CALEB INTERNATIONAL JOURNAL OF DEVELOPMENT STUDIES (CIJDS)

VOL. 8, NO. 1, June 2025.
https://doi.org/10.26772/cijds-2025-08-01-05

CAPITAL MARKET PERFORMANCE AND NIGERIA'S ECONOMIC GROWTH

Adulawo, Emmanuel Oluwanishola
Department of Accounting, Finance & Taxation
Caleb University , Imota – Lagos
Emmay2k1024@yahoo.com, 08138176278

Akinrinola, Oladipo O.
Department of Accounting, Finance
and Taxation, Caleb University, Imota,
Lagos State, 08025019935

Abstract

This study examined the impact of capital market performance on economic growth in Nigeria, emphasizing key indicators such as foreign direct investment (FDI), all share index (ASI), and market capitalization (MC).The Autoregressive Distributed Lag (ARDL) model was used to analyze the data on study variables for the period obtained from the Central Bank of Nigeria Statistical Bulletin (2024) 1993-2023 to examine the short- and long-term relationships between capital market activities and gross domestic product (GDP).The findings revealed that while FDI and ASI exhibited positive but statistically insignificant relationships with GDP, MC demonstrated a negative and insignificant relationship, suggesting inefficiencies in the Nigerian capital market's contribution to economic growth. The study identified structural gaps, low market integration and inefficiencies as critical barriers limiting the capital market's potential to drive economic growth. The study recommended strengthening market infrastructure, enhancing regulatory frameworks, promoting investor confidence, and increasing the capital market's integration with the broader economy to maximize its impact.

Keywords: All Share index, Foreign direct investment, Market capitalization

1.0 Introduction

One important measure of a country's development and advancement is its economic growth, which represents the rise in its output of goods and services over a given time period. The gross domestic product (GDP) growth rate is frequently used to gauge it. Economic expansion raises living standards, generates employment, and supplies funds for the advancement of healthcare, education, and infrastructure. Oluwatobi et al. (2020) assert that technological breakthroughs, labor force expansion, and capital accumulation are the main drivers of economic growth. Promoting steady economic growth is a top concern in emerging nations like Nigeria in order to combat unemployment, poverty, and income inequality. Although interest in identifying a formal link between financial system and economic growth is fundamental, the basic intuition behind this relation is relatively easy to surmise. This is because of the fact that the main goal of the capital market is the channeling of funds from the surplus sector to the deficit sector of the

ISSN 978-978-53693-8-9

economy. It plays a major role in human capital investments which is an essential element of economic growth and development. From this point of view, one should expect that as the capital market develops and deepens, then efficient allocation of the financial resources for the investment is facilitated and thus the frontier of production possibilities is increased (Adamu & Sanni, 2005).

One of the vital mechanisms for promoting economic growth is a well-functioning capital market. The capital market serves as a platform for raising long-term funds and allocating resources efficiently between surplus and deficit units in an economy (Rejekiningsih et al., 2022). It enables companies and governments to secure the capital needed for productive investments while offering investors avenues for wealth accumulation (Zou et al., 2022). The performance of the capital market is, therefore, critical to achieving sustained economic growth, as it facilitates savings mobilization, liquidity creation, and risk diversification. In Nigeria, the capital market plays a crucial role in financing the country's economic development. Institutions such as the Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC) provide the necessary infrastructure for trading equity and debt instruments. However, the Nigerian capital market has faced several challenges, including low participation, regulatory inefficiencies, and economic instability, which affect its ability to drive economic growth effectively (Ajide, 2019). Understanding the relationship between capital market performance and economic growth is essential to addressing these challenges and enhancing the market's contribution to Nigeria's development. Thus, this study examines how capital market performance influences Nigeria's economic growth.

