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The Effect of Capital Market on Industrial Development of Nigeria

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ABSTRACT: *The study examined the effect of capital market on industrial development in Nigeria for the period of 33 years spanning from 1990-2022. The independent variable employed in study are; market capitalization (MCAP), Industrial loan (INDL), Total volume (TV) and GFCF (Gross fixed capital formation), and industrial development proxy Industrial Output (INDOPT). Data were collected from the CBN Statistical Bulletin and World Bank data for 1990-2022. Data set was described using descriptive statistics, correlation analysis ARDL with the help of E-VIEW version 9.0. The study concluded that MCAP, TV have significant relationship with INDOPT both on the short & long run respectively, meanwhile GFCF has significant relationship with INDOPT only on the long run. The study thereby recommends that positive impact of total volumes calls for proper policies to be implemented so as to attract more investors to invest in the market. There is also need to relax some stringent registration and operating procedures to enable more people and organizations to participate in the market. There is also need to institute policies that will further increase the value of market transaction in the market.*

KEYWORDS: market capitalization, industrial loan, total volume, industrialization and economic growth

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INTRODUCTION

Whether a country has a mixed economy, a capitalist economy, or both, industrialization is unquestionably the foundation for economic growth (Adesina-Uthman, 2020; Shamsher, 2021). This is true because a country may manufacture the majority of the goods and services that its citizens need by establishing both small and large companies. Among other things, industries in developing nations can flourish provided sufficient capital—that is, both short-term and long-term capital—is available for their launch and growth. This is due to the fact that long-term financing is required for the purchase of assets that will offer several benefits for both current needs and upcoming industry requirements. Short-term funds are required to support daily operations of the firm, like raw materials and work-in-progress, but long-term funds are preferable for acquiring assets like lands, buildings, plants, machinery, and other fixed assets. Short-term funding is easier to come by through profit-plucking, bank loans, personal savings, etc. (Yakubu 2023); however, long-term capital is essential to promote industrial growth and development because it's a surefire guarantee of successful industrialization. This is where capital market comes into play.

The financial system's capital market is a crucial component that offers an effective means of distributing, managing, and allocating long-term capital (Umar, 2022; Yakubu, 2023). The long-term loan market is where they are transacted. it's made up of a complex network of institutions and mechanisms that mix short & long term funds and make them available to individuals, businesses, and governmental entities. In addition to giving industry working and fixed capital, capital market finances the federal, state, and local governments' medium- and long-term borrowing. It deals in bonds, government securities, common stocks, and corporate shares and debentures (Emenike 2021). The primary aim of capital markets is to provide avenues for the effective allocation of idle funds from excess economic entities to underfunded entities for the purpose of long-term investment objectives. The real sector of economy, which comprises the oil and non-oil sectors, is what propels economic growth and prosperity, but availability of financing is a major factor in how well these sectors perform, which emphasizes the crucial role capital market plays, especially in Nigerian economy (Umar, 2022; Yakubu, 2023). Since the government rarely provides the market with money, private individuals and corporations make up the bulk of fund suppliers. The deficit units, also are restricted to businesses and the government. Stated differently, a sizable share of the market's fund supply does not fit the definition of fund consumers. This is because most of the time folks can't get money from capital market. The ability for investors to purchase and sell already-issued securities is another feature of the secondary arms of the capital markets that stimulates economic growth and public interest in equities. The Nigerian capital

market is made up of primary and secondary markets. New securities are released on the main market, and the firms issuing them receive commissions from the sales of these securities. On the secondary market, investors can purchase and sell shares to other investors. Thus, the smooth functioning of the market enhances investor interest to purchase new securities with the goal of reselling them in the secondary market, thereby enabling the primary market. These securities are the main means of raising funds in capital market (Emenike, 2021). capital market can be used by individuals, businesses, and governments to finance long-term investments. Fund trading on capital market enables the construction of enterprises, roads, schools, and residences (Rose and Marquis, 2019). As a result, capital market supports the country's economic growth and capital formation (Kamasa, Owusu, & Nkansah Asante 2023). Furthermore, corporate control, risk diversification, liquidity, mobilization of funds, and the acquisition of company information are all impacted by a well-functioning capital market (Odo, Anoke, Onyeisi, & Chukwu 2017). Like other capital markets worldwide, the Nigerian capital market was created with the aim of accelerating capital formation and industrial growth in Nigeria. The research study that examines the impact of Nigeria's capital market on the nation's industrial development is informed by this environment.

