IMPACT OF CAPITAL MARKET ON INDUSTRIAL SECTOR PERFORMANCE IN NIGERIA

(1970-2012)

BY

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AUGUST, 2015.

CERTIFICATION

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DEDICATION

I dedicate this project to God Almighty, who has been my helper, provider, shepherd, giver of wisdom, knowledge and understanding, all through my young life. And to my family for their prayers, care and support, I am truly grateful.

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ABSTRACT

The study empirically investigated the impact of capital market on industrial sector performance in Nigeria between 1970-2012. The capital market was set up to achieve specific objectives which would boost the economy such as encourage domestic savings and increasing the quantity and quality of investments. The industrial sector performance was proxy by industrial output. Capital market variables considered include market capitalization, total new issue, volume of transaction, and total listed securities. The econometrics data analysis techniques of ordinary least square (OLS), co-integration/error correction model and granger causality test were utilized. The study revealed that capital market indices had not impacted significantly on the industrial sector during the period under study. Based on the findings of this study, it is recommended among others that regulators of the Nigerian capital market should encourage small & medium scale industries, oil and gas companies, telecommunication firms and electricity companies to list on the Exchange by reducing their fees, relaxing stiff conditions and equally adopt a zero –tolerance policy against all infractions in the market. Most importantly, government should put in place necessary infrastructures and policy reforms that will enable the Nigerian capital market to effectively and efficiently mobilize long-term funds for the development of the industrial sector which is the engine room of inclusive growth and job creation. The study recommends among others that government should objectively evaluate enacted laws and reforms agenda in a manner that will enhance economic growth rather than considering political issues before embarking on reforms.

Key words: *market capitalisation, industry, economy, development, growth, performance, stock, shares, mobilisation, trading floor*

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The capital market has been known as an organization that donates to the socio-economic growth and development of evolving and advanced economies in the world. This is made probable through some of the key parts played such as directing possessions, endorsing reforms to improve the monetary sectors, financial intermediation volume to link shortfall to the extra area of the economy, and a absolute tool in the enlistment and distribution of investments among competitive uses which are serious to the growth and effectiveness of the economy (Alile 1984).

It helps to station capital or lasting possessions to firms with moderately high and accumulative productivity hence attractive economic extension and growth is ensured according to (Alile 1997). Similarly, Ekundayo (2002) argues that a nation needs a lot of home and foreign funds to attain maintainable economic growth and development. However, this can be realized vis-a-vis the engine room of the capital market. Conversely, the lack of lasting capital has posed the highest difficulty to economic development in most African countries including Nigeria.

Osaze (2000) sees the capital market as the motorist of any economy to growth and development because it is vigorous for the long-term growth capital creation. In the same vein, it is relevant in the mobilization of savings and directing of such savings to gainful self-liquidating speculation.

The Nigerian capital market provides the essential grease that keeps rotating the helm of the economy. It does not only offer the resources required for investment but also competently distributes these resources to developments of best returns to fund bearers. This allocative function performed by the capital market is very significant in shaping the aggregate growth of the economy. It should be noted that, the operation of the capital market affects liquidity, gaining of information from firms, danger variation, savings utilization and company control as opined by (Anyanwu 1998). Therefore, by changing the value of these services, the stock market has the potential to change the degree of economic growth attainable in an economy as suggested by (Equakun 2005). On the other hand, Okereke-Onyiuke (2000) postulated that the inexpensive source of funds from the capital market remains a serious component in the maintainable development of the economy. She further evaluated the benefits of capital market funding to

include no short refund period as resources are held for medium and long term period or in perpetuity, funds to state and local government without burdens and plenty time to refund loans.

In 1986, Nigeria comprised the International Monetary Fund (IMF)-World Bank Structural Adjustment Program (SAP) which inclined the economic policies of the Nigerian administration and led to reforms in the late 1980s and early 1990s. The program was projected as an economic platform to increasingly and efficiently transform the Nigerian economy within two years (Yesufu 1996). However, until SAP was abandoned in 1994, the aims were not met due to the incapability of administration to carefully carry out some of its policy measures Oyefusi and Mogbolu 2003). The famous improvements include monetary and fiscal policies, sectorial reforms such as exclusion of oil subsidy in 1988 to the tune of 80%, interest rate deregulation from August 1987, monetary market improvement and public division improvements which involves the full or incomplete transfer and commercialization of about 111 public owned enterprises. The Nigerian stock Exchange market was to play a vital part during the offer for sale of the shares of the pretentious enterprises (World Bank 1994; Anyanwu 1993; Anyanwu et al. 1997; Oyefusi and Mogbolu 2003).

Over and above all, it should be worthwhile to note that the introduction of SAP in Nigeria has produced a very significant growth of the country's capital market as a result of deregulation of the financial sector and the privatization exercise which bare investors and companies to the consequence of the capital market (Alile1996;Soyode 1990). Ariyo and Adelegan (2005) opine that the liberalization of capital market led to the growth of the Nigerian capital market yet its effect at the macro-economy level was found to be insignificant. Again the capital market was instrumental to the initial 25 banks that were able to meet the minimum capital requirement of ₦25billion during the banking sector consolidation in 2005.The capital market has helped government and business units to increase lasting capital for funding new projects, and increasing and updating industrial/commercial concerns (Nwankwo 1991).

Given the roles the capital market has played during the privatization of public owned enterprises, recent recapitalization of the banking sector and avenue of long term funds to various government and corporations in Nigeria.

The major focus of this research is to empirically assess the impact of capital market to industrila output performance in Nigeria.

1.2 STATEMENT OF THE PROBLEM

There is abundant evidence that most Nigerian businesses lack long-term capital. The business sector has depended mainly on short-term financing such as overdrafts to finance even long-term capital. Based on the maturity matching concept, such financing is risky. All such firms need to raise an appropriate mix of short- and long-term capital (Demirguc-Kunt& Levine 1996). Most recent literatures on the Nigeria capital market have recognized the tremendous performance the market has recorded in recent times. However, the vital role of the capital market in economic growth and development has not been empirically investigated thereby creating a research gap in this area. This study is undertaken to examine the contribution of the capital market in the Nigerian economic growth and development. Aside the social and institutional factors inhibiting the process of economic development in Nigeria, the bottleneck created by the dearth of finance to the economy constitutes a major setback to its development. As a result, it is necessary to evaluate the Nigerian capital market.

The impact of the capital market on the growth and development of theeconomy has not been significantly felt (Babalola, 2007) as a result of lowmarket capitalization, slow growth of securities market, problem of manual call, delay in delivery of share certificate, double taxation, problem of macro-economic instability among others. Also many criticisms have been leveled against the capital market's inability to perform effectively. It is against this back drop that the researcheris poised to analyse the impact of the capital market on the economic growthand development of Nigeria, the extent to which capital market contributes tothe economy of Nigeria.

1.3 OBJECTIVES OF THE STUDY.

The broad objective of this research work is to check the impact of capital market performance on industrial sector performance in Nigeria. While the specific ones are as follows:

I. To determine whether the capital market increase the growth of the Nigerian economy.
II. To disapprovingly inspect whether capital market improve and endorse investment in Nigerian economy.
III. To assess the part and act of capital market in relative to industrial growth in Nigeria
IV. To recognize the encounters facing the capital market.

1.4 RESEARCH HYPOTHESIS

The following hypothesis will be tested

Hypothesis I

H_o: The capital market does not enhance the growth of the Nigerian economy

H_I: The capital market still enhance the growth of the Nigerian economy

Hypothesis II

H_o: The capital market does not enhance and promote investment on the Nigerian economy.

H_I: The capital market still enhances and promotes investment on the Nigerian economy.

Hypothesis III

H_o: Capital market does not help to increase value of transactions (government and industrial securities) in Nigeria.

H_I: Capital market helps to increase value of transactions (government and industrial securities) in Nigeria.

1.5 SIGNIFICANCE OF STUDY

The study will discover the effect or efficiency of capital market instrument on Nigerian industrial growth. Though the scope of study will be limited to the capital money market, it is hoped that the examination of this market will offer a broad view of the operations of the capital market. It will donate to existing literature capital market plays in the industrial growth of the country

1.6 LIMITATIONS OF THE STUDY

A study of this nature is unquestionably not without some limitations. The researcher was face with a lot of constraints and problems in getting all the needed material from the source documents. The data used in the study are based on available information on capital market from the secondary sources.

However, these limitations will and do not weaken or reduce the benefits of the study and the conclusions reached in the study by the researcher.

1.7 SCOPE OF THE STUDY

This study is undertaken to appraise the impact of Nigerian Capital Market as an Instrument in mobilization of investment capital. As such, this study is restricted to all companies quoted on the floor of the Nigerian Capital Exchange market. Temporally or in term of time series, a period of twenty seven years is used i.e. 1970 to 2012 using some market pointers as means of assessing the impact of the capital market in mobilizing investment in Nigeria. It is hoped that this will help to attain the specified objective of the study.

The reason why this period is chosen is to check the contribution of the capital to the growth and development of Nigeria before, during and after the structural adjustment program.

1.8 ORGANISATION OF THE STUDY

This research work shall be divided into five chapters. Chapter one shall provide a background of the subject matter justifying the need of the study. Chapter two shall present related literature concerning capital market and its operations. The development, role and operations of the Nigerian capital market shall be discussed.

The research methodology shall be outlined in chapter three while the regression result shall be presented and discussed in chapter four. Concluding comments in chapter five shall reflects on limitations of the study and identifying implications of the findings.

1.9 DEFINITION OF TERMS

This subset ascends because of the need to make clear some technical terms that will be used in this study which are capable of having more than one meaning or clarification.

Market Capitalization

This is the general market value of all listed securities on the exchange. It is calculated by multiplying the share price with the total number of shares in issue. (Osaze BE 2000.*The Nigeria Capital Market in the African and Global Financial System.* Benin City: Bofic Consults Group Limited.)

Turnover Ratio

This is the size of events accepted by a company. It is the total number of shares traded at a given period. (Nwankwo GO 1991. *Money and Capital Markets in Nigeria Today.* Lagos:University of Lagos Press.)

Listed Securities

These are lasting securities such as bonds, preference shares and ordinary shares which are traded on a known capital exchange. (Nwankwo GO 1991. *Money and Capital Markets in Nigeria Today.* Lagos:University of Lagos Press.)

New Issues

These are afresh formed securities of corporate units or government offered for payment to the public. (Anyanwu JC 1998. Capital Market Development and Nigerian Economic Growth, *Nigerian Financial Review,* 7(2): 6-13.)

Trading Floor

This is precise area of a capital exchange where listed securities are credited and traded. (Anyanwu JC 1993. *Monetary Economics Theory, Policy and Institutions*. Onitsha: Hybrid Publishers Ltd., pp. 247 – 274.)

Clearing System

Process put in place by a security exchange to compare trading details between capital brokers before payment take place. (Anyanwu JC 1993. *Monetary Economics Theory, Policy and Institutions*. Onitsha: Hybrid Publishers Ltd., pp. 247 – 274.)

Issue

Securities of a company or government sold by way of public offering or private location at a given point in time. (Osaze BE 2000.*The Nigeria Capital Market in the African and Global Financial System.* Benin City: Bofic Consults Group Limited.)

Right Issue

A new issue of securities of a company offered to its existing shareholders in amount to their holding.(Okereke-Onyiuke N 2000. Capital Market Financing Options for Public Projects in Nigeria. The Nigerian Capital Exchange Fact Book, pp. 41 – 49.)

CHAPTER TWO

LITERATURE REVIEW

2.1 THEORETICAL FRAMEWORK/CONCEPTUAL ISSUES

An active capital market as it is well recognized in its role in an economy, encourages growth and upsurges the rate of development. In the works of the Prime Minister of Pakistan, Shaukat Aziz announced on January 14, 2006 that a vibrant capital market, good government and active role of regulatory bodies were key to encouraging growth in the economic sector. Booming capital markets are frequently carefully related with robust economic growth and vibrant private sector development (Levine, & Zervos, 2008).

Osaze (1991) viewed the capital market in an economy as the pivot on which the riches of that economy goes. That is, it provides the where withal for its growth and development program and aids as a pointer of the economy's liquidity and act. On the opposing, Demirgue, Asli, & Levin (1996) argued that the capital market upsurges economic variations, misrepresents fortune distribution and eventually obstructs economic growth, but Engberg (1975) said there as need for less developed economies to have capital market, as it raise the level of local savings among rival users since such rivalries rises the effectiveness with which capital market is used with direct optimistic effects on the growth rate of the economy.