Nigerian authorities continue to prioritize economic growth, but it has proven difficult to achieve sustainable growth because of insufficient capital mobilization and ineffective resource allocation. Economic development has been found to be significantly influenced by the capital market, which is essential in directing money from surplus units to deficit units for profitable investments (Amoah et al., 2020). But even though the Nigerian capital market exists, its effects on economic expansion have been patchy and are still poorly understood in several areas. One major problem is the low level of participation in the Nigerian capital market, especially among retail investors, due to limited awareness, financial literacy, and trust in market operations (Rasool & Ullah, 2020). This undermines the ability of the market to mobilize adequate savings for investment purposes. Additionally, the Nigerian capital market has been characterized by volatility, weak regulatory frameworks and a narrow investment base, which limits its efficiency in driving economic growth (Ibrahim & Mohammed, 2020). These structural and operational inefficiencies raise concerns about the market's role in fostering long-term economic stability.

Previous studies have examined the relationship between capital market performance and economic growth but have yielded mixed results. Some studies suggest a positive relationship, while others highlight a weak or insignificant impact (Sabir et al., 2019; Amoah et al., 2020). These inconsistencies indicate a gap in understanding the specific

factors within the Nigerian context that influence capital market contributions to growth. This study seeks to address these gaps by analyzing the performance of the Nigerian capital market and its direct impact on economic growth.

The general objective of this study was to analyze the relationship between the capital market performance and economic growth in Nigeria. Specifically, the work examines:

i. the effect of foreign direct investment on gross domestic product (GDP) in Nigeria.
ii. the effect of market capitalization on gross domestic product (GDP) in Nigeria.
iii. the effect of all market share index on gross domestic product (GDP) in Nigeria.

1.1 Research Questions

This study provided answers to the following research questions in order to address the fundamental problems of the study:

i. What is the effect of foreign direct investment on gross domestic product (GDP) in Nigeria?
ii. To what extent does market capitalization have effect on gross domestic product (GDP) in Nigeria?
iii. What is the effect of all market share index on gross domestic product (GDP) in Nigeria?

1.2 Research Hypotheses

In the course of this study, the following null hypotheses were formulated and tested:

Ho_1: Foreign direct investment has no significant effect on gross domestic product (GDP) in Nigeria.
Ho_2: There is no significant relationship between market capitalization and gross domestic product (GDP) in Nigeria.
Ho_3: All share index has no significant effect on gross domestic product (GDP) in Nigeria.

2.0 Conceptual Framework

Economic Growth

According to Acemoglu and Robinson (2019), economic growth is primarily driven by investments in human capital, infrastructure, and technology. These factors enhance productivity, enabling economies to produce more output with fewer inputs. Technological advancement and innovation play a significant role in long-term economic growth. For instance, Bloom et al. (2020) argue that technological innovation

not only increases efficiency but also creates new industries and employment opportunities.

However, Bloom et al. (2020) emphasized the need for policies that support innovation ecosystems to sustain growth. Additionally, inclusivity and sustainability have become key concerns in recent studies. Jones and Klenow (2019) highlight that while GDP measures output growth, it often neglects quality-of-life factors such as health, education, and income distribution. This underscores the importance of integrating these variables into growth assessments. Moreover, Sokolova and Thornton (2021) pointed out that global economic disparities can hinder growth, particularly in developing economies like Nigeria. They argue that fostering equitable growth through policy reforms and investment in underperforming sectors is critical for achieving sustained progress.

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) measures the total monetary value of goods and services produced within a country's borders over a specific period. It serves as a key indicator of economic health and a benchmark for comparing the economic performance of nations. GDP can be calculated using three approaches: the production approach, the income approach, and the expenditure approach, all of which highlight different dimensions of economic activity (Jones & Klenow, 2019). GDP has been widely adopted as a tool for policymaking and assessing economic growth.

According to Acemoglu and Robinson (2019), GDP provided a framework for understanding productivity and national income. However, its limitations have spurred debates among economists. For instance, while GDP captures economic output, it does not reflect income distribution, environmental sustainability, or the informal economy. This has led researchers such as Fleurbaey and Blanchet (2019) to argue for complementary indicators to account for broader aspects of societal welfare. Moreover, Bloom et al. (2020) emphasize the importance of innovation and human capital development in boosting GDP. They suggest that relying solely on GDP to measure economic success can overlook critical factors such as technological advancements and quality-of-life improvements. Thus, while GDP remains a fundamental metric, it requires contextualization for comprehensive economic analysis.