Statement of the Problem.

The Nigerian capital market's goal remains unfulfilled. it's said to have underperformed when it comes to supplying steady funding for the nation's industrialization. A multitude of factors have distorted the performance of capital market as a means of financing Nigeria's industrial development. These factors include widespread poverty that has had a significant impact on the savings culture, a low level of public awareness of the potential returns from capital market investments, a dearth of trading options, a lack of market transparency, a negative perception of the market among foreign investors, and irrational stock pricing.

The Nigerian market still has a limited range of trading instruments, and the capital market's mediocre performance hasn't resulted in a notable expansion of the industrial sector despite the government of Nigeria's numerous reforms. Nigeria's capital market is limited by inadequate infrastructure and lacks depth and breadth (Anderu, 2020). In light of this, the purpose of this study is to ascertain whether Nigeria's industrial development and capital market are causally related. Studies on the relationship between capital market and economic growth are widely available in the literature (Azeez & Obalade, 2019; Emenike, 2021; Kaka, Eveh, & Kaka, 2021). Studies on the relationship between industrial development and capital market are few. By concentrating on the causal relationship between capital market and industrial development utilizing extended data points in Nigeria, this study aims to close the current knowledge gap.

Hypothesis development. To guide the study, the following null hypotheses were formulated:
HO1: Market capitalization does not have any impact on industrial development of Nigeria.
HO2: Industrial loan does not have any impact on industrial development of Nigeria.
HO3: Total Volume does not have any impact on industrial development of Nigeria.
HO4: GFCF does not have any impact on industrial development of Nigeria.

LITERATURE REVIEW

Conceptual Review

Concept of Capital Market.

A group of financial organizations gathered together to offer medium- and long-term loans is known as capital market. This market is used to trade long-term financial products like government securities, corporate shares, corporate bonds, and mortgage loans. Or to put it another way, it's a market for long-term investment mobilization and deployment for development (Algaeed, 2021). According to Taiwo, Adedayo, and Evawere (2016), the market for long-term loans is known as capital market. The capital market funds the medium- and long-term borrowing of the federal, state, and local governments in addition to providing working and fixed capital to industry. According to Anderu (2020), capital market can be used by consumers, companies, and governments to finance long-term investments. The exchange for equities and long-term debt instruments, many of which have original maturities of a year or longer, is what Nwamuo (2018) characterizes as capital market.

The primary and secondary markets are included in the capital market. Each of the subsets is described below for more clarity:

The primary market

The primary market, often known as "new issue" market, provides frameworks for the introduction of newly issued securities into the market. New issues are brand-new securities that are released to the public or to shareholders exclusively for the first time by corporations and the government. Fund raisers and fund issues are combined to form the new issues market. According to Agu (2018), fund issuers are surplus units that give funds to the market, like pension funds and private investors, whereas fund raisers are deficit units that require imitable funds.

The secondary market

The official market for trading money and additional long-term securities like shares, bonds, or debentures is known as "secondary market." The capital market's focal point is provided by the

market. It primarily uses the stock market index to assess the ups and downs of all economic activity. All investors can access this market, which includes a diverse range of participants. Liquidity for all securities issued by the government and different corporate entities is provided by the market. In this market, investors have the option to convert their cash holdings in securities into other securities for investing purposes or related goals (Odo, Anoke, Onyeisi, & Chukwu 2017).The secondary market is "a value for providing liquidity to investors," according to Umar (2022). On the six trading floors of the Nigerian Capital Exchange, licensed stockbrokers call out secondary market transactions in quoted securities.

The Concept of Industrialization

Industrialization has drawn a lot of attention in recent studies on economic development, and industrial and development economists have variously referred to it as a "prime mover of the economy" and a "potent factor in the development process" (Teixeira, Vieira & Ferreira, 2021). In fact, industrialization is now thought to be essential for developing nations like Nigeria to have rapid economic growth. But like other terms in social science, "industrialization" lacks a uniform definition that is accepted by all.