Alile (1991) viewed the capital market in three ways: firstly, in a broad definition, it is a market that includes the entire financial system, the commercial banks and other financial institutions providing short, medium and long-term loans to finance both consumption and investment sectors. Secondly, an intermediate definition, it is a market which would include not only those institutions which are disturbed with providing long-term credits but also the users of such credits. Finally, in the thinnest sense, capital market involves the difficulties and forecasts of impartiality invested; these include the delivering and marketing of shares rather than bonds and politely using services of brokers, dealers and entities. Also the capital market is described as not really market in the traditional sense, but simply a system of the organization that accomplishes supervision that is defined as capital market events (Odife, 1991).

According to Anyanwu (1993), is a gathering of financial institutions set up for the yielding of medium and long-term loans. It is a market for long-term instruments which include market for government securities, market for corporate bonds, market for mortgage loan and

market for corporate share capitals. That is, it is the market for the deployment and consumption of long-term funds for the development of the financial system.

Also, Gaumitz and Dougall (1975) viewed capital market as a multifaceted of institutions and devices through which intermediate and long term funds are shared and made accessible to business, government, institutions and instruments already unsettled are shifted. To them, the capital market could be regional, local or national.

In summary, according to Adegbite (1994) who approved that the capital market is in spirit, the medium where financial instruments such as debts, (commercial papers or notes, bankers acceptance, treasury bonds, bills or certificates, repurchases agreement, debenture and development capital) mixture or derivative instruments are used to raise medium and long-term funds, while Osaze (2001) portrays the capital market as the prime motor, which drives any economy on its path to growth and development. This makes clearer the declaration that a energetic capital market is a key to economic growth in any economy where it exists.

2.2 OVERVIEW OF THE NIGERIAN CAPITAL MARKET

2.2.1 Origin of the Capital Exchange

It seems suitable to inspect, first of all, in an intellectual sense what a capital exchange is. A capital exchange is many things at the same time. First, it is a place where securities (bonds, capital and shares) of changeable types are transacted openly and where one can purchase or sell any of such securities quite effortlessly. The capital exchange can also be a device which can measure as direct the signs of an awaiting economic boom or failure long before the forecast success or decline actually occurs.

Literature propose that the performs that have slowly transformed into the capital exchange as it is known today took their roots from the growing trade in agricultural and other commodities developing in some of the major European centers during the Middle Ages. It was the exercise in these trade duos for traders to fold at a place on selected days to raid bargains on commodities. Trade was often conducted on credit terms and with time instrument such as bills of exchange and notes came to be in use as indication of the credit and as instruments for active payment.

The first phase, during which exchanges in Europe seemed and set on their evolutionary process, began in the 12th and 13th centuries in Italian towns such as Lucca, Genoa, Florence, Venice, and Milan. The "exchange" began to be used first in Bruges, a Belgian town located in Flanders, where Florentine, Venetian and Norwegian merchants used to hold publication meeting called "de Beurse". This was the name of the house in front of which they used to meet and which belong to a Partrician family named the Van de Beurses. After the decline of Bruges, the exchange flair was transferred to Antwerp where the first, detached building was build for the exchange in 1531.

In the second phase of exchange, development, which started in1531 and ended upon the foundation of the Amsterdam Exchange in 1631, exchanges, as prearranged institutes, started to expand all over Western Europe. In addition to securities, the first real merchandise began to appear as subject of trade.

The foundation of the period, in which modern exchanges emerge, goes back to the Amsterdam Exchange which started to apply method of current trades and exchange assumptions, mainly in linking with the developments of new types of securities (shares and bonds). Hand in hand with the development of market-driven atmosphere, a number of significant exchanges arose, with the Berlin Exchange (established in1739), New York Exchange (1792), Corn Exchange in London (1745) and others among them.

In the 20th century, the significance of the local exchange was declining and the importance of large global exchanges was growing with data processing and computer technology progressing, a vital break was also taking place in the previous understanding and perception of exchange trades. In the course of the 1970s and 1980s, new financial instrument, derivatives, arose as instrument for the removal of improved risks arising in linking with the growing financial variability.

The capital exchange as defined by Armstrong 1977, is "a market wherein to buy and sell the world's capitalized values. It is the fortress of capital, the shrine of values, and the hinge on which the whole financial arrangements of the capitalization system turns. It is the bazaar of human effort and effort the market where man's bravery, cleverness and labour are marketed". The eldest capital exchanges in the world include those of Antwerp in Belgium (1531), followed by those of Frank (1585), Berlin (1739), Vienna(1771), London (1773), Philadelphia (1790) and

New York (1792). The oldest in Africa are those of Cairo (1883) and Johannesburg which came on-stream in 1887.

2.2.2 Origin of the Nigerian Capital Market

The source of the Nigerian capital market date back to the colonial times when the British government was ruling Nigeria then required funds for running the local administration. Most of these funds derived from agriculture, produce marketing and hard mineral miming. Ascertaining that these sources where insufficient to meet its growing financial responsibilities, the colonial administration decided to enlarge its income base by improving the system of income deployment, taxation and other costs. It also saw the need to raise resources from the public sector to launch a financial system by setting up the basis organization for its take off undecided the development of a prearranged private sector.

According to Odife (2000), the first step in this track was to secure the essential funding for the development of this infrastructure and lasting capital projects. This it did in 1946 10-years plan local regulation for the initiation of the first £300,000(₦600,000), 3% government capital 1956/61 with its administration vested on the Accountant-General.

In 1957, the government and other securities (local trustees powers) Acts was endorsed. This law stated the types of securities in which trust resources may be invested. It also clearly defined the powers and duties of trustees. In addition, the colonial government set up the Professor Barback committee to examine the ways and means of nurturing a share market in Nigeria. Part of the terms of allusion of this committee included the likelihood of launching a capital market in Nigeria. The committee suggested, among others, the formation of rules regulating share transfer and measures for inspiring savings and issue of securities of the government and other organization.

In 1958, the Central Bank of Nigeria was established through the Central Bank of Nigerian Act of 1958. The tenacity of these numerous legislations was to launch the lawful and infrastructural agenda for the take off of a feasible securities/capital market in Nigeria. As a follow up to these laws, the colonial administration issue the first £2 million (₦4 million) federation of Nigeria Development Loan capital in May 1959. In April 1960, the Central Bank of Nigeria issued the First Nigerian Treasury Bills which where meant to provide an avenue for the

investment of temporary liquid capitals in Nigeria and support in providing government with funds undecided receipt of its own revenues.

The favourable report of the Barback committee led to the recording of a business name, "The Lagos Capital Exchange", in March 1960. On 15th September, 1960, the Lagos Capital Exchange was incorporated as a private limited liability company, limited by assurance under the providing of the Lagos Capital Exchange Act of 1960. On June 5th , 1961, the Lagos Capital Exchange opened for business with 19 listed securities made up of 3 equities, 6 Federal Government Bonds and 10 industrial loans, which worth N80 million. The first list contained in the first instance the first and second development capitals of the federation of Nigeria which were issued in1959 and 1961 and a few industrial securities (John Holt, Ordinary and Preference shares, Nigerian Ordinary and Nigerian Tobacco Company Ordinary) which were issued before 1960. A third class included the capitals of some British Companies previously working in Nigeria which were cited on the London Capital Exchange.

In 1977, the title of the Lagos Capital Exchange was altered to the Nigerian Capital Exchange (NSE) by indigenization Decree 1977 following the references of the industrial enterprises board (Adeosun panel) of 1975 that branch exchange should be recognized. At current, there are eight (8) divisions of the Nigerian Capital Exchange and each division has a trading floor, some of them electronic. The head office in Lagos was opened in 1961, Kaduna 1978, Port Harcourt 1980, Kano 1989, Onitsha 1990, Ibadan 1990, Abuja Area Office 1999, Yola 2000 and Benin City 2004.

In 1966, the Borrowings by public Bodies Act were endorsed. This was tracked by the companies Decree in 1968 and the Banking Decree in1969. In 1993 the Capital Issues Commission Degree (CICD) was broadcasted. The CICD thus because the peak of the Nigerian Capital Market. By this decree it was authorized to regulate the value and programing of new issues of securities through offer for sale or for contribution. On April 1, 1978 the securities and Exchange Degree was broadcasted to substitute the capital issues commission and enlarge the range of its actions following the approvals of the Financial System Review Committee (Okigbo Committee) of 1976. This committee also recommended the establishment of several connections and the endorsement of share allocations by the Securities and Exchange Commission. On April 5, 1985, the second–tier securities market (SSM) of the NSE was recognized to provide for the capital supplies of small and medium scale enterprises. It

fundamentally thinned the listing necessities of the group of companies to inspire them to pursue quotation and thereby further widen and deepen the market. In 1988, the purposes of the Securities and Exchange Commission (SEC) were further extended by Degree 29 of 1988 to include the appraisal and endorsement of all mergers, acquisitions and combinations between or among companies.

In 1992, the chartered institutes of capital-brokers Decree was broadcasted which approved the institute of capital-brokers powers to charter capital-brokers and dealers, conduct examination for brokers and generally oversee the conduct of its members in the interest of the orderly development of the capital market.

On July 29, 1992 the Central Securities Clearing system (CSCS) was merged as the authorized essential clearing and depository of the Nigeria Capital Exchange. On March 19, 1996 the Federal government of Nigeria selected the board on the Review of the Nigeria Capital Market (The Odife panel). On June 17th, 1998, the Abuja Capital Exchange (ASE) was combined as a public limited Liability Company as the second bourse in Nigeria after the NSE. On May 2, 2001, the ASE began actions as a floorless electronically-driven exchange with a fully computerized order-driven screen-based trading system. On august 8th the ASE was changed to the Abuja securities and Commodities Exchange (ASECE) by the federal government of Nigeria to commence commodity market. On May 21, 2002 an Inter-Ministerial Technical Committee on the alteration of the Abuja Capital Exchange (ASE) to a Commodities Exchange was inducted. On Tuesday 25th July 2006, the ASCE PLC formerly begins trading action with spot market transactions in agricultural commodities.

Since its commencement, the Nigerian capital market has come a long way. It has improved. Noticeably in its actions, which were electronic on April 14th, 1997 with the CSCS and the Automated Trading System (ATS) on April 27th, 1999 which involves on-line real-time trading? Trader's trade through a linkage of computers linked to a server, the ATS has ability for remote transaction and investigation. Subsequently, many of the commerce members trade online from their workplaces in Lagos, Abuja Area Office, Kano Office, Port Harcourt, Yola, Ibadan and Benin divisions of the exchange.

2.2.3 Operations Of The Nigerian Capital Market

According to Yaroe (1999), the capital market actions are arrangements in three broad groups, the primary market, the secondary market and the derivatives market.

1. **The Primary Market:** This market is also called the issues market, because it deals with issue and trades of fresh securities. It is the market where the first raising of capital takes place, as well as the implementation of main divestment such as the privatization program.

   Primary market operations are accompanied through the following ways:

   (i) **Offer by subscription:** A company may choose to offer its shares to the general public for extra capital. The proceeds added from this contract are used by the company for the purposes as stated in its brochure of offering.

   (ii) **Offer by introduction:** A company that has met the citation requirement of the Exchange may get listed on the capital exchange by introduction without having gone through the procedure of proposal for payment.

   (iii) **Initial public offer:** It implies the principal time the delivering company is coming to the market to increase resources.

   (iv) **Right issues:** This is an offer made to existing shareholders only, to buy extra shares of the company at a price frequently lower than the present market value.

   (v) **Private placement:** This is a plan where securities of a company are traded to designated potential investors by the issuing house/capital-brokers handling the dealings in a private manner, instead of securities being offer to the general public.

   (vi) **Offer for sale:** This is where current proprietors will bid to the public its holding in a company e.g. Government Privatization arrangement, etc.

2. **The Secondary Market:** Existing tools listed on the Daily Official List (DOL) of the Nigerian Capital Exchange symbolize this section of the capital market. In this market, cited or listed securities are transacted everyday on the transaction ground of the Nigerian Capital Exchange (NSE) branches. Here client's orders to purchase or trade through the trade members of the capital exchange (capital brokers) are implemented. Hence the service of a capital broker is essentially compulsory either to sell or purchase shares. The money recognized goes to the shareholders, and not the company. No share

documentation is required in current day operation. Contact notes are rather given as indication of contract.

There are four stages of secondary market, these are as follows:

a. Listed Organized Exchange: Where securities of public itemized companies with a least level of capitalization and public holding are cited. Most of the securities itemized at this level are those of the huge, well known and lengthy recognized companies.

b. Over-The- Counter (OTC) Market: Which trades in securities that are not listed on any other exchange? Trading in this market is usually by processor, duplicate and mobile since there is no selected residence for allocating in securities in this market. Most of the securities transacted in this market are distributed by small, basically unidentified and new companies.

c. The market listed on documented capital exchange but transacted over the counter: Brokers who are not members of an organized capital exchange are energetic in this market. It is parallel to a parallel market of the registered exchange.

d. Uninterrupted transaction of securities among two parties with no brokers or intermediaries: This permits purchasers and retailers of securities trade unswervingly with each other.