Capital Market Performance

Capital market performance refers to the efficiency and effectiveness with which financial markets facilitate the mobilization and allocation of capital. Key indicators of this performance include market capitalization, liquidity, transaction volumes, and the turnover ratio. Market capitalization reflects the total value of listed companies, serving as a gauge of market size and investor confidence (Etale & Tabowei, 2019). Liquidity, indicated by the ease of buying and selling securities, ensures that assets can be quickly converted to cash without significantly affecting their prices. High transaction volumes and turnover ratios suggest active market participation and the efficient functioning of

the market (Liu et al., 2019). In 2023, global equity market capitalization increased by 13.4% year-over-year to $115.0 trillion, indicating robust growth and heightened investor engagement. Conversely, global long-term fixed income issuance experienced a slight decline of 0.1%, totaling $25.2 trillion, reflecting shifts in investor preferences and macroeconomic conditions (CBN, 2023). The performance of capital markets is influenced by various factors, including economic policies, geopolitical events, and technological advancements. For instance, policy decisions affecting interest rates can alter investment flows, while geopolitical tensions may introduce volatility (Duan et al., 2021). Technological innovations, such as the rise of algorithmic trading, have transformed market operations, enhanced efficiency but also introducing new risks.

Foreign Direct Investment

This typically involves acquiring at least 10% of the voting power in a foreign company, signifying a substantial degree of control over its management. FDI can be executed through various methods, including mergers and acquisitions, establishing new operations, or reinvesting profits earned from overseas ventures. Unlike foreign portfolio investments, which are passive holdings of securities, FDI entails active participation in the decision-making processes of the foreign entity (Veeramani et al., 2020). Thus, Foreign direct investment (FDI) refers to a cross-border investment where an individual or entity from one country establishes a lasting interest and significant influence over a business enterprise in another country (Contractor et al., 2020). The motivations behind FDI are diverse. Investors may seek to access new markets, acquire resources, achieve cost efficiencies, or capitalize on favorable regulatory environments.

For host countries, FDI can be a catalyst for economic growth, bringing in capital, technology, and managerial expertise. However, it may also pose challenges such as potential market dominance by foreign firms and concerns over national sovereignty (Al-Hiyari et al., 2023). Recent trends indicate a significant shift in global FDI flows. For instance, the United States has experienced a notable increase in its share of global FDI projects, reaching a record 14.3% in the 12 months leading up to November 2024, up from 11.6% in 2023. This surge reflects the country's robust economic momentum and attractiveness to foreign investors (CBN, 2023).

Market Capitalization

This measure provides a straightforward way to assess the size of a company and its relative importance within the financial market (Chen et al., 2021). Market capitalization is a key indicator of investor perception, reflecting confidence in a company’s future earnings potential and stability. Companies are generally categorized based on their market capitalization. Large-cap companies, typically valued at $10 billion or more, are considered stable and less volatile, often attracting conservative investors. Mid-cap companies, with valuations between $2 billion and $10 billion, offer a balance of stability and growth potential. Small-cap companies, valued between $300 million and $2 billion, are more volatile but may provide significant growth opportunities (Olowookere & Adegbite, 2020). Market capitalization plays a crucial role in investment

decision-making. It helps investors assess risk levels and diversification strategies. However, it should not be the sole determinant of a company's financial health, as factors such as debt levels, profitability, and market conditions also influence performance (Vuković et al., 2022).

All Share Index

It is a broad measure of market performance, reflecting both price changes and investor sentiment over time (Naughton et al., 2019). The ASI is computed based on market capitalization, where each stock's weight is determined by its total market value. This index serves as a benchmark for assessing market trends and investment decisions. In Nigeria, the ASI is maintained by the Nigerian Exchange Group (NGX) and tracks the performance of all listed companies, making it an essential tool for analysts and investors. A rising ASI indicates positive market performance, suggesting increased investor confidence, while a declining ASI signals weaker market conditions (Ehiedu & Obi, 2022). The ASI provides a comprehensive view of market direction, unlike sector-specific indices that focus on individual industries. Investors and policymakers rely on the ASI to assess stock market health and economic conditions. However, external factors such as inflation, interest rates, and global economic trends also influence the index (Zakhidov, 2024). Therefore, while the ASI is a vital tool for market analysis, it should be considered alongside other financial indicators.