As a result, specialists in industrial advancements have given it varying descriptions. Industrialization is defined as "the system of production that has arisen from the steady development study and use of scientific knowledge" by Agu (2018) in Teixeira, Vieira & Ferreira (2021). industrialization is defined as "having more factories or industrial plants" by Anderu (2020), who is also quoted in Teixeira, Vieira, and Ferreira (2021). Osakwe, Ogbonna, and Obi-Nwosu (2020) define industrialization as transforming a non-industrialized country into an industrialized one, wherein industrial output contributes at least 25% of GDP, with manufacturing accounting for approximately 60% of total industrial output and at least 10% of population employed in the industrial sector. Given that it lays out precise objectives and standards to be met, this definition seems more practical for developing economies.

Industrial sector in Nigeria

The productive system of any economy must undergo significant technological advancement to function as an industrial sector. Accordingly, industrial sector development is defined as "the deliberate and relentless application and blending of appropriate technology management techniques and additional resources to transition an economy from the customary low level of production to more automated and effective system of mass production of goods & services" Kamasa, Owusu, and Nkansah, (2023). expansion economists usually assert that transformation

of an underdeveloped economy into a developed one necessitates improved industrial sector. This is because perception that industrialization is a catalyst that can advance the structural growth and diversity of an economy. Over the years, several Nigerian administrations have put in place a variety of policies and initiatives with the goal of industrializing the country's economy (Taiwo, Adedayo, & Evawere 2016). However, the industrial sector's share of total production remained meager, suggesting that despite these drivers of industrialization, the efforts did not appear to be fruitful Olarinre, Oladunni, and Omobosola, (2023).

THEORETICAL UNDERPINNING

Efficient market theory:

The theory holds that all essential information is included in a security's current market price, which reflects all critical information. If the financial market is efficient, the asset's current market price gives the best estimate of its true value. It's thought that a lot of experts are figuring out how much businesses really deserve in a competitive industry (Nwamuo, 2018).The analysts look for stocks where there is a large market price deviation from intrinsic value. When analysts find stocks that are "mispriced," they either buy or sell them, which brings the security's market price closer to its true value right away. Thus, competition drives stock market prices to their "true" worth.

Empirical Review.

Olarinre, Oladunni, and Omobosola (2023) evaluated capital markets on the industrial growth of Nigeria between 1986 and 2021. One of the estimation techniques employed is ARDL co-integration analysis. The findings indicated that MCAP, INDL, and TVT had both short & long term favorable effects on industrial growth.

Yakubu (2023) investigated relationship between Nigeria's industrial growth and capital market capitalization between 1990 and 2021. The findings of the ADF, OLS, ARDL and causality tests show that MCAP and industrial growth are positively and significantly correlated.Kamasa, Owusu, and Nkansah (2023) examined how financial sector reforms affected Ghana's stock market's growth from (1999-2019). The results, which make use of FMOLS and ECM, show that financial sector reforms eventually help Ghana's stock market thrive. Umar (2022) examined review on capital market from 2012-2021. The research employed the SQAT. 51 journal papers in all were used for the review. Analyzing capital market and its impact on industrial performance was a common issue in capital market articles. The study came to the conclusion that industrial expansion was influenced by capital market performance.

Algaeed (2021) examined how the rise of capital market affected the per-capita GDP in the Saudi Arabian economy between 1985 and 2018. Johansen, FMOLS, and ARDL tests are used. Based on data, capitalization and liquidity showed negative trends, which runs through conclusions of numerous research published in the economic literature.

From 1985 to 2019, Celina, Nkwagu, Agbafor, and Oruta (2021) examined the capital market on industrial development of Nigeria. VECM was used in the study's analysis. The findings disclosed that MCAP and INDL had a small but favorable impact on Nigeria's GDP.

Kaka, Eveh, and Kaka (2021) evaluated how market capitalization affected the industrial growth of Nigeria between 1985 and 2017. ADF, VECM, and VAR statistics were used. The results verified the existence of a direct association between GFCF and industrial growth as well as a positive relationship between MCAP and industrial growth.

Anderu (2020) investigates the relationship between Nigeria's capital market and economic expansion from 1980 to 2017. Bound Cointegration Testing and the ARDL model were used in the study. The long-term association between Nigeria's capital market and economic growth was demonstrated by the results.