3. **The Derivative Market:** This market does not trade on the dispensed securities but on the rights to name on the essential securities or on the source of the upcoming name of the security. The only derivative currently being traded on the Nigeria Capital Exchange is right offer.

2.2.4 Participants in the Nigerian Capital Market

The major participants in the Nigerian capital market are given below:

1. **Fund Provider:** These are specific investors, organized investors such as insurance companies, pension funds, unit and investment trusts, corporate bodies, and combined investment scheme.

2. **Fund Users:** such as corporate groups, The Federal Government, State Government, and Local Government.

3. **Financial Intermediaries:** such as capital brokering firms, auditors, issuing houses, registrars, trustees, portfolio managers, underwriters, etc.
4. **Regulators:** such as Securities and Exchange Commission, The Nigerian Capital Exchange, The Central Bank of Nigeria, Federal ministry of finance etc.

Now, taking a superficial look at the financial intermediaries listed above:

i. **Capital brokers:** They are retailers between the suppliers and the handlers of capital. They stand between the traders and purchasers of listed securities making it probable for parties to raise their wish to purchase or trade securities. They are a vigorous connection in the capital market since they are dealing members of the Nigerian Capital Exchange.

ii. **Auditors:** These are existing auditors of the company, in their capacity as auditors; they offer past viewpoint on the account of the company for addition in the brochure.

iii. **Issuing Houses:** These are institutions whose primary obligation is to take companies to the capital market to increase capitals through primary issues. They offer advice on company's suitable level and structure of their capital arrangements. They decide the suitable timing of securities issuers in order to get favourable investors reply.

iv. **Registrars:** Are institutions commanded by companies whose securities have been traded to the investing public to keep complete records of their security holders-equity shareholders, bondholders and debenture holders.

v. **Trustees:** These are institutes, either banks or insurance companies or other companies licensed to do the roles of defending the interest of investors in debt securities or in unit and investment trust orders or any other collective investment scheme accepted by the security and exchange commission (SEC).

vi. **Portfolio Managers:** These are institutions registered by the constitutional regulatory organization to manage the portfolio of clients. They collect funds from their clients and invest some in securities that will return the uppermost probable incomes with the lowest probable dangers for clients and get a fee for their services.

vii. **Underwriters:** These are organizations that accept to sell capital on behalf of companies in the primary market.

Now, take a look at the Regulatory Agencies of the Nigerian capital market.

i. **The Securities and Exchange Commission (SEC):** This is the peak institute of the Nigerian capital market previously known as the capital issues committee. It was set up under the security and exchange decree of 1979, effective 1st April, 1978 mainly to guard the interest of investors and to supervise the even and orderly development of the capital market. According to SEC, the commission was set up to accomplish two broad functions; Regulatory and Development, its purposes comprise the determination of the sum of securities of any company that are to be traded as well as when and for how long, overseeing the securities market and the capital exchange, the audit of the books of all companies that are directly or indirectly involved in the securities business etc. The Decree was corrected in 1988. In 1996, another board headed by Chief Dennis Odife was recognized with ample terms of reference to review the Nigerian capital market. The taking of the references of this board led to the performing of the Investment and Securities Act (ISA) No 45 of 1999 which is the current and main legal instrument that authorizes the Securities and Exchange Commission (SEC) to control the Nigerian capital market.

ii. **The Nigerian Capital Exchange (NSE):** A capital exchange is the center of the capital market; it is the home where investors can simply through brokers, purchase and trade securities, therefore providing cool marketability of securities and better liquidity in the market. The NSE was merged on September 15th, 1961 and started business on June 5, 1961. Its main purpose is to support the capital raising process by providing the best value, most effective, most cost effective market dwelling for the transaction of financial instruments. It serves a wide communication field for its publics and the dual role of supervising the markets and their member firm membership and on the other hand, self regulatory itself. The Exchange has a national council with a president accountable for policy issues. The day-to-day management is bestowed in the Director-General and his team of executives. The capital exchange operates in a division network of eight divisions situated at Kaduna, Port Harcourt, Kano, Onitsha, Ibadan, Abuja Area Office, Yolk Benin, and the head office branch, Lagos.

iii. **Central Bank of Nigeria (CBN):** The central Bank issues procedures for the actions of financial institutes. It also frames a country's monetary policies, acts as banker and financial adviser to the federal government and manages the country's foreign reserves,

in partnership with the federal ministry of finance. The Exchange is required to submit three-monthly reports to the governor of the central bank for onward transmission to the ministry of finance. The CBN also has the right to make transaction in any capital issued by or on behalf of the federation of Nigeria, whether such capitals are quoted or not.

iv. **Federal Ministry of Finance:** The ministry of finance controls the financial system in combination with the central bank of Nigeria. Its purposes include the administration of the country's exchange control regulations, approving banking certificates and managing Nigeria's foreign reserves in discussion with the central bank of Nigeria. The Exchange is required to submit three-monthly report to the minister of finance through the Governor of the C.B.N. The Exchange is also obliged to officially inform the Minister of finance of the motive for declining the request for membership submitted by an individual.

2.3 THE ROLES OF THE NIGERIAN CAPITAL MARKET

The capital market carries out a lot of roles in the growth and development of an economy. Some of those parts are listed below:

i. Providing a means of raising long-term finance to assist companies to enlarge and modernize.

ii. Providing a means of distributing the nation's real and financial resources between various industries and companies.

iii. Acting as a dependable medium for broadening the proprietorship base of erstwhile family dominated forms (NSE 1990).

iv. Inspiring inflow of foreign capital when foreign companies or investors invest in domestic securities.

v. Providing liquidity for investment funds from the standpoint of the individual and the economy.

vi. Providing needed seed money for venture capital development which often serves as a vehicle for industrial growth and development (SEC, Abuja, 2006).

vii. Providing an avenue for marketing of securities in order to raise fresh funds for expansion.

viii. Providing the opportunities for government to finance economic development-oriented project.

2.4 REVIEW OF THE PERFORMANCE OF THE NIGERIAN CAPITAL MARKET

A review of the performance of the Nigerian capital market will obviously highlight the capital market indicators:

I. **New Issues:**

This contributes to the capital of capital in an economy and regularly to economic growth. The size of the new issues market is a major source of funds for the acquisition of fixed assets in the economy.

The accumulative awareness and utilization of the Nigerian capital market by many corporate entities and government in the last 25 years have boosted new issues activities. A probable purpose could be the low cost of raising funds in the capital market in compares to the money market (banks). The cost of raising funds in the capital market is usually below 10% while that of the money market has been changing and rose as high as 35% a few years ago. Yearly total new issues before 1989 was below ₦1 billion. From 1989-1996, it floated between ₦ 1billion-₦10 billion. From 1997, it crossed the ₦10 billion mark, as at 2003, the figure was over ₦180 billion, it rose to ₦730.54 billion in 2005. With the minimum of ₦25 billion recapitalization for banks, majority of banks had to resort to the capital market for fresh capital. A total of ₦372.5 billion fresh funds were raised by banks in 2005 out of which ₦136.4 billion was allotted as at December 2005.

In 2006, the exchange considered and approved 69 applications for new issues and mergers and acquisitions valued at ₦1.65 trillion, as against 52 applications or new issues valued at ₦730.54 billion in 2005. The non-bank corporate issues accounted for 25% of the new issues approved in 2006, with 48 applications valued at ₦419.01 billion, while the banking sector accounted for 43% with 18 applications valued at ₦703.51 billion. The federal government bond issue accounted for ₦527.41 billion or 32% of the total amount approved during the year (The NSE Annual Reports and Accounts 2006).

In 2007, the Exchange considered and approved 65 applications for new issues, including mergers and acquisitions, valued at ₦2.4 trillion or 10.5% of GDP, as against 69 applications for new issues valued or ₦1.65 trillion in 2006. The banking sector accounted for 66.1% in volume with 19 applications valued at N1.6 trillion while the non-bank corporate issues accounted for 12.25% of the new issues approved in 2007, with 39 applications valued at ₦294.12 billion.

Government bond issue accounted for ₦520.01 billion or 21.7% of the total amount approved during the year (The NSE Annual Reports and Accounts 2007).

ii. Market Capitalization

This is the overall market value of all listed securities on the exchange. The total market capitalization before 1988 was below ₦10 billion. From 1988 – 1996 it was between ₦10 billion - ₦285.6 billion and then from 1996 – 2000 it ranges between ₦285.6 billion – ₦478.6 billion. As at 2001, it reached over ₦662.5 billion, ₦763.9 billion in 2002, ₦1.3 trillion in 2003, ₦2.1 trillion in 2004, ₦2.9 trillion in 2005, ₦5.12 trillion in 2006 and ₦13.295 trillion in 2007.

iii. Capital Index:

This is basically the aggregation of all the price gains and losses by all the listed companies on a given date. The Nigerian Capital Exchange all share index with its base point of 160 in 1984 has grown tremendously over the years. It grew from 127.3 points in 1985 to 513.8 points in 1990, then to 8111.01 in 2000, 10,963.11 in 2001, 12,137.72 in 2002, and 20,128.94 in 2003. It then grew further to 23,844.45 points in 2004, 24,085.76 in 2005, 33,189.30 in 2006 and reaching 57,990.25 points in 2007. In terms of percentage change, it rose from its base year by 27.3% in 1985 to 28.7% in 1986 only to fall to 16.5% in 1987. Thereafter, it was an upward swing; rising to 57.9% in 1990, it experienced a downward trend from 1990 to 1993, there was a brief rise from 1993 to 1995, in fact 1995 had he highest ever recorded percentage rise of 130.9%. The percentage change began to fall to the point of recording negative values in three subsequent years 1997 – 1999, thereafter, it began to rise again. As at 2002, it was 10.76% and increases to 65.8% in 2003 then it decreases to 18.5% in 2004. This decrease in percentage within the period of 2003 to 2004, reflect the difficult economic environment quoted companies operated in during the year. It further decreases to 1.01% in 2005, and then began to rise again to 37.8% in 2006 and 74.75% in 2007.

iv. Trading Value

In analyzing the value of transaction on the Nigerian Capital Exchange (NSE), it was observed that from 1961 – 1990, government capitals dominated trading value with a percent range between 58.91 – 99.5, then, industrial securities began to dominate. In terms of the overall value, the annual value of transactions on the exchange was below ₦100 million from 1961 –

1975, from 1976 to 1994, the annual value was between ₦100 million and ₦600 million. From 1995, the value crossed the ₦1 billion mark, reaching ₦225.8 billion in 2004. Trading value was ₦262.9 billion in 2005, 470.25 billion in 2006 and then to ₦2.1 trillion in 2007 respectively.

v. The Turnover Ratio

This reveals the volume of activities undertaken by a country. The turnover ratio of transactions on the Nigerian Capital Exchange has not been impressive over the years. In 1980, it was at 11.5%, except for the year 1984, 1986, 1989, and 1992 where it experienced a little rise, it remained dismal up to 2003 at 8.9%, the turnover ratio however rose to 11.6% in 2004 and to 12.42% in 2005. The Exchange then achieved an upturn, rising from 14.70% in 2006 to 28.21% in 2007 respectively.

vi. Number of Listed Securities

The number of securities listed on the Nigerian Capital Exchange has recorded an appreciable increase over the years. The total number of securities increased from 8 in 1961 to 60 in 1971, 194 in 1981, 239 in 1991 and 261 in 2001, an increase of 650%, 223.3%, 23.2% and 9.2% respectively over the ten year span of comparison, the figure increased further to 288 in 2005, 293 in 2006 and 309 in 2007. Increased security listing indicates that more companies have become public with the attendant positive contributions.

2.5 THE CONTRIBUTIONS OF THE CAPITAL MARKET TO ECONOMIC GROWTH IN NIGERIA

Economic growth is the upsurge in the worth of goods and services produced by an economy; it is conservatively measured as the percentage rate of increase in real Gross Domestic Product (GDP). The real GDP per capital of an economy is frequently used as an pointer of the average standard of living of individuals in that economy and is a proxy for measuring economic growth. As such the effect on capital market actions on economic growth in Nigeria lies in its contribution to GDP.