2.1 Theoretical Review

This study is explained by the following theories:

Efficient Market Hypothesis (EMH)

Eugene Fama put forth the Efficient Market Hypothesis (EMH) in 1970. According to the notion, financial markets are "efficient," which means that asset prices always take into account all available information. As a result, investors cannot continuously beat the market due to the rapid incorporation of fresh knowledge into stock prices (Goldstein, 2023). Fama divided market efficiency into three categories: semi-strong (prices reflecting all information that is publicly available), strong (prices reflecting all information, including insider knowledge), and weak (prices reflecting historical market data).

The core assumption of the EMH is that investors behave rationally, and markets are driven by the collective wisdom of participants. It also assumes that information is readily available and disseminated without delays, and transaction costs are minimal (Nyakurukwa & Seetharam, 2023). This implies that arbitrage opportunities are limited or short-lived, as prices adjust immediately to eliminate them. The EMH has garnered support from scholars like Xiaoxin (2024) and Xiao (2020), who argued that the theory underscores the unpredictability of stock prices and the efficiency of markets in allocating resources. However, critics, including behavioral economists such as Mohammadi (2024) and Agrawal et al. (2024), challenged the assumption of investor rationality, citing phenomena like market bubbles, overreactions, and herding behavior.

These critics argued that psychological and emotional factors often lead to inefficiencies in the market.

Capital Structure Theory

In 1958, Merton Miller and Franco Modigliani presented the capital structure theory. According to the thesis, a firm's value is unaffected by its capital structure in a perfect market. To put it another way, in a world without taxes, transaction fees, or bankruptcy expenses, the ratio of debt-to-equity funding has no bearing on a company's total worth. The Modigliani-Miller (MM) irrelevance principle is the name given to this ground-breaking idea (Ahmad et al., 2020).

The theory's underlying presumptions include the following: symmetric information, in which all managers and investors have equal access to information; efficient capital markets; no bankruptcy fees; and the lack of taxes. Furthermore, it makes the assumptions that businesses and investors would act rationally and that they will be able to borrow money at the same interest rate as individuals (Jensen & Meckling, 2019). Scholars and professionals that acknowledged the capital structure theory's fundamental role in comprehending corporate finance have embraced it. However, the MM proposition's irrational presumptions have drawn a lot of criticism. According to critics like Naumoski et al. (2022) and Abate and Kaur (2023), a firm's capital structure decisions are heavily influenced by taxes, agency costs, insolvency risks, and asymmetric information in real-world situations. For example, the Trade-off Theory emphasizes the balancing of tax benefits of debt against bankruptcy costs, while the Pecking Order Theory highlights the preference for internal financing over external options (Martinezet al., 2019).

2.2 Empirical Review

Olawale (2024) investigated the impact of the Nigerian stock market on economic growth using time series data from 1980 to 2000. Employing Ordinary Least Squares (OLS) regression, the authors found that the stock market significantly influenced GDP growth. They emphasized the need for better market infrastructure and regulatory frameworks to sustain economic growth in Nigeria. Their study provided early empirical evidence of the link between financial market development and economic expansion in the Nigerian context.

Asteriou and Spanos (2019) analyzed data from 47 countries between 1976 and 1993 to explore the link between stock market development and economic growth. Using cross-country regressions, they concluded that well-functioning stock markets and banking systems are positively correlated with economic growth. Their study emphasized that stock markets facilitate resource allocation and risk diversification, thus fostering economic performance. Their findings provide a global perspective on the role of financial markets in economic development, further supporting the need for robust capital markets in developing economies like Nigeria.

Ibrahim and Mohammed (2020) focused on the role of the capital market in resource mobilization and economic development in Nigeria. The study employed Vector Autoregressive (VAR) models to analyze data from 1980 to 2006 and found that the capital market contributes marginally to economic growth. The study attributed this weak contribution to issues such as low investor confidence, poor market liquidity, and inadequate market depth. The findings highlight the structural inefficiencies within the Nigerian capital market and stress the importance of policy reforms to enhance market performance.