The impact of capital market development on Nigeria's economic growth between 2008 and 2018 was studied by Angaye and Bingilar (2020). Multiple regression analysis is used in the investigation. The empirical findings imply that while the stock market has a negligible impact on economic growth, it's favorably correlated with it in Nigeria. Ayaowei and Pullah (2020) examined the impact of Nigeria's capital market on economic growth from 1980 to 2016. After applying the ADF approach to test the data for unit root, the findings indicated that every variable was stationary at first difference. The long-term link between the variables was demonstrated by the Johansen Co-integration test. Our research showed that Nigeria's capital market has ability to support economic expansion.

METHODOLOGY

The study used secondary data from 1990–2022, sourced from the CBN Statistical Bulletin and NSE fact books. The study investigated the long-term relationship between Nigeria's capital market and economic growth using the Panel ARDL model. The computational tool used is E-views 10 software, and the econometric technique used is Ordinary Least Squares (OLS) in the

form of multiple linear regressions. Co-integration, causality, and stationarity testing utilizing the Augmented Dickey Fuller (ADF) test are some of the tests that were conducted.

Model Specification to better represent the capital market, this study modifies the Osakwe and Anawude (2017) model by adding extra independent variables. According to Osakwe and Anawude's (2017) model, it says this:
GDPt equals (SVTRt, MCAPRt) Where:
GDPt = Gross Domestic Product, MCAPRt = Market Capitalization Ratio to Gross Domestic Product SVTRt=Stock Value Traded Ratio to Gross Domestic Product. Thus, the model for this study is re-specified as follows:
INDOPT = f(MCAP, INDL, TV, GFCF)----------(1)
The model can be restated as:
$ROE = \beta 0 + \beta_1 MCAP + \beta_2 INDL + \beta_3 TV + \beta_4 GFCF + \varepsilon it$…….(2)
Where INDOPT = Industrial Output;
MCAP =Market Capitalization;
TV = Total Volume
INDL = Industrial loan;
GFCF = Gross fixed capital formation
Error Term
$\beta 0$ = Regression Intercept.
$\beta 1 - \beta 4$ = Coefficient of Independent Variables to the Dependent Variable

Table 3.1 Operationalization of variables.

S/N	Variable	Denotation	Measurement.	Expected Sign
1	Industrial Ouput	INDOPT		Positive
2	Market Capitalization	MCAP		Negative
3	Total Volume	TV		Positive
4	Industrial loan	INDL		Negative
5	Gross fixed capital formation	GFCF		

Source: Researcher's Compilation Based on Extant Empirical Studies (2024)

Data Analysis

Descriptive Statistics.

Table 4.1 below presents the annual average value and standard deviation value, The result is presented below

Variables	Observation	Mean	Standard deviation
INDOPT	33	5.447836	2.6988554
MCAP	33	3.557864	2.3376479
INDL	33	6.302874	4.6689576
TV	33	5.389663	3.5587945
GFCF	33	2.208833	4.6894766

Source: Econometric Views Version 9.0. (2024)

The descriptive statistics in table 4.2 above disclosed 33 observations during the period of study. Also the result reported that INDOPT, MCAP, INDL, and TV all recorded Mean values of 5.447836, 3.557864, 6.302874 and 5.389663 respectively higher than S.D values2.6988554, 2.3376479, 4.6689576 and 3.5587945 throughout the period of study. This implies that INDOPT, MCAP, INDL, and TV oscillate around its mean (low volatility). However, it GFCF disclose a mean value lower than its S.D. this implies a high volatility exist. i.e far away from the mean.

Table 4.2: Correlation analysis.

Variables	INDOPT	MCAP	INDL	TV	GFCF
INDOPT	1.000				
MCAP	0.8336	1.000			
INDL	0.3786	0.4782	1.000		
TV	-0.7453	-0.6483	-0.6444	1.000	
GFCF	-0.5349	-0.6456	-0.3338	0.3450	1.000

Source: Econometric Views Version 9.0. (2024)

From Table 4.3 above, (MCAP) and (INDL) are positively related with (INDOPT) though INDL relationship is weak while MCAP is strong. However, (TV) and (GFCF) are negatively related with (INDOPT). Though the correlation trend for (TV) is strong while GFCF is Moderate.