The Nigerian Capital Market has grown extremely since its beginning in 1961, particularly between 1972 and 1978, thanks to various government measures to foster its growth. The most important of these measures were the indigenization exercise carried out through the

Nigerian Enterprises Promotion Acts of 1972 and 1977. These Act trebled the number of listed securities and shareholders in the Nigerian Capital Market. The phenomenon, globalization and a single world market mean different things to different people. In serious countries it is about improving their local enterprises such that they can be seen on the driver's seat of the developing competitive and rapidly fluctuating world. In this way, they can guarantee that their people will not be the hewers of wood, the drawers of water, spectators and only consumers in the emerging world trend.

Empirical studies conducted by staff of international agencies such as the World Bank and the International Finance Corporation (IFC) linked development of an economy to its capital market development. For instance, in the research conducted by Ross Levin of the World Bank, a ranking of 38 countries (Nigeria inclusive) showed that countries that had comparatively liquid capital markets in 1976 tended to grow much quicker over an 18 year period then countries with less liquid capital markets.

Also, the capital market is very vital to the growth, development and strength of any country. It supports government and corporate creativities, finances the exploitation of new ideas and services the management of financial risk. This is why the capital market must receive more attention as reforms are frequently carried out in an economy.

Some contributions of the Nigerian capital market to socio-economic growth and development of the country are:

i. **Encouraging Savings Culture and Development of Small and Medium Scale Enterprise (SMEs) through Collective Investment Schemes (CIS):** Joint Investment Schemes include Unit Trusts, Real Estate Investment Trusts, Venture Capital, Pension Funds etc. These are becoming progressively widespread around the world. There is no opposing that joint investment funds hold considerable investible capital, pooled from a large mass of contributors. A huge amount of the funds held are usually invested in varied capital market instruments (debt and equity). Some of the contributions of CIS are that they foster the economic growth and development of the communities where they are established, promote capital formation and inspire economic development. In addition, they also adopt an improved flow of foreign direct investment, enhance free flow of information, promote public participation and enhance the liquidity of the market.

ii. **Financing of Government Socio-economic Infrastructural Projects:** Some state governments, the last five years, have gone to the market to spring for funds to finance their developmental projects. These states had different determinations. For example, Yobe State raised ₦2.5 billion in 2001, to finance urban roads, houses and drainage development, Ekiti State raised ₦4 billion in 2002, to finance the construction and reintegration of some of its urban and rural roads, establishment of palm plantations, rural electricity and development of water projects; Lagos State raised ₦15 billion in 2003 to refinance short term facilities obtained from banks to fund developmental project. Others include Cross River State, which raised ₦4 billion to upgrade and expand Obudu Ranch Resort; Akwa-Ibon State raised ₦6 billion to finance infrastructural development, Delta State raised ₦5 billion to finance market, health care, water and education and Edo State raise ₦1 billion to finance development Ogba Riverside Housing Estate. There is no doubt that these projects, which are mainly targeted at infrastructure, will further accelerate the socio-development of their states.

iii. **Attracting Foreign Investment:** To interest the free flow of foreign investment into the country, the federal government early in 1999, revised some of the foreign investment principles that were measured as impairment to free flow of foreign investment in the country. The actions taken comprise the revoke of the Exchange Control Act 1962 and the Nigerian Enterprises Promotion Decree of 1989, for example in 1995 the SEC organized a national conference centered on fascinating foreign investment into Nigeria. Since then, there has been great improvement in the free flow of foreign investment into the country. For instance, United Bank for Africa (UBA) Plc. has already issued a Universal Depositing Receipt to enlarge its actions and as a result of current privatization exercise through the capital market, a lot of foreign capital has been thrust into the economy.

iv. **Privatization of State Owned Enterprises (SOEs):** In the late 1980s as part of the execution of the Structural Adjustment Program (SAP), the privatization of state held enterprises arose. This exercise was in stages. The first stage itemized between 1989 and 1993; while the second stage is between 1999 to date. Among the state held enterprises scheduled for privatization in the second stage are NITEL, NEPA and four refineries. A total number of 45 SOEs were privatized between 1989 and 2001. 30 were through share

floatation, 9 were both share floatation and core investor, 2 were through private placement to staff and 4 were through core investor only. Some of the profits derived from these privatization are that the capital market offers reliability and clearness to the privatization exercise and it gives brightness and respect to the privatized entities as it attracts bulk participation. In addition, privatization through the capital market has also impacted significantly on the countless capital market indices such as number of listings, market capitalization, all share index, market turnover and liquidity.

v. **Debt Rescheduling:** In rescheduling of the nation's debt obligations, the important role of the capital market must not be left out. For example, the federal government issues the ₦150 billion bond in divisions. One of the aims was to advance funds from the community, while another is to finance the added domestic debts. This has the propensity of inspiring economic growth and stability, issuance of bonds can also be used by the government to finance its budget deficits.

2.6 PROBLEMS OF CAPITAL MARKET DEVELOPMENT IN NIGERIA

From the previous discussion, it is obvious that the capital market in Nigeria is still developing. These are difficulties working against the fast development of the Nigerian market and some major factors are responsible for this state of affairs:

i. **The Unstable Macro-Economic Environment:** This macro-economic environment in Nigeria has remained unbalanced and changeable for several years from raising the nonstop and often fierce change in the machinery of government. The net results have been high but reducing inflation, foreign exchange rate depreciation, loss in the value of returns on investment. Other appearances of the unbalanced economic environments include the poor quality and high cost of financial services including the poor breadth of these services.

ii. **Inadequate Access to Information:** Workers in the capital market and investors frequently find it problematic to get data about investment opportunities and corporate bodies whose securities are listed on the market. As a result investment decision making becomes very dangerous in the Nigerian market.

iii. **Paucity of Market Makers:** There has not been any market makers on the Nigerian Capital Market until lately, about 2006, when the Debt Management Office (DMO)

selected a few issuing houses and recapitalized banks to act as market makers in the secondary market for sovereign debts. The lack of market makers ascends from the lowly capitalization of market operators (i.e. broker/dealers and issuing houses), which makes it problematic for them to adopt risks that could erode their shareholders funds. Without market makers the capital market remains small and collegial.

iv. **Price Determination:** For a capital market to execute the roles for which it was recognized and validate its reason d' etre, it must be effective in its working character. Precisely, that reason d' etre relays to its role in determining capital prices to reflect inherent values vis-à-vis the automatic clarification of the whole body of openly obtainable information about the security issuer's historical act and upcoming forecasts. Thus, in an competent market, information must be easily obtainable to normal, profit-optimizing investors; capital prices must be so justly prized that the average investors will receive an average return because the market will be an competent price of incomes potential and risk. The fortitude of the price is the meaning of an imaginative, spontaneously operational market.

v. **Religions Beliefs:** Religious injunctions to which many Nigerian investors are progressively complying to as against the more generous western investors, have had the propensity to make market making in certain capitals very hard indeed. The three most artificial are alcoholic beverage, tobacco and pork meat processing industry capital. The Bible, for instance says "wine is a mocker, strong drink is raging and whosoever is deceived thereby is not wise" (Prov. 20:1). Also the Quran admonishes Muslim as follows: "in wine and gambling is great sin, and some profit for men but the sin is greater than the profit (Quran 2:219). Hence, for extremely religious investors, investing in the capital market is to be dejected. As the quarrel goes, it is only in the capital market that organized gambling takes place legitimately.

vi. **Inhibited Foreign Capital Inflow:** Foreign capital for investment purpose had been disheartened from flowing into the capital market due to governments, poor infrastructural facilities, epileptic power supply, poor telecommunication network and insecurity of life and property. All these created a high cost investment environment.

2.7 RECENT DEVELOPMENTS TOWARDS AN EFFECTIVE CAPITAL MARKET IN NIGERIA

The Nigerian Capital Market has observed a lot of development since its inauguration. Some of the developments battered towards an effective capital market are outlined below:

i. **The Automated Trading System:** In 1997, the Nigerian Capital Exchange was facing a countless challenges of the ever rising size of dealings on one hand and guaranteeing the clearness in transaction on the other. The need for an competent market place, where price determination is active and transparent, became of increasing concern. The call-over system had by then been overstrained. As a result, the Automated Trading System was introduced. The Automated Trading System (ATS) is one of the most outstanding inventions of the securities market in Nigeria. It works on the line up system where all brokers have equivalent admittance to information obtainable for buying or auction of securities. This system has led to price finding where prices of securities are clearly determined by taking into awareness the conservative issues used universally in determining prices of securities e.g. demand and supply. The Automated Trading System is competently interfaced with the Automated Clearing Depository and settlement system of the CSCS. This has enabled a T+3 (transaction day + 3 days) settlement cycle. This means that customers now have access to their investment within four days of contract period. This is well above the developing market standard of T + 5 contract cycle.

ii. **The Central Securities Clearing System (CSCS):** To attain the gain of the ATS, The Nigerian Capital Exchange (NSE) commissioned the CSCS in 1997 as a subsidiary. It commenced full operations on April 19th, 1999. The CSCS interfaced with the ATS and automatically receives data relating to trades as they occur for settlement. The CSCS is also accountable for dematerialization of share licenses of cited companies into the central depository. This has formed an sky of cool treatment of securities during dealings and also excluded loss of these licenses through theft, fore or other hazards on the part of the investor.

iii. **On-Line Trading:** The arrival of the ATS created a greater challenge to the Nigerian Capital Exchange initially; there was the need to match securities trading nationwide. It was this that led to the relationship of some divisions of the exchange that had great day-

to-day contract to the central server at the taxes house, Lagos, Abuja, Kano, Yola and Port Harcourt divisions are now fully combined to the main trading platform.

iv. **Remote Trading:** As part of its resolve to create an effective market, the NSE in late 2004, introduced remote trading. This is a scheme where brokers trade from the ease of their offices. Their computers are linked to the main trading machine through one of the safest connection device fibre optics. This effective system does not allow for information to sieve to illegal users. It promises harmless distribution of data from the main frame of the trading machine to the computers in the offices of these brokers.

v. **The Trade Alert:** This is a means of defending the securities market against ever growing fears from swindlers. This device is a uniqueness as the NSE is the first to introduce it as a checking device. The Trade Alert, when subscribed to by an investor, sends a notice on the investors mobile cell-phone indicating sumptuously all dealings taking place in his account at the CSCS. The objective of the trade alert include, among others stopping unauthorized trades before they happen.

2.8 INTERNATIONAL COMPARISON OF THE NIGERIAN CAPITAL MARKET

In evaluating the scope of the capital market within an economy, the worth of its market capitalization is equated with the economy's GDP. In some countries, the scope of market capitalization is greater than that of the GDP. Equating Nigeria's performance with that of some emerging developing countries one can see loud dissimilarities. For instance in 1989, Taiwan's market capitalization was 160.5% of its GDP. In 1991, Malaysia's rate was 76.8%, while that of Chile in 1992 was 78.3%. The uppermost performance Nigeria ever recorded was in 2005, with ₦2,900.1 billion representing 27.4% of the GDP. However, the trend seems hopeful from the figures of year 2000.

In terms of transacting size and worth, in 1992, Nigeria with (US$0.023 billion) was among the minimum lively markets by trading value compared to some countries like Taiwan, Japan and South Korea whose values were US$22241 billion, US$63.3 billion and US$116.1 billion respectively.

In Nigeria, the fairness turnover is less then 1% related to more lively markets like Korea where the impartiality turnover ratio at the end of 1992 was 12.4%, Taiwan 7.4% and 6.4% in

Thailand. The Nigeria condition is inclined by the 'purchase and hold' defiance of Nigerians and the important block shareholdings of foreign investors.

According to the Director-General of the Nigerian Capital Exchange, Professor Ndi Okereke-Onyinke, who was talking on Friday during the capital market day at this year's (2009) convention of the Association of Nigerian Physicians in the Americas (ANPA), in Abuja said the Nigerian capital market has been recovery at a very debauched degree compared to other market internationally. She said, "Until the market downturn, we have continuously outdid many developed market in the area of Return on Investment (ROI) in dollar terms as pronounced by the International Finance Corporation and the standard and four's and other rating agency. We, however, feel indignant because this growth is measured in dollars, and while they use the official rate to measure other markets, particularly in developed economies, they use the market rate of the dollar to measure the Nigerian market, and we all know how unstable the market rates are". She said inspite of this clear difficulty, the Nigerian Capital Exchange (NSE) was still among the top five capital markets in the universal performance index. "As at today, we are number two in the world as markets in most developed economics are yet to fully rebound. Our market would sustain this high performance", she stated.

2.9 PROSPECTS OF THE NIGERIAN CAPITAL MARKET

The prospect of the Nigerian Capital Market is very optimistic. It has, among others, the prospective to interest more foreign capital into the economy. In 2003, the Nigerian Capital Market was pronounced by the International Finance Corporation (IFC) as one of the most satisfying in terms of return on investment. A capital market that is apparent by foreign investors as lively, well regulated and rewarding in terms of return on investment would easily attract foreign participant.