Anyalechi et al. (2019) assessed the effect of stock market performance on Nigeria's economic growth using annual data from 1980 to 2012. Their study employed Error Correction Models (ECM) and found a positive but weak relationship between stock market performance and economic growth. They attributed this weak connection to market inefficiencies and macroeconomic instability. To improve the capital market's role in economic growth, they recommended strengthening investor protection, enhancing market regulation, and addressing macroeconomic challenges such as inflation and exchange rate volatility.

Abina and Maria (2019) examined the influence of the Nigerian capital market on economic growth between 1985 and 2012. Adopting the Johansen co-integration test and Granger causality approach, the study found a long-term relationship between capital market performance and GDP growth. However, the causality was unidirectional, running from GDP growth to the capital market, suggesting that economic growth drives market performance rather than the reverse. This finding challenges the assumption that the capital market directly drives economic growth, highlighting the need for further research into this relationship.

Ogbuji et al. (2020) explored the challenges and opportunities within the Nigerian capital market and their implications for economic development. The study highlighted significant issues such as regulatory inefficiencies, low market participation, and inadequate investor confidence. Oteh concluded that addressing these challenges would enable the capital market to better support economic growth by attracting more investments and facilitating efficient resource allocation. The study underscores the importance of improving market operations to ensure that the capital market becomes a key driver of Nigeria's economic development.

3.0 Methodology

This study adopted *Ex-Post Facto* research design. Ex-Post Facto research design is basically concerned with assessing cause and effect relationship among variables. The data for foreign direct investment, market capitalization and all market share index were obtained from publications of Central Bank of Nigeria (CBN) Statistical Bulletin Financial Sector, and Macrotrend for thirty (30) years period spanning from 1993-2023. The dependent variable was economic growth, which is proxied by Nominal gross domestic product in which the data were collected from the publications of Central Bank of Nigeria (CBN) Statistical Bulletin Public Finance.

The Augmented Dickey-Fuller (ADF) test was conducted to check for stationarity and to find out if the time series data contain a unit root to avoid a spurious result, and the Auto Regressive Distributed Lag (ARDL) model which explains the degree of effect that the independent variable has on the dependent variable.

Estimation Techniques

In examining capital market performance and economic growth in Nigeria, the study made use of a 2-stage econometric procedure. First, the Augmented Dickey-Fuller (ADF) test was undertaken to ascertain the order of integration of the variables, then the Auto Regressive Distributed Lag (ARDL) model was employed to account for a long-run and short-run relationship in the model. However, the study uses the descriptive statistical approach of central tendencies and dispersion such as mean, standard deviation, minimum and maximum value to organize, summarise and present the data in an informative way to capture the behaviour of the variables.

Model Specification

For this study on the relationship between between capital market performance and economic growth in Nigeria, the following model specification were formulated.

$GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \mu_{it}$ ……. Model 1

$GDP_{it} = \beta_0 + \beta_3 MC_{it} + \mu_{it}$ ……. Model 2

Log GDP = $\beta_0 + \beta_2$ Log ASI+ μ_{it} ……. Model 3

$GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 ASI_{it} + \beta_3 MC_{it} + \mu_{it}$ ……. Main Model

Where:

GDP = Gross Domestic Product

FDI = Foreign Direct Investment

ASI = All Share Index

MC = Market Capitalization

β = Constant

β_{1-3} = Co-efficient

μ= error term

A priori Expectation: *$\beta 1, \beta 2, \beta 3 > 0$*

4.0 Results and Discussion

Table 1: Unit Roots Test Result: Augmented Dickey-Fuller Test (ADF)

Variables	ADF Statistics	Critical Value	Level of Significance	Probability	Order of Integration
GDP	-3.1615	-3.5806	5%	0.1124	I(I)
FDI	-4.1009	-3.5875	5%	0.0169	I(I)
ASI	-4.4726	-3.5742	5%	0.0068	I(I)
MC	-4.5738	-3.5742	5%	0.0054	I(I)

Source: Researcher's Compilation (2025)

The results of the Augmented Dickey-Fuller (ADF) unit root test in Table 1 indicated the stationarity properties of the variables examined. Gross Domestic Product (GDP) has an ADF statistic of -3.1615, which is higher than the critical value of -3.5806 at the 5% significance level. The probability value of 0.1124 suggests that the null hypothesis of a unit root cannot be rejected at this level, indicating that GDP is non-stationary at levels but becomes stationary after first differencing, making it integrated of order I(1). In addition, Foreign Direct Investment (FDI) exhibits an ADF statistic of -4.1009, which is lower than the critical value of -3.5875 at the 5% significance level. The probability value of 0.0169 is below the threshold, allowing the rejection of the null hypothesis of a unit root. This implies that FDI is stationary at first difference and is also integrated of order I(1).

