There exist a long-run equilibrium relationship between capital market reform and economic growth. This was achieved through the use of co-integration test. Market Capitalization and Total Volume of Transaction (MACP and TVT) were positively correlated with GDP by 0.315404 and 1.790744 respectively while All Share Index (ALSI) was negatively and significantly correlated with GDP by -4.474711 based on the long-run test. The joint influence of the explanatory variables is statistically significant. This was very well echoed by the F-statistics gotten as 60.74884 which test the entire regres-

sion plane. The short-run dynamics adjusts to the long-run equilibrium at rate of 94.87% per annum. This study is in line with the work of Ujunwa and Salami (2010), Aremu et al. (2011), Oke and Adeusi (2012) and Mondher et al. (2013).

6. CONCLUSION

Based on the research findings, Capital Market Reform is vital for economic growth in Nigeria. In the era of an ever changing global economic environment, especially now that the current economic approach of most countries is gearing towards transforming their system for rapid and sustained economic growth, Nigeria cannot be left out.

The F-statistic is significant at the 5% level showing that there is a linear relationship between the GDP and the three independent variables. On the basis of a priori expectation, only the coefficient of the All Share Index had negative sign while the other two variables (MACP and VOT) were correct and positively signed. This implies that a unit decrease in ALSI results to a decrease in the GDP because of its negative impact. The implication is that the economy will respond favourably to measures taken to increase the level of All Share Index and government stock in the Nigerian Stock Exchange. Similarly, a unit increase in MCAP and VOT increases the growth of Nigerian economy as proxied by GDP.

Based on these, we conclude: that there is significant impact of market capitalization on the growth of Nigerian economy; that there is significant impact of All Share Index on the growth of Nigerian economy; and that there is significant impact of Volume of Transaction on economic growth in Nigeria. This means that capital market reform can contribute to the growth of Nigerian economy on the long-run.

7. RECOMMENDATIONS

From the findings of this study, the following recommendations are hereby made to improve the use and level of reliance of impact of capital market reform on the growth of Nigerian economy.

1. Having seen that there exists a long-run relationship between GDP and explanatory variables (MACP, ALSI and TVT) through

the use of co-integration test, it implies that government can adopt policies that will help capital market contribute to the growth of Nigerian economy.

2. Government should improve in the dealing of market capitalization by encouraging more foreign investors to participate in the market.
3. There should be public awareness campaign by capital market operators especially now that the country is coming out of the global economic crisis.
4. Lastly, to boost All Share Index in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, futures, swaps, and options in the market.

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