To attract more foreign capital there is need to progress on the market indicators, an improvement in the market float, the volume of trading and market liquidity etc. would go a long way in arriving at better market indicators when compared on a global basis. The pension and other replies in the economy also offer very bright prospects. The Nigerian Capital Market has the capacity to endure to offer opportunities for government and corporate entities to effect possible financing and capital base broadening. Such sound financial services will no hesitation

serve as privet against the whims of business and economic cycles which have in recent times shaken the basic fabrics of our national economy.

The capital market as the fortress of the private sector is a network of institutions that can solidify financial services capable of refurbishing a nation's economy. For it to solidify such services with best efficiency however, the assistance of government is needed in the area of fiscal policies and provision of efficient infrastructure, telecommunication and investment incentives.

2.10 APPROACH OF RAISING FUND IN THE CAPITAL MARKET

The need to raise long-term finance/funding might arise in any enterprise or corporate body. Ready options include either to access the loaning facilities of banks and other financial institutes or to decrease to the capital market. However, the capital market has been established to be a inexpensive medium for raising lasting funds compared to bank borrowings. To this end, many fund users resort to the capital market.

According to Dr. F. N. Chukwujama, the Managing Director of Unex Securities and Investment Ltd, (Member of the Nigeria Capital Exchange) the corporation's method to raising funds in the capital market through issuance of equity securities involve the following:

2.10.1 Engaging the Services of An Issuing House

Engagement of an issuing house is the first major step a company takes when trying to raise funds from/ through the capital market. A energetic vote of the delivering house is to support the company in seeking SEC's registration of the issue and also to engage the services of other advisers who will jointly be parties to the issue. The issuing house also guarantees that the company conforms to all constitutional and written necessities of the SEC, and also doses the price for the securities and regulates the programing of the offer.

2.10.2 Requirements of the SEC

Before any security can be delivered to the community it must be recorded with the SEC. The SEC is a federal agency whose duty among other things, is to guarantee that investors are provided with acceptable information about the company and to avert scam in the auctions of new securities.

Upon viewing the registration application sent by the Issuing House, if the SEC feels that they registration documents have some material shortages such as omission or misrepresentation, it can postpone the registration process until adequate and acceptable information is provided.

Alternatively, where it is not persuaded with the company's documents filed by the Issuing House, it could place a stop order on the sale of securities. The lists of documentary requirements by SEC include the following:

I. Certificate of incorporation
ii. Evidence of conversion to Plc.
iii. Memorandum and articles of association
iv. Board resolution
v. 3 or 5 years audited accounts (new company)
vi. Interim accounts
vii. Statement of reporting accountants
viii. Statement of adjustments
ix. Underwriting agreement
x. Letters of consent from parties
xi. Detailed application (2 copies)
xii. Abridged application (15 copies)
xiii. Estimated cost of issue
xiv. Any other documents
xv. Draft prospectus of the offer.

2.10.3 The Nigeria Capital Exchange (NSE) Requirements

Just as the Issuing House in responsible to the company in terms of meeting the requirements of SEC, the capitalbrokers to the issue are responsible to the company with respect to its application to the Nigerian Capital Exchange. The primary function of the capitalbroker to the issue is to ensure that the company complies with all the documentary requirements of the Nigerian Capital Exchange and that these documents are properly submitted to the Quotations Committee of the NSE. Where the NSE is satisfied with the documentary evidence and the reasons for the application of the funds of which the securities would be issued, it would give is approval by issuance of a "Certificate of Exemption". Without the Certificate of Exemption, the

insurance process cannot proceed any further. Before the Nigerian Capital Exchange approves of the company's application, the following documentary requirements must be met.

i. Application/listing fees
ii. Certificate of incorporation
iii. Evidence of conversion to Plc
iv. Memorandum and articles of association
v. Board resolution
vi. Shareholders resolution
vii. 3 – 5 years audited accounts (new company)
viii. Interim accounts
ix. Profit/dividend forecast
x. Statement of reporting accountings
xi. Statement of adjustments
xii. Proposed time table
xiii. Letter of consent form parties
xiv. Detailed application (2 copies)
xv. Abridged application (15 copies)
xvi. Draft particulars
xvii. Estimated cost of issue
xviii. Updated list of receiving agents

2.10.4 All Parties Meeting

While the application for the SEC's registration and the Nigerian Capital Exchange's approval is review, the Issuing House could call for "an all parties meeting" in which all the parties and officials of the company must be present, by inviting all the specialists concerned with the issue. The core of this meeting is to obviously describe and agree on the roles to be played by the respective parties. It also provides chance for the issuing house to pledge the parties with the tactic for the issue. After the "all parties meeting", the issuing house would prepare the time-table for the issue. It is vital to reminder that throughout this period no public announcement of the offer is allowed.

2.10.5 Completion Board Meeting

The completion board meeting, as the name implies is the cost and final meeting of all parties to the issue. Before the completion board meeting takes place, the issue must have been registered with SEC and the NSE must have approved it.

This meeting is very important for two reasons:

I. It is at this meeting that all documents relating to the issue are signed and dated by all parties to the issue.

ii. It is at this meeting also that the first formal announcement of the projected offer takes place.

After the completion board meeting, the contracted brochure and other documents must be registered with the SEC within two working days. Thereafter, the brochure can be formally dispersed, thus suggesting that the proposal is now for public subscription.

2.10.6 Offer Open to the Public

Once the proposal is made to open, it remains open for a period of six to eight weeks. In some cases, SEC could grant an allowance at the request of the Issuing House, within the period that the offer is open to the public, interested subscribers could receive the offer prospectus from the Receiving Agent usually capitalbrokers, the Issuing House and Banks to purchase their shares.

2.10.7 Offer Closure

Once the proposal is closed, SEC usually allows a period of about six weeks to enable the Receiving Agents Registrars and Issuing House to make their returns, settle their books and accumulate the portion offer. The Issuing House is predictable to submit the portion offer to the SEC for authorization not later than six weeks after the specified closing date of the offer. Thereafter, the Issuing House makes returns to the company.

2.11 EMPIRICAL REVIEW

The link between capital market and economic growth has been empirically investigated by researchers in both Nigeria and other countries.

2.11.1 EMPIRICAL REVIEW ON OTHER COUNTRIES

Demetriades, et al (2001) utilized time series data from five developed countries, to examine the relationship between capital market and economic growth, controlling for other effect of the banking system and capital market volatility. Their result supports the view that, although banks and capital market may promote economic growth, the effect of bank is more. They suggested that the contribution of capital market to economic growth may have been exaggerated by studies that uses cross country regressions.

Mohtadi and Agarwal (2004) examined the capital market and economic growth in developing countries using a panel data approach that covers 21 emerging markets over 21 years (1977 - 1997), they found that turnover ratio is an important and statistically insignificant determinant of investment by firms and that these investment in turn are significant determinant of aggregate growth. Foreign direct investment is also found to have a strong positive influence on aggregate growth. The result of their study indicates that both turnover ratio and market capitalization are important variables as determinants of economic growth.

Nieuwerburgh, et al (2005) investigated the long term relationship between capital (capital) market development and economic growth in Belgium. Their result shows that the market causes economic growth in Belgium.

Mishra, et al (2010) examined the impact of capital market efficiency on economic growth of India using the time series data on market capitalization, total market turnover and capital price index over the period spanning from the first quarter of 1991 to the first quarter of 2010. Their study reveals that there is a linkage between capital market efficiency and economic growth in India. This linkage is established through high rate of market capitalization and total market turnover. The large size of capital market as measured by greater market capitalization is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis. The increasing trend of market capitalization in India would certainly bring capital market efficiency and thereby contribute to the economic growth of the country.

2.11.2 EMPIRICAL REVIEW ON NIGERIA

Osinubi and Amaghionyeodiwe (2003) examined the relationship between the Nigerian capital market and economic growth during the period 1980- 2000. Unfortunately, their results did not support the claim that capital market development promotes economic growth.

Adam and Sanni (2005) examined the role of capital market in Nigeria's economic growth using Granger-Causality test and regression analysis. The study discovered a one-way causality between GDP growth and market capitalization and a two-way causality between GDP growth and market turnover. They also observed a positive and significant relationship between GDP growth turnover ratios. The study advised that government should encourage the development of the capital market since it has a positive relationship with economic growth.

Obamiro (2005) investigated the role of the Nigerian capital market in the light of economic growth. The author reported a significant positive effect of capital market on economic growth. He suggested that government should create more enabling environment so as to increase the efficiency of the capital market, and to attain higher economic growth.

Ewah, et al (2009) appraised the impact of the Nigeria capital market efficiency on the economic growth of the nation using time series data from 1961 to 2004. They found that the capital market in Nigeria has potential of growth inducing but it has not contribute meaningfully to the economic growth of Nigeria because of low market capitalization, illiquidity, misappropriation of funds among others.

Ezeoha, et al (2009) investigated the nature of the relationship that exists between capital market development and the level of investment (domestic private investment and foreign private investment) flows in Nigeria. The study discovered that capital market development promotes domestic private investment flows, thus suggesting the enhancement of the economy's production capacity as well as promotion of the growth of national output. However, the results show that capital development has not been able to encourage the flow of foreign private investment in Nigeria.

Afees and Kazeem (2010) critically and empirically examined the fundamental connection between capital market and economic growth in Nigeria between 1970 and 2004. The indicator of the capital market development used are market capitalization ratio, total value traded ratio and turnover ratio while the growth rate of gross domestic product is used as proxy for economic growth, using the Granger causality (GC) test, the empirical evidence obtained

from the estimation process advises a bidirectional causality between turnover ratio and economic growth, a uni-directional relationship from market capitalization to economic growth and no causal connection between total value traded. The result of the causality test is delicate to the choice of variable used as proxy for capital market. General the result of the G.C test suggested that capital market drive economic growth.

Ewah et al; (2009) evaluate the impact of the capital market efficiency on economic growth of Nigeria using time series data from 1963 to 2004. They found that the capital market in Nigeria has the prospective of growth inducing but it has not added expressively to the economic growth of Nigeria because of low market capitalization, low absorptive capitalization, illiquidity, embezzlement of funds among others. Harris (1997) did not find hard evidence that capital market activity affects the level of economic growth.

Also authors like Shiller (1989), Summers (1988), Fama and French (1988) and others argued that information technology made capital market more efficient as attendant capital prices now reflect important information and investors perception of capitals more swiftly. In their contention, ICT has made the capital market more effective and efficient in its quest to foster economic growth and development through resource mobilization and re-distribution.

Nyong (1997) developed an aggregate index of capital market development and used it to determine its relationship with long run economic in Nigeria. The study employed a time series data from 1970 to 1994. Four measures of capital market development ratio of market capitalization of GDP (in %), ratio of total value of transaction on the main capital exchange to GDP (in %), the value of equities transactions relative to GDP and listing were used. The four measures were combined into one overall composite index of capital market development using principal component analysis. The financial market depth was included as control. It was found that the capital market development is negatively and significantly correlated with the long-run growth in Nigeria. Demiurgue-kunt and Maskimovic (1998) cited in Henry (2000) found a relationship between economic growth and capital market activities in the field of transmission of security (secondary market) more than in funds channeling (primary market). Barlett (2000) demonstrated that a rising capital price raises the wealth of the economy (wealth effect) by encouraging increase in consumers' consumption and increase in investment. Australian Journal of Business and Management Research Vol.2 No.02 [20-30] | May-2012

Adam and Sanni (2005) inspected the role of capital market in Nigeria's economic growth using Granger-Causality test and regression analysis. The study exposed a one-way causality between GDP growth and market capitalization and a two-way causality between GDP growth and market turnover. They also detected a positive and significant relationship between GDP growth turnover ratios. The study advised that government should inspire the development of the capital market since it has a positive relationship with economic growth.

Obamiro (2005) examined the role of the Nigerian capital market in the light of economic growth. The author stated a significant positive result of capital market on economic growth. He recommended that government should generate more allowing environment so as to upsurge the effectiveness of the capital market, and to attain advanced economic growth.

Mbat (2001) described it as a forum through which long term funds are made available by the surplus to deficit economic units. It must however, be noted that although all 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 the borrowers in the capital need to satisfy certain basic requirement. It has very profound implication for the socio-economic growth and development of any nation.

Levine and Sara (1996) examines whether there is a strong empirical association between capital market development and long–run economic growth. The study used cross- country time series regression of forty-one countries from 1976 to 1993 to evaluate this association. The study tow the line of Demirguc-Kunt and Roos (1996) by conglomerating measures such as capital markets size, liquidity, and integration with world markets into index of capital market development.