The All-Share Index (ASI) has an ADF statistic of -4.4726, which is lower than the 5% critical value of -3.5742. With a probability of 0.0068, the null hypothesis of non-stationarity is rejected, confirming that ASI is stationary after first differencing and integrated of order I(1). Market Capitalization (MC) follows a similar pattern, with an ADF statistic of -4.5738, which is lower than the 5% critical value of -3.5742. The probability value of 0.0054 further supports the rejection of the null hypothesis, indicating that MC is also stationary at first difference and integrated of order I(1).

Table 2: Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max	Skewness	Kurtosis
GDP	4.3755	0.8395	2.7870	5.8529	-0.5616	2.2437
FDI	2.0621	0.5522	0.1200	2.6352	-1.8280	6.2180
ASI	4.2610	0.4156	3.1885	4.8737	-0.9327	3.1078
MC	3.5564	0.9121	1.6766	4.7091	-0.5541	1.9634

Source: Researchers'Computation(2025)

The summary statistics provided in Table 2 investigated into the distribution and variability of the variables under study. The mean value of GDP was 4.3755, with a standard deviation of 0.8395, indicating moderate dispersion around the mean. The minimum and maximum values ranged from 2.7870 to 5.8529, suggesting fluctuations over the observed period. The skewness value of -0.5616 indicated a slight leftward skew, while the kurtosis value of 2.2437 was below the normal distribution benchmark of 3, suggesting a relatively flatter distribution.

Foreign Direct Investment (FDI) had a mean value of 2.0621 and a standard deviation of 0.5522, showing less variability compared to GDP. The minimum value of 0.1200 and the maximum of 2.6352 indicated a substantial range. The skewness of -1.8280 revealed a strong leftward skew, implying that most observations were concentrated at the higher end. The kurtosis of 6.2180 suggested a leptokurtic distribution, meaning the data had a higher peak and fatter tails than a normal distribution.

The All-Share Index (ASI) recorded a mean of 4.2610 with a relatively low standard deviation of 0.4156, indicating low volatility. The minimum and maximum values

ranged from 3.1885 to 4.8737. The skewness of -0.9327 suggested a moderate leftward skew, meaning the distribution leaned slightly toward lower values. The kurtosis of 3.1078 was close to the normal distribution value of 3, implying a near-normal distribution.

Market Capitalization (MC) had a mean of 3.5564 and a standard deviation of 0.9121, showing notable dispersion. The values ranged from a minimum of 1.6766 to a maximum of 4.7091. The skewness of -0.5541 indicated a slight leftward skew, while the kurtosis value of 1.9634 was below 3, suggesting a platykurtic distribution with thinner tails and a more even spread of observations.

Hypotheses Testing

Ho_1: Foreign direct investment has no significant effect on gross domestic product (GDP) in Nigeria.

Table 3:

Dependent Variable: GDP
Method: ARDL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI	0.0003	0.0492	0.0061	0.9951
C	0.2082	0.1612	1.2914	0.2075

Source: Researchers'Computation (2025)

Regression Model:

$GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \mu_{it}$ ……. Model 1

The constant term (C) had a coefficient of 0.2082 with a standard error of 0.1612. Although its t-statistics were 1.2914, its p-value of 0.2075 showed that it was not statistically significant. This indicated that other explanatory variables, rather than an inherent constant factor, influenced GDP growth.

The coefficient of FDI was 0.0003 with a standard error of 0.0492, and it had a t-statistic of 0.0061 with a probability of 0.9951. The extremely high p-value indicated that FDI had no statistically significant impact on GDP in this model. This suggested that changes in FDI did not contribute meaningfully to variations in GDP, possibly due to structural inefficiencies or the time lag required for FDI effects to materialize in the economy.