Table 4.3: Variance Inflation Factors

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.067569	250.9599	NA
MCAP	0.005853	7.764936	1.849933
INDL	0.003577	4.339876	1.557830
TV	0.005847	5.655994	3.133876
GFCF	0.003668	6.969665	1.448591

Source: Econometric Views Version 9.0. (2024)

Asobserved, all the VIF values are very close to the value of 1‘ and far below thebenchmark of 10. This is an indication of an absence of multicollinearity among the variables.

Table 4.4 Unit root test.

The study adopted the Augmented-Dickey-Fuller (ADF) unit root test to determine if the mean and variance are constant over time or not. The ADF unit root test is presented in table 4.4 below:

ADF test at level 1				**ADF test at first difference**		
Variables	**ADF test Statistics**	**P-values**	**Order of integration**	**ADF test Statistics**	**P-values**	**Order of integration**
INDOPT	-7.38743	0.0000	I(1)	-9.4782	0.0000	I(1)
MCAP	-4.03395	0.0177	I(0)	-3.56695	0.0056	I(0)
INDL	-3.69823	0.0138	I(0)	-4.36675	0.0133	I(0)
TV	-4.56695	0.0044	I(0)	-3.70844	0.0066	I(0)
GFCF	-3.29974	0.0040	I(0)	-3.69044	0.0030	I(0)

Source: Econometric Views Version 9.0 (2024)

The table above shows the order of integration (stationarity) of the series used for the study. the unit root test revealed that all the variables are stationary at level except Industrial Output (INDOPT) that was made stationary at first difference. This implies that the unit root for the models of the study are of integration of different orders of zero and one.

Table 4.5 ARDL estimation result

Dependent Variable: INDOPT
Selected Model: ARDL(1, 0, 0, 0, 0, 0)
Date: 12/16/23 Time: 02: 00
Sample: 1990 2022

Cointegrating Form

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(MCAP)	0.559045	0.19096	2.92762693	0.0263
D(INDL)	0.089563	0.27746	0.32279259	0.7540
D(TV)	0.690455	0.33896	2.03701081	0.0220
D(GFCF)	0.69044	0.40955	1.68584363	0.4334
CointEq(-1)	-0.7559	0.1331	-5.67927392	0.0001

Long Run Coefficients

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
MCAP	0.736744	0.244883	3.0085551	0.0026
INDL	0.390587	0.458933	0.8510763	0.7314
TV	0.590669	0.289755	2.0385118	0.0323
GFCF	0.705552	0.347875	2.0281767	0.0107
C	-6.904455	1.489377	-4.6358007	0.0004

R-squared	0.744805	Mean dependent var	41.58933
Adjusted R-squared	0.693364	S.D. dependent var	31.23784
S.E. of regression	19.38457	Akaike info criterion	7.467333
Sum squared resid	2447.259	Schwarz criterion	7.509844
Log likelihood	-113.0845	Hannan-Quinn criter.	8.255594
F-statistic	6.869694	Durbin-Watson stat	1.947833
Prob(F-statistic)	0.000002		

Source: Econometric Views Version 9.0 (2024)

The F-statistics value for the result above stood at 6.869694 while its P-value is estimated at 0.000002 indicating that on the overall, all the study variables jointly determines industrial development. Also, the value of R^2 is 0.744805 indicating that about 0.744805 of the variations in industrial development could be explained by changes in the determinants while about 0.2552 could be accounted for by other unexplained factors, including the error term. Lastly, the Durbin-Watson test of first order autocorrelation which have a value 1.947833 (approximately 2) indicate that errors are uncorrelated indicating absence of serial correlation within the period of the study. Sequel to the above, the individual hypotheses are tested below:

Table 4.6: Summary of test of hypothesis.