Efforts were also made by Nyong (1997) to develop an aggregate index of capital market development and used it to determine its relationship with long-run economic growth in Nigeria. His study employed a time series data from 1970 to 1994.For measures of capital market development, the ratio of market capitalization to GDP (in percentage), ratio of total value of transactions on the main capital exchange to GDP (in percentage), the value of equities transaction relative to GDP and listings were used. The four measures were combined into one overall composite index of capital market development using principal component analysis. A measure of financial market depth (which is the ratio of broad money to capital of money to

GDP) was included as control. The result of the study was that capital market development is negatively and significantly correlated with long-run growth in Nigeria. The result also showed that there exists bi-directional causality between capital market development and economic growth.

SUMMARY OF FINDINGS

There have been growing concern and controversies on the role of the capital markets on economic growth and development (Oyejide, 1994; Levine and Zervos, 1996; Demirgue-kunt and Levine, 1996; Nyong, 1998; Sule and Momoh, 2009; Ewah, Esang and Bassey,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, Atje and Jovanovic (1993) found in a cross country study of capital and economic growth of 40 countries from 1980 to 1998 that there was a significant correlation between the average economic growth and capital market capitalization. Levine and Zervos (1996) examined whether there was a strong empirical relationship between capital market development and long run economic growth. They found a strong correlation between those phenomena.

Demirgue-kunt and Levine (1996) using data from 44 countries for period 1986 and 1993 found that different measures of capital exchange size are strongly correlated to other indicators of activity levels of financial, banking, non-banking institutions as well as to insurance companies and pension fund. They concluded that countries with well-developed capital markets tend to also have well developed financial intermediaries. Again, Demiurgue-kunt and Masksimovic (1998) have shown and re-emphasized the complementary role of capital market and banks that they were not rivals or alternative institutions using 30 countries from 1980 to 1991. Levine and Zervos (1998) used pooled crossed country time series regression of 47 countries from 1976 to 1993 to evaluate whether capital market liquidity is related to growth, capital accumulation and productivity. They towed the line of Demiurgue-kunt and Levine (1996) by conglomerating measures such as capital market size, liquidity and integration with world market, into index of capital market development. The rate of Gross Domestic Product (GDP) per capital was regressed on a variety of variables designed to control for initial conditions, political instability, investment in human capital and macroeconomic condition and then included the conglomerated index of capital market development. They found empirically that the measures of capital market

liquidity were strongly related to growth capital accumulation and productivity while capital market size does not seems to correlate to economic growth.

Nyong (1997) developed an aggregate index of capital market development and used it to determine its relationship with long run economic in Nigeria. The study employed a time series data from 1970 to 1994. Four measures of capital market development ratio of market capitalization of GDP (in %), ratio of total value of transaction on the main capital exchange to GDP (in %), the value of equities transactions relative to GDP and listing were used. The four measures were combined into one overall composite index of capital market development using principal component analysis. The financial market depth was included as control. It was found that the capital market development is negatively and significantly correlated with the long-run growth in Nigeria. Demiurgue-kunt and Maskimovic (1998) cited in Henry (2000) found a relationship between economic growth and capital market activities in the field of transmission of security (secondary market) more than in funds channeling (primary market). Barlett (2000) demonstrated that a rising capital price raises the wealth of the economy (wealth effect) by encouraging increase in consumers' consumption and increase in investment.

Ewah et al; (2009) appraise the impact of the capital market efficiency on economic growth of Nigeria using time series data from 1963 to 2004. They found that the capital market in Nigeria has the potential of growth inducing but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others. Harris (1997) did not find hard evidence that capital market activity affects the level of economic growth.

Also authors like Shiller (1989), Summers (1988), Fama and French (1988) and others argued that information technology made capital market more efficient as attendant capital prices now reflect important information and investors perception of capitals more swiftly. In their contention, ICT has made the capital market more effective and efficient in its quest to foster economic growth and development through resource mobilization and re-distribution.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The study aims at providing empirical evidence on the effect of capital market on the economic growth of Nigeria. The data were sourced from the Central Bank of Nigeria statistical bulletin. The study hypothesized that capital market reforms does not have a significant effect on the economic growth of Nigeria. The study employed annual time-series data from 1981 to 2013. The study employed Augmented Dickey-Fuller unit root test, Johansen Co-integration test, and Error Correction Mechanism (ECM).

3.2 MODEL SPECIFICATION

An economic model is a simplification of the real world in which essential features of an economic relationship, a set of relationship are explained using diagram, words and often mathematics. According to Onuchuku and Adoghor (1999), model specification involves the following (a) the determination of the dependent and the explanatory variable, (b) the determination of the apriori theoretical expectation about sign and size of the parameters of the function, (c) determination of the mathematical form of the model.

Therefore, flowing from economic theory and empirical literature in chapter two, this research relies on the work of Donwa and Odia (2010) with some modifications. Thus, the functional and econometric relationships between the industrial sector, its major components (manufacturing, mining and quarrying, electricity output and the capital market indices (market capitalization, new issues, value of transaction total listings.) while, Exchange rate and interest rate as checking variables

Given the theoretical relationships between the dependent and independent variables, we then specify the industrial sector model and its component of manufacturing, mining and electricity as follows:

INO = F (MCP, TNI, VT, TL, EXR, INT)..... 1

INMF= F (MCP, TNI, VT, TL, EXR, INT).....2

INMQ = F (MCP, TNI, VT, TL,, EXR, INT)..... 3

INE = F (MCP, TNI, VT, TL,, EXR, INT)..... 4

By linearizing the functions, we have

The following equations:

INO =a0 + b1MCP + b2TNI + b3VRT + b4TLS - b5EXR - b6INT + U1.....5

INMF = c0 + c1MCP + c2TNI + c3VRT + c4TLS - c5EXT - c6INT + U2 ---------- 6

INMQ=d0 + dlMCP + d2TNI + d3VRT + d4TLS - d5EXT- d6INT +U3..... 7

INE =e0 + e1MCP + e2TN1 +e3VRT + e4TLS - e5EXT - e6gINT +U4..... 8

It is pertinent to point-out that both the linear and the log-linear specifications were tried; however the log-linear appeared better in terms of goodness of fit, precision of estimates and a tolerable level of multi-co linearity. Thus, transforming equations 5 to 8 into aggregate production function -

Yi =AXi U ---------- 9

Where:

Yi = the sector

Xi = the indictors of capital market

&I = operations

U = Error term

Thus, in line with the above

The industrial sector econometric model is explicitly stated as:

LogINO=a0 + b1LogMCP + b2log TNI + b3logVRT + b4log TLS -b5logEXR -b6logINT + U1---------- 10

Where b1, b2, b3 b4 >0 b5 and b6< 0

LogINMF = c0 + c1logMCP + c2logTNI + c3logVRT + c4logTLS - c5logEXT - c6logINT + U2 ---------- 11

Where,

INO = Index of the Nigeria Industrial Sector.

MCP = Market Capitalization

TNI = Total New Issue

VRT = Value of Transaction

TLS = Total Listed securities

EXR = Exchange rate

INT = Interest rate

The study used the multiple regression analysis to test whether the capital market indices (market capitalization, total new issues, total value of transaction and total listed (Equities and Government stocks) have impacted on the industrial sector.

3.3 THEORETICAL EXPECTATION

As earlier stated the variables include Index of the Nigeria Industrial Sector (INO), which is taken as the dependent variable, MCAP, TNI, VTR, TLS, EXR and INT which are the independent variables. It is expected that all the explanatory variables except exchange rate will have a direct relationship with the dependent variable. That is, a unit increase in any of these variable will lead to an increase in the dependable variable. But an increase in EXR will enhance INO to decrease. This can be expressed mathematical as: a1, a2, a3, a4> 0 while a5< 0

UNIT ROOT TEST

Non-stationary data produces spurious regression; hence the result may be misleading. Therefore, it is cognizant to establish the stationarity of data. This is carried out using the Augmented Dickey-Fuller (ADF) unit root test. The decision rule is that the ADF test statistic value must be greater than the Mackinnon critical value at 5% and at absolute value.

3.4 ESTIMATION TECHNIQUE/METHOD OF EVALUATION

In the estimation of the model that had been specified in above, the study adopts the Ordinary Least Squares technique to estimate the model above.

The R^{-2} and f-statistic will be used to test the overall significance of the model while the student test will be adopted to test the empirical validity of the individual variables.

In this section, the research would proceed with all the evaluation of the results. The evaluation will be based on three criteria;

economic criteria,

statistical criteria and

econometric criteria.

Economic Criteria:

This evaluation consists of deciding whether the estimates of the parameter are theoretically meaningful and satisfactory. The signs and magnitude of the parameter estimate will be examined to know whether they are in conformity with their criteria expectation. Economic criteria will help the researcher to know when they are deviating from what is actually required.

Statistical Criteria:

R^2 (First Order Test)

This measures or explains the total variation in the dependent variable computed in the models. Under this, we shall use the t-test, F-test.

- t-test: This is used to test the statistical significance of individual estimated parameter. In this research t-statistic is chosen because the population variance is known and the sample is less than 30.

- F-test: The F-test is used to test for the significance of the joint influence of the explanatory variables on the dependent variable is statistically significant.

Econometric Criteria:

This will be used to evaluate if the assumptions of the econometric method employed is satisfactory or not. The tests carried out under this criterion are:

- **Auto Correlation Test**: This test will adopt the conventional 'Durbin-Watson test' in checking for the present and correlation.
- **Multi-colinearity test:** This test will adopt the correlation matrix test in order to check for the degree of multi-colinearity among the variables.
- **Normality test:** This test is carried out to check whether the error term follows a normal distribution. The normality test adopted in this research is Jarque Bora (JB) statistics which follows the chi-square distribution with 2 degree of freedom.

3.5 SOURCES AND METHOD OF DATA COLLECTION

The data for this study was obtained mainly from secondary sources particularly from Federal Office of Statistics (FOS), Central Bank of Nigeria (CBN) and other allied organization

such as economics and financial review, Central Bank Bullion, Central Bank Brief published and unpublished works of independent bodies commissions, individual and private organization.

Informations are also gathered from different text books which are related to this study. An annual data covering the period of 1980 to 2013 are used.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter deals with the presentation and analysis of empirical results obtained from the estimation exercise. In the model, INO was stated as determined by LINM, LINQ, LINE.

The data used cover the Nigeria economy from 1970 to 2008 and the data used was obtained from the Central Bank Statistical Bulletin of 2008. The dependent variable includes *LMCP, LTNI, LVTR, EXR and INT.*

4.2 EMPERICAL RESULT

4.2.1 Descriptive Statistics

The descriptive statistics of the variables is provided in table 1 below. From the table, the averages of the variables are *LINO, LINM, LINQ, LINE* and *LMCP* are 4.70, 4.56, 4.80, 4.65 and 11.11 respectively while the average of the remaining variables are 8.36, 8.07, 5.31, 52.53 and 15.35 for *LTNI, LVTR, LTLS, EXR* and *INT* respectively. The maximum values of the variables are 5.02, 5.21, 5.04, 5.45 and 16.40 for *LINO, LINM, LINQ, LINE* and *LMCP* respectively while the maximum values for *LTNI, LVTR, LTLS, EXR* and *INT* are 14.48, 15.81, 5.74, 158.42 and 29.80 respectively. The minimum values of the variables are 3.72, 3.18, 4.28, 2.90 and 5.60 for *LINO, LINM, LINQ, LINE* and *LMCP* respectively while the minimum values for *LTNI, LVTR, LTLS, EXR* and *INT* are 2.81, 2.81, 3.95, 0.55 and 6.0 respectively. The standard deviation showed that *EXR* (60.08) is the most volatile variable in the time series. This is followed by *INT* (6.80), *LVTR* (3.89), *LTNI* (3.59), *LMCP* (3.09), *LINE* (0.64), *LINM* (0.53), *LTLS* (0.48), and *LINO* (0.28) while *LINQ* (0.18) is the least volatile of the time series.

The skewness statistic from table below revealed that *LINO, LINM, LINQ, LINE* and *LTLS,* were negatively skewed while *LMCP, LTNI, LVTR, EXR* and *INT* were positively skewed. The kurtosis statistics showed that *LMCP, LTNI, LVTR, EXR and INT* were platykurtic, suggesting

that their distributions were flat relative to normal distribution while *LINO, LINM, LINQ, LINE and LTLS* were leptokurtic, suggesting that the distribution is peaked relative to normal distribution. Finally, the Jarque-Bera statistic rejected the null hypothesis of normal distribution for *LINO, LINM, LINQ, LINE,* and *LTLS* at five per cent critical value while the null hypothesis of normal distribution for the other variables (*LMCP, LTNI, LVTR, EXR and INT*) were accepted at the same critical value.