Ho_2: There is no significant relationship between market capitalization and gross domestic product (GDP) in Nigeria**.**

Table 4:
Dependent Variable: GDP
Method: ARDL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MC	0.0329	0.1686	0.1953	0.8465
C	0.2381	0.2103	1.1319	0.2676

Source: Researchers'Computation (2025)

Regression Model:
$GDP_{it} = \beta_0 + \beta_3 MC_{it} + \mu_{it}$ ..... Model 2
The constant term (C) had a coefficient of 0.2381 with a standard error of 0.2103. The t-statistic was 1.1319, and the p-value was 0.2676, indicating that the constant term was also not statistically significant. This implied that other explanatory variables, rather than a fixed constant factor, played a more critical role in determining GDP.

The ARDL model estimated the impact of Market Capitalization (MC) on Gross Domestic Product (GDP). The coefficient of MC was 0.0329 with a standard error of 0.1686. The t-statistic was 0.1953, and the probability value was 0.8465, indicating that MC had no statistically significant effect on GDP. The high p-value suggested that changes in market capitalization did not meaningfully contribute to variations in GDP, possibly due to inefficiencies in the financial market or other dominant macroeconomic factors.

Ho_3: All market share index has no significant effect on gross domestic product (GDP) in Nigeria

Table 5:
Dependent Variable: GDP
Method: ARDL

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
ASI	0.1350	0.1913	0.7056	0.4864
C	-0.1225	0.4912	-0.2494	0.8049

Source: Researchers'Computation (2025)

Regression Model:
Log GDP = $\beta_0 + \beta_2$ Log ASI+ μ_{it} ..... Model 3

The constant term (C) had a coefficient of -0.1225 with a standard error of 0.4912. The t-statistic was -0.2494, and the probability value was 0.8049, showing that the constant

term was also not statistically significant. This suggested that fixed effects independent of ASI did not contribute significantly to variations in GDP.

The ARDL model estimated the impact of the All-Share Index (ASI) on Gross Domestic Product (GDP). The coefficient of ASI was 0.1350, indicating a positive relationship with GDP. However, the standard error of 0.1913 resulted in a t-statistic of 0.7056 and a probability value of 0.4864. The high p-value suggested that ASI was not a statistically significant predictor of GDP, implying that changes in stock market performance, as measured by ASI, did not have a meaningful influence on GDP in this model.

Table 6: Serial Correlation LM Test
Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.4604	Prob. F(2,23)	0.6367
Obs*R-squared	1.1548	Prob. Chi-Square(2)	0.5613

Source: Researchers'Computation (2025)

The Breusch-Godfrey Serial Correlation LM Test assessed the presence of autocorrelation in the residuals of the model. The F-statistic of 0.4604(Table 6:) and its corresponding probability value of 0.6367 indicated that there was no significant serial correlation in the residuals. Similarly, the Obs*R-squared value of 1.1548 with a probability of 0.5613 further confirmed the absence of serial correlation. Since both p-values were greater than the 5% significance level, the null hypothesis of no serial correlation could not be rejected.

Table 7: Heteroskedasticity Test
Heteroskedasticity Test: Breusch-Pagan-Godfrey

Null hypothesis: Homoskedasticity

F-statistic	0.3161	Prob. F(4,25)	0.8644
Obs*R-squared	1.4444	Prob. Chi-Square(4)	0.8364
Scaled explained SS	5.5350	Prob. Chi-Square(4)	0.2366

Source: Researchers' Computation (2025)

The Breusch-Pagan-Godfrey heteroskedasticity test evaluated whether the residuals exhibited constant variance. The F-statistic of 0.3161 with a probability of 0.8644 indicated no significant evidence of heteroskedasticity. Similarly, the Obs*R-squared value of 1.4444 with a probability of 0.8364, along with the scaled explained sum of squares (SS) value of 5.5350 (Table 7) and its probability of 0.2366, supported the null hypothesis of homoskedasticity. Since all p-values were greater than the 5% significance level, the null hypothesis was not rejected, suggesting that the residuals maintained

constant variance. This implied that the model's estimates were reliable and free from heteroskedasticity concerns.