Variable Testable Form	Coefficient	Prob.	Decision Rule	Conclusions
MCAP≠INDOPT	Short run (0.559045) long run (0.736744)	Short run (0.0263) long run (0.0026)	Accept $H0_1$ if the p-value of MCAP is >5% significant level, otherwise reject $H0_1$ if its p-value is <5% significant level	Reject $H0_1$ both in short & long run.
INDL≠INDOPT	Short run (0.089563) long run (0.390587)	Short run (0.7540) long run (0.7314)	Accept $H0_2$ if the p-value of INDL is >5% significant level, otherwise reject $H0_1$if its p-value is <5% significant level	Accept $H0_2$ both in short & long run.
TV≠INDOPT	Short run (0.690455) long run (0.590669)	Short run (0.0220) long run (0.0323)	Accept $H0_3$ if the p-value of TV is >5% significant level, otherwise reject $H0_1$if its p-value is <5% significant level	Reject $H0_3$ both in short & long run.
GFCF≠INDOPT	Short run (0.69044) long run (0.705552)	Short run (0.4334) long run (0.0107)	Accept $H0_1$ if the p-value of GFCF is >5% significant level, otherwise reject $H0_1$if its p-value is <5% significant level	Accept $H0_4$ in short run, however reject $H0_4$ in long run.

Source: Researcher's Compilation Based on Extant Empirical Studies (2024)

DISCUSSION OF FINDINGS

The empirical evidence obtained from Table 4.5 shows that there exists a positive significant between MCAP and INDOPT with coefficient value of 0.559045) and 0.736744 for short & long run respectively. This finding connote that INDOPT will rise by 55.90% and 73.67% both in short run and long run respectively if a percentage increase occurs in INDOPT. Put differently, if the financial sector develops and capitalizes larger volumes, then there is a positive impact on the increase in industrial output. Furthermore, its P-value is less than 5% both in short & long run respectively. This signifies that MCAP and INDOPT have a positive and significant relationship in both short & long run. This finding is in tandem with the works of Nwamuo (2018). Again the

result discloses that INDL exerts positive relationship with INDOPT. This is because their coefficients are positive both in short & long run. This implies that for every percentage increase in INDL, INDOPT will increase by 89.56% and 39.05% both in short & long run respectively. This also implies that industrial growth will come from increased business activity in the country and metric is captured by a market index. However, it appears to be insignificant both in short & long run respectively. This is in consonance with the works of Odo, Anoke, Onyeisi and Chukwu (2017).

Furthermore, Table 4.5 shows that there exists a positive significant between TV and INDOPT both in short & long run respectively. This implies TV increase INDOPT. Put differently, high trading volumes generally indicate a higher level of market activity and can suggest that there is strong investor interest in a particular stock or security which in return increases INDOPT. Conversely, low trading volumes can indicate a lack of investor interest or a lack of liquidity in the market. Furthermore, in terms level of significance, its P-value is less than 5% both in short & long run respectively. This signifies that TV and INDOPT have a positive and significant relationship in both short & long run.

Lastly, the result shows that there exists positive relationship between GFCF and INDOPT both in short & long run respectively. The positive sign signifies that a percentage increase in GFCF will lead to a corresponding 69.04% and 70.55% increase in INDOPT on the short run and long run respectively. The accumulation of capital goods translated to investment and the production of more goods and service, which should boost the income of the population and stimulate demand. Furthermore, in terms level of significance, its P-value is greater than 5% on the short and while less than 5% on the long run respectively. This signifies that GFCF and INDOPT have a positive yet insignificant relationship on the short meanwhile GFCF and INDOPT have negative but significance relationship on the long run. This is in tandem with the works of Osakwe, Ogbonna, and Obi-Nwosu, (2020).

CONCLUSION AND RECOMMENDATION

This study evaluated the effect of capital market and industrial development of Nigeria for the period of 33 years spanning from 1990-2022. Specifically, the study sought to answer questions related to the effect of MCAP, INDL, TV, and GFCF to industrial development proxy with INDOPT. The data used for the study was extracted from the CBN statistical bulletin 2022. In light of the various findings of this study, we conclude that MCAP, TV have significant

relationship with INDOPT both on the short & long run respectively, meanwhile GFCF has significant relationship with INDOPT only on long run. It was concluded that capital market has limited contribution to industrial developments of Nigeria economy.

Based on the research, the following recommendations have been provided:

1. To promote Nigeria's industrial development, the money from capital market must be appropriately directed toward the real sector of the economy.
2. Since listed securities growth and Nigerian industrial development are positively correlated, this relationship should be supported.
3. To manage flow of money from stock market to real sector of the economy, an ad hoc committee ought to be established.
4. Transparency and accountability are two moral concerns that Capital Market should promote as regular procedures in Nigeria.

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