Table 1: Descriptive Statistics

Variables	LINO	LINM	LINQ	LINE	LMCP	LTNI	LVTR	LTLS	EXR	INT
Mean	4.70	4.56	4.80	4.65	11.11	8.36	8.07	5.31	52.53	15.35
Median	4.80	4.63	4.84	4.93	10.05	7.68	6.04	5.55	9.91	17.33
Maximum	5.02	5.21	5.04	5.45	16.40	14.48	15.81	5.74	158.42	29.80
Minimum	3.72	3.18	4.28	2.90	5.60	2.81	2.81	3.95	0.55	6.00
Std. Dev.	0.28	0.53	0.18	0.64	3.09	3.59	3.89	0.48	60.08	6.80
Skewness	-1.60	-1.17	-0.99	-1.16	0.33	0.41	0.72	-1.48	0.54	0.08
Kurtosis	5.32	3.46	3.23	3.48	1.73	2.02	2.21	3.94	1.57	1.87
Jarque-Bera	28.12	10.27	7.12	10.03	3.68	2.91	4.87	17.18	5.77	2.34
Probability	0.00	0.01	0.03	0.01	0.16	0.23	0.09	0.00	0.06	0.31
Observations	43	43	43	43	43	43	43	43	43	43

Source: Author's Computation (2015)

4.2.2. Unit Root Test

Following the descriptive statistics of the variables, this time series properties of the variables was conducted by the Augmented Dickey-Fuller (ADF) and the result presented in table 2. The Augmented Dickey Fuller (ADF) test showed that all the variables were integrated of order one; that is, the variables became stationary after first difference.

Table 2: Unit Root Test Result

Augmented Dickey-Fuller (ADF) Test			
Variables	Level	1st Diff	Status
LINO	-1.5615	-6.6774*	I(1)
LINM	-2.9227	-6.3514*	I(1)
LINQ	-2.4412	-5.1594*	I(1)
LINE	-1.7274	-3.1868**	I(1)
LMCP	-0.9336	-8.8172*	I(1)
LTNI	-0.3952	-7.9444*	I(1)
LVTR	1.5572	-8.5754*	I(1)
LTLS	-5.2507	-4.5096*	I(1)
EXR	0.6122	-6.2040*	I(1)
INT	-1.1603	-9.8273*	I(1)

Note: *=1% and **=5% significance level.

Source: Author's Computation (2015)

4.2.3. Co-integration Estimate

The result of the co-integration estimate is presented in table 3 below. From table 3, it is observed that the null hypothesis of no co-integration, for r=0 and r≤1 were rejected by the both the trace and the maximum eigen-value statistic. The statistical values of these tests were greater than their critical values. The null hypothesis of no co-integration for r≤2 was rejected by the trace statistics because the trace statistical value was greater than the critical values. However, null hypothesis of no co-integration for r≤2 could not be rejected by the maximum eigen-value statistics because the statistical value was less than the critical values, thereby indicating the existence of two co-integrating equation. With respect to the trace statistics, it is noted that the null hypothesis of no co-integration for r≤3 could not be rejected by the trace statistics because the statistical value was less than the critical values, thereby indicating the existence of three co-

integrating equation. Despite in conflict in results above, both the trace and maximum eigen-value revealed the existence of co-integration among the variables.

Table 3: Summary of the Co-integration Estimate

Trace Test				Maximum Eigen value Test			
Null	alternative	Statistics	95% critical values	Null	alternative	Statistics	95% critical values
r=0	r≥1	311.23	239.24	r=0	r=1	87.92	64.50
r≤1	r≥2	223.31	197.37	r≤1	r=2	61.84	58.43
r≤2	r≥3	161.47	159.53	r≤2	r=3	44.21	52.36
r≤3	r≥4	117.26	125.62	r≤3	r=4	35.29	46.36

Source: Author's Computation (2015)

4.2.4. Long Run Regression Estimate on the impact of Capital Market on Industrial Sector Performance in Nigeria (1970-2012)

Table 4 below presents the long run regression estimate of the impact of capital market on industrial sector performance in Nigeria for the period 1970 to 2012. The coefficient of determination (that is R^2) showed that the explanatory variables jointly explained about 87 per cent of variations in industrial sector performance in Nigeria during the study period while the remaining 13 per cent is explained by other factors outside the model. The F-statistics (40.16 p=0.000) showed that the model estimated is appropriate in estimating the long run relationship between capital market and industrial sector performance.

The long run estimate on table 4 showed that market capitalization (MCP) had a positive (0.59) and significant impact on industrial sector performance in Nigeria, suggesting that a one percent increase in market capitalization will increase the growth and performance of the industrial sector by about 59.3 percent in the long run. Total new issue and value of traded ratio were

observed to having a negative but insignificant effect on industrial sector growth in Nigeria in the long run. This denotes that both total new issue (TNI) and value of traded ratio (VTR) were insignificant in influencing the performance of the industrial sector during the period of this study. In contrast to the negative and insignificant effect of total new issue and value traded ration on industrial sector growth, the long run regression estimate showed that total listed securities (TLS) had a positive (0.61) and significant impact on industrial sector performance in Nigeria, suggesting that a one percent increase in total listed securities (TLS) will increase the growth and performance of the industrial sector by about 61 percent in the long run. However, exchange rate (EXR) and interest rate (INT) were insignificant in influencing the performance of the industrial sector growth in Nigeria in the long run. Exchange rate (EXR) had positive effect on industrial sector performance while interest rate had negative effect on industrial sector performance in Nigeria in the long run. This signifies that both exchange rate (EXR) and interest rate (INT) were insignificant in influencing the performance of the industrial sector during the period of this study.

With respect to the objective of this study on the impact of capital market on the performance of the industrial sector, it was evident two indicators of capital market (which are market capitalization (MCP) and total listed securities (TLS) had strong influence on industrial sector performance in Nigeria during the study period. This further shows that the performances of the industrial sector have been influence by the growth of the capital market over the period 1970 to 2012.

Table 4: Long Run Regression Estimate

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.663814	0.296739	5.606995	0.0000
LMCP	0.592561	0.126798	4.673251	0.0000
LTNI	-0.001209	0.028269	-0.042762	0.9661
LVTR	-0.042117	0.026278	-1.602714	0.1177
LTLS	0.611110	0.074943	8.154356	0.0000
EXR	0.002199	0.001319	1.667223	0.1041
INT	-0.001940	0.004549	-0.426543	0.6723

R-squared	0.870017	Mean dependent var	4.701047
Adjusted R-squared	0.848353	S.D. dependent var	0.283179
S.E. of regression	0.110275	Akaike info criterion	-1.423779
Sum squared resid	0.437780	Schwarz criterion	-1.137072
Log likelihood	37.61126	Hannan-Quinn criter.	-1.318051
F-statistic	40.15996	Durbin-Watson stat	0.945784
Prob(F-statistic)	0.000000		

Source: Author's Computation (2015)

4.2.5. Short Run Regression Estimate on the impact of Capital Market on Industrial Sector Performance in Nigeria

The short run relationship on the impact of capital market on industrial sector performance is presented on table six (6) below. However, before estimating the short run regression estimate, the stationarity property of the residual from the long run estimate was examined and the result is presented on table 5 below. Using the Augmented Dickey Fuller (ADF) test, the stationarity test showed that the residual is integrated of order one at five per cent significant level.

Table 5: Residual Stationarity Test

Variable	ADF Test	Order of Integration
Resid	-4.2941*	I(0)

Note: * implies 1% significance level.

Source: Author's Computation (2015)

With respect to the parsimonious regression estimate capturing the short run analysis, it is observed from table 6 that there are significant improvement in the parsimonious model of the over parameterized model. The coefficient of determination (that is R^2) from the parsimonious model on the short run estimate on the impact of capital market on industrial sector performance showed that the explanatory variables jointly explained about 71 per cent of variations in industrial sector performance in Nigeria in the short run. The F-statistics (3.01; $p<0.05$) showed that the model estimated is appropriate while the Durbin Watson statistics is 2.2, indicating the absence of serial auto-correlation in the short run estimate. The short run regression estimate also showed that the coefficient of the error-term for the ECM model is both negative and statistically significant at one percent. The coefficient estimate of the error correction term of -0.57 indicates that the model corrects its short run disequilibrium by about 56.7 percent speed of adjustment in order to return to the long run equilibrium. Also, the negative sign of the error correction term indicates a move back towards long run equilibrium.

In addition to the above, it was observed that the co-efficient of the second lagged value of industrial sector performance *(ΔLINO (-2))* was positive (0.21) and insignificant at five percent significant level, suggesting that the second lagged value of industrial sector growth was insignificant in influencing the current industrial sector performance. The first *(ΔLMCP (-1))* and second lagged *(ΔLMCP (-2))* values of stock market capitalization had negative and insignificant

effects on current industrial sector performance. This suggests that these variables were insignificant in influencing the current industrial sector performance in Nigeria in the short run. Similarly, the current value of total new issues *(ΔLTNI)* in the short run estimate was observed to be insignificant in affecting current industrial sector performance, while the first *(ΔLTNI (-1))* and second lagged *(ΔLTNI (-2))* values of total new issues had positive and significant effects on current industrial sector performance. This suggests that these variables were significant in influencing the current industrial sector performance in Nigeria in the short run; and that a percent increase in first *(ΔLTNI (-))* and second lagged *(ΔLTNI (-2))* values of total new issues would promote and enhance current industrial sector performance by 4.2 percent and 4.5 percent respectively in the short run. Furthermore, the current values of total listed securities *(ΔLTLS)* and exchange rate *(ΔEXR)* had positive and significant effects on current industrial sector performance. This suggests that these variables were very influential in affecting the current industrial sector performance in Nigeria in the short run; and that a percent increase in the current values of total listed securities *(ΔLTLS)* and exchange rate *(ΔEXR)* would boost the performance of current industrial sector by 76.9 percent and 0.5 percent respectively in the short run in Nigeria.

Finally, the second lagged *(ΔINT (-2))* value of interest rate had positive but insignificant effects on current industrial sector performance at five percent critical level; suggesting that during the period of study (1970 to 2012) interest rate was not effective in determining the performance of the industrial sector in Nigeria and in the short run.

With respect to the objective of this study, which is to examine the impact of capital market on industrial sector performance, the short run estimate clearly showed that only total new issues and total listed securities were capital market variables that affected the performance of the

industrial sector in Nigeria in the short run while market capital was not influential in affecting the performance of the industrial sector in the short run during the scope of the study

Table 6: Parsimonious Short Run Regression Estimate on the Impact of Capital Market on Industrial Sector Performance in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.044655	0.022044	-2.025698	0.0521
ECM(-1)	-0.566445	0.144793	-3.912094	0.0005
⊿LINO(-2)	0.212018	0.137023	1.547325	0.1326
⊿LMCP(-1)	-0.072778	0.036316	-2.003987	0.0545
⊿LMCP(-2)	-0.041870	0.025383	-1.649554	0.1098
⊿LTNI	0.037318	0.022174	1.682964	0.1031
⊿LTNI(-1)	0.042102	0.020785	2.025614	0.0421
⊿LTNI(-2)	0.045038	0.021582	2.086867	0.0458
⊿LTLS	0.769400	0.207314	3.711285	0.0009
⊿EXR	0.005464	0.002049	2.666237	0.0124
⊿INT(-2)	0.007154	0.003774	1.895753	0.0680

R-squared	0.709492	Mean dependent var	0.017509
Adjusted R-squared	0.640351	S.D. dependent var	0.093085
S.E. of regression	0.075603	Akaike info criterion	-2.098231
Sum squared resid	0.165758	Schwarz criterion	-1.633789
Log likelihood	52.96462	Hannan-Quinn criter.	-1.930303
F-statistic	3.012239	Durbin-Watson stat	2.201730
Prob(F-statistic)	0.009855		

Source: Author's Computation (2015)

4.3 DISCUSSION OF FINDINGS

From the above analysis, it can be observed that market capitalisation, total listed securities and exchange rate has a positive relationship with industrial sector output performance in nigeria while tottal new issues, value of transaction and interest rate has a negative relationship with industrial sector output performance in nigeria. It can also be observed that there is a significant relationship between market capitalisation, total listed securities and industrial sector output performance in nigeria while total new issues, value of transaction exchange rate and interest rate has an insignificant reletionship with industrial sector output performance in nigeria. Thus, after the hypothesis testing, the result show that;

- There is a positive relationship between market capitalisation and industrial sector output performance in nigeria between the period of 1970-2012.
- There is a positive relationship between total listed securities and industrial sector output performance in nigeria between the period of 1970-2012.
- There is a positive relationship between exchange rate and industrial sector output performance in nigeria between the period of 1970-2012.
- There is a negative relationship between total new issues and industrial sector output performance in nigeria between the period of 1970-2012.
- There is a negative relationship between value of transaction and industrial sector output performance in nigeria between the period of 1970-2012.
- There is a negative relationship between interest rate and industrial sector output performance in nigeria between the period of 1970-2012.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

This study has been able to presents the analysis of data and presents the result from the study, which shows that there is a significant relationship between capital market and industrial sector performance in Nigeria. From the result, market capitalisation (MCP) and total listed securities (TLS) was significant and positive, which conforms to the apriori expectation that both variables will be positively related to the industrial sector performance which was in proxy with the capital market capitalization. The interest rate was negative and insignificant which is contrary to the apriori expectation. However the exchange rate was positively related and insignificant to the industrial sector performance in Nigeria which conforms to the apriori expectation of negative relationship, thus establishing the objective of this study which seeks to find the impact of capital market on industrial sector performance in Nigeria. It was discovered that there exists a positive relationship but weak impact of capital market on industrial sector performance in Nigeria which conforms to the findings of Schumpter (1932), Bagehot (1962), Goldsmith (1969), Ewah, et al (2009), Mckinnon (1903), Shaw (1973), Ojo (1984) and Babalola (2007).