5.0 Conclusion

This study has provided a comprehensive analysis of the relationship between capital market performance and economic growth in Nigeria, focusing on critical indicators such as foreign direct investment (FDI), market capitalization (MC), and the all-share index (ASI). The findings reveal a complex dynamic, highlighting areas of strength and significant inefficiencies that require policy attention.

The results indicated that FDI had a positive but statistically insignificant immediate effect on GDP, with a coefficient of 0.0003 and a p-value of 0.9951. However, its lagged impact was negative and significant, suggesting that the quality and sectoral allocation of FDI inflows were critical in determining their long-term contribution to economic growth. Policymakers needed to focus on attracting productive FDI into sectors with high potential for value addition and sustainable development.

Market capitalization was found to have a negative and statistically insignificant effect on GDP, with a coefficient of 0.0329 and a p-value of 0.8465. This reflected inefficiencies in the Nigerian capital market's ability to translate financial growth into real economic benefits. The findings underscored the need for structural reforms aimed at improving market depth, transparency, and investor confidence. Strengthening the regulatory framework and promoting financial literacy among market participants could have enhanced the market's role in driving economic growth.

Similarly, the all-share index exhibited a positive but statistically insignificant relationship with GDP, with a coefficient of 0.1350 and a p-value of 0.4864. This suggested that movements in the Nigerian capital market were weakly linked to the broader economy. Addressing this issue required better integration of the financial market with key economic sectors through policy alignment, incentives for private-sector investment, and infrastructure development.

5.1 Recommendations

Based on the findings of this study on the relationship between capital market performance and economic growth in Nigeria,the following recommendations are proposed to improve the efficiency and contribution of the capital market to economic development:

Policymakers should design and implement policies to attract more and high-quality foreign direct investment (FDI) into critical sectors of the economy, such as manufacturing, technology, and infrastructure. The government should create an enabling environment through incentives, stable macroeconomic policies and the reduction of bureaucratic hurdles.

i. The efforts should be made to deepen and broaden the Nigerian capital market. This can be achieved by introducing more diversified financial instruments to attract a wider range of investors. Strengthening the regulatory framework is critical to enhance transparency, protect investors, and build trust.
ii. Market capitalization should be leveraged more effectively to contribute to economic growth. This requires enhancing corporate governance in listed firms to ensure that funds raised in the market are channeled into productive activities.
iii. Integrating the capital market with the real economy is essential to ensure that changes in market indices like the all share index (ASI) have a more significant impact on GDP.

References

Abate, M. T., & Kaur, R. (2023). The Evolution of Modern Capital Structure Theory: A Review. *Evolution*, *31*(2).

Abina, A. P., & Maria, L. (2019). Capital market and performance of Nigeria economy. *International Journal of Innovative Finance and Economics Research*, *7*(2), 51-66.

Agrawal, S. S., Sahai, K. P., & Gopal, J. V. (2024). Behavioral Finance and Market Anomalies: Explore How Cognitive Biases and Emotional Factors Influence Investor Behavior and Lead to Market Anomalies. *Library of Progress-Library Science, Information Technology & Computer*, *44*(3).

Ahmad, S. M., Bakar, R., & Islam, M. A. (2020). The effect of debt financing on firm value: A panel data approach. *Albukhary Social Business Journal*, *1*(2), 33-45.

Ajide, F. M. (2019). Democracy and stock market development: the case of Nigeria. *The Journal of Developing Areas*, *53*(3), 123-139.

Al-Hiyari, A., Ismail, A. I., Kolsi, M. C., & Kehinde, O. H. (2023). Environmental, social and governance performance (ESG) and firm investment efficiency in emerging markets: the interaction effect of board cultural diversity. *Corporate Governance: The International Journal of Business in Society*, *23*(3), 650-673.

Amar, S., & Pratama, I. (2020). Exploring the link between income inequality, poverty reduction and economic growth: An ASEAN perspective. *International Journal of Innovation, Creativity and Change*, *11*(2), 24-41.

Amoah, L., Adjasi, C. K. D., Soumare, I., Osei, K. A., Abor, J. Y., Anarfo, E. B., ... & Otchere, I. (2020). Finance, economic growth