5.2 CONCLUSION

This study has been able to establish that there exist a positive relationship between capital market and industrial sector performance in Nigeria and this implies good news for the Nigeria capital market and industrial sector as this could attract prospective investors into the market and the economy. This study reveals that there is a linkage between capital market and industrial sector performance in Nigeria vis-à-vis market capitalization, total value of transaction,total new issues, total listed securities, interest rate and exchange rate. As it can be observed that market capitalization, value of transaction, total new issue, total listed securities, interest rate and exchange rate are influenced by external polices from the government in attempt to achieve economics goals such as resources re-distribution, increase in per capital income and reduction in unemployment, among others. Hence the capital market remain one of the mainstream in every economy that has the power to influence or impact economic growth therefore the organized

private sector is to invest in it. The government is therefore advised to put up measures to stem up investors' confidence and activities in the market and more foreign investors should be encouraged to participate in the market for improvement in the declining market capitalization so that it could contribute significantly to the Nigerian economic growth.

5.3 RECOMMENDATIONS

After a critical evaluation of the empirical study, the study therefore proffers the following recommendations:

1. Since there is no negative impact of capital market on industrial sector performance in Nigeria, policy makers should use market capitalisation as a policy tool to attract investors which will lead to increase in the industrial sector output performance and growth of the economy.
2. As a result of the weak impact of capital market on industrial sector performance in Nigeria, the Nigeria industrial sector should ensure some hedge instruments that would shock any negativity that might occur as a result of the unstable and declining market capitalisation.
3. Improvement in the declining market capitalization by encouraging more foreign investors to participate in the market, maintain state of the art technology like automated trading and settlement practices, electronic fund clearance and eliminate physical transfer of shares.
4. To boost the value of transactions in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, future, and swaps options in the market.
5. Lastly, There is also need to institute policies that will further increase the value of transactions in the market. An increase in the value of transaction will in turn lead to economic growth in Nigeria. It is important that interest rate should be lowered so as to increase the level of investment. An increase in investment will lead to an increase in industrial sector output peformance and economic growth in Nigeria.

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APPENDIXES

Appendix 1: Data presentation

YEAR	INO (m)	INM (m)	INQ (m)	INE (m)	MCP (m)	TNI (m)	VTR (m)	TLS (m)	EXR (%)	INT (%)
1970	41.3	24.1	72.2	18.2	270.5	16.6	16.6	52	0.7143	7
1971	54.8	27.6	104.9	24.2	1674.7	18.1	36.2	60	0.6955	7
1972	62.3	29.7	122.5	27.5	2106.6	27.2	27.2	72	0.6579	7
1973	72.4	36.7	138	32.3	2647.1	92.4	92.4	82	0.6579	7
1974	76.2	35.5	151.2	35.9	3363.9	50.7	50.7	96	0.6299	7
1975	71.8	43.9	119.9	42.3	3308.8	63.7	63.7	99	0.6159	6
1976	85.5	54.1	139	50.8	4136	111.9	111.9	105	0.6265	6
1977	88.6	57.5	140.3	58.4	4334.6	180	180	112	0.6466	6
1978	90.4	65.8	127	71.7	3422.1	189.5	189.7	128	0.606	7
1979	120.3	97.3	154.4	64.1	4651.3	261.9	254.4	172	0.5957	7.5
1980	119	102.4	138.5	74.8	4930.5	479	388.7	188	0.5464	7.5
1981	115.6	117.3	96.2	89.4	4997.8	455.2	304.8	194	0.63	7.75
1982	122.9	128.6	86.2	94.9	4025.7	533.4	215	205	0.67	10.3
1983	96.4	94.8	82.5	97.1	5768	448.5	397.9	212	0.72	10
1984	91.6	83.4	93	87.1	5514.9	159.8	418.2	213	0.76	12.5
1985	100	100	100	100	6670.7	817.2	319.6	220	0.89	9.3
1986	103.5	78.2	97.8	120.8	6794.8	833	494.4	240	3.76	10.5
1987	122.1	130.8	88.4	118.8	8297.6	450.7	348	244	4.08	17.5
1988	108.8	135.2	95.3	125.1	10020.8	400	137.6	253	4.59	16.5
1989	125	154.3	109.2	165.2	12848.6	1629.9	521.6	267	7.39	26.8
1990	130.6	162.9	115.1	124.8	16358.4	9964.5	265.5	295	8.04	25.5
1991	138.8	178.1	120.1	125.3	23125	1870	136	239	9.91	20
1992	136.2	182.7	119.9	139.2	31272.6	3306.3	313.5	251	17.45	29.8
1993	131.7	145.5	124.6	142.2	47436.1	2636.9	402.3	272	22.41	18.3
1994	129.2	144.2	121.1	152.7	663680	2161.7	569.7	276	22	21
1995	128.8	136.3	124.2	150.2	180305.1	4425.6	1838.8	276	81.2	20.1
1996	132.5	138.7	129	147.1	281815.8	5858.2	7062.7	276	81.2	19.7
1997	140.6	138.5	141.5	143.7	281887.2	10875.7	11072.7	264	82	13.5
1998	133.9	133.1	134.1	138.5	262517.3	15018.1	13572.3	264	83.8	18.3
1999	129.1	137.7	125.5	139.4	300041.1	12038.5	14027.4	268	94	21.3
2000	138.9	138.2	144.3	141.2	472290	17207.8	28154.6	260	101.7	18
2001	144.1	137.7	144.9	144.6	662561.3	37198.8	57637	261	111.98	18.3
2002	145.2	146.3	144.6	146.7	764975.8	61284	60088.6	258	120.97	24.4
2003	147	148	146.5	147	1359274	180079.9	120703	265	129.36	20.7
2004	151.2	145.7	154	148	2112550	195418.4	225820.6	277	133.5	19.2

2005	121.6	89.5	143.2	233.2	2900062	552782	262929.6	288	132.15	17.95
2006	120.8	89.6	142.7	198.1	5120000	707400	470253	294	128.27	17.33
2007	120.6	89.7	132.7	190.8	13294059	1935080	2100000	310	117.97	16.46
2008	117.8	91.2	129.6	198.2	9562970	1509230	4400000	301	132.56	15.26
2009	118.2	92.4	129.4	198.3	7030800	1739349	684717.3	265	149.58	19.55
2010	121.4	93.6	130.2	199.4	8031224	1748426	7102121	272	153.43	21.43
2011	123.6	101.2	126.8	199.8	8085734	1783459	7157645	289	156.23	22.46
2012	125.5	112.6	128.2	196.4	8121324	1832371	7312763	294	158.42	25.35

Appendix 2: Descriptive statistics

Variables	LINO	LINM	LINQ	LINE	LMCP	LTNI	LVTR	LTLS	EXR	INT
Mean	4.70	4.56	4.80	4.65	11.11	8.36	8.07	5.31	52.53	15.35
Median	4.80	4.63	4.84	4.93	10.05	7.68	6.04	5.55	9.91	17.33
Maximum	5.02	5.21	5.04	5.45	16.40	14.48	15.81	5.74	158.42	29.80
Minimum	3.72	3.18	4.28	2.90	5.60	2.81	2.81	3.95	0.55	6.00
Std. Dev.	0.28	0.53	0.18	0.64	3.09	3.59	3.89	0.48	60.08	6.80
Skewness	-1.60	-1.17	-0.99	-1.16	0.33	0.41	0.72	-1.48	0.54	0.08
Kurtosis	5.32	3.46	3.23	3.48	1.73	2.02	2.21	3.94	1.57	1.87
Jarque-Bera	28.12	10.27	7.12	10.03	3.68	2.91	4.87	17.18	5.77	2.34
Probability	0.00	0.01	0.03	0.01	0.16	0.23	0.09	0.00	0.06	0.31
Observations	43	43	43	43	43	43	43	43	43	43

Appendix 3: Unit root test

Augmented Dickey-Fuller (ADF) Test			
Variables	Level	1st Diff	Status
LINO	-1.5615	-6.6774*	I(1)
LINM	-2.9227	-6.3514*	I(1)
LINQ	-2.4412	-5.1594*	I(1)
LINE	-1.7274	-3.1868**	I(1)
LMCP	-0.9336	-8.8172*	I(1)
LTNI	-0.3952	-7.9444*	I(1)
LVTR	1.5572	-8.5754*	I(1)
LTLS	-5.2507	-4.5096*	I(1)
EXR	0.6122	-6.2040*	I(1)
INT	-1.1603	-9.8273*	I(1)

Appendix 4: Co-integration Estimate

Trace Test				Maximum Eigen value Test			
Null	alternative	Statistics	95% critical values	Null	Alternative	Statistics	95% critical values
r=0	r≥1	311.23	239.24	r=0	r=1	87.92	64.50
r≤1	r≥2	223.31	197.37	r≤1	r=2	61.84	58.43
r≤2	r≥3	161.47	159.53	r≤2	r=3	44.21	52.36
r≤3	r≥4	117.26	125.62	r≤3	r=4	35.29	46.36

Appendix 5: Long Run Regression Estimate

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.663814	0.296739	5.606995	0.0000
LMCP	0.592561	0.126798	4.673251	0.0000
LTNI	-0.001209	0.028269	-0.042762	0.9661
LVTR	-0.042117	0.026278	-1.602714	0.1177
LTLS	0.611110	0.074943	8.154356	0.0000
EXR	0.002199	0.001319	1.667223	0.1041
INT	-0.001940	0.004549	-0.426543	0.6723

R-squared	0.870017	Mean dependent var	4.701047
Adjusted R-squared	0.848353	S.D. dependent var	0.283179
S.E. of regression	0.110275	Akaike info criterion	-1.423779
Sum squared resid	0.437780	Schwarz criterion	-1.137072
Log likelihood	37.61126	Hannan-Quinn criter.	-1.318051
F-statistic	40.15996	Durbin-Watson stat	0.945784
Prob(F-statistic)	0.000000		

Appendix 6: Residual Stationarity Test

Variable	ADF Test	Order of Integration
Resid	-4.2941*	I(0)

Appendix 7: Parsimonious Short Run Regression Estimate

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.044655	0.022044	-2.025698	0.0521
ECM(-1)	-0.566445	0.144793	-3.912094	0.0005
⊿LINO(-2)	0.212018	0.137023	1.547325	0.1326
⊿LMCP(-1)	-0.072778	0.036316	-2.003987	0.0545
⊿LMCP(-2)	-0.041870	0.025383	-1.649554	0.1098
⊿LTNI	0.037318	0.022174	1.682964	0.1031
⊿LTNI(-1)	0.042102	0.020785	2.025614	0.0421
⊿LTNI(-2)	0.045038	0.021582	2.086867	0.0458
⊿LTLS	0.769400	0.207314	3.711285	0.0009
⊿EXR	0.005464	0.002049	2.666237	0.0124
⊿INT(-2)	0.007154	0.003774	1.895753	0.0680

R-squared	0.709492	Mean dependent var	0.017509
Adjusted R-squared	0.640351	S.D. dependent var	0.093085
S.E. of regression	0.075603	Akaike info criterion	-2.098231
Sum squared resid	0.165758	Schwarz criterion	-1.633789
Log likelihood	52.96462	Hannan-Quinn criter.	-1.930303
F-statistic	3.012239	Durbin-Watson stat	2.201730
Prob(F-statistic)	0.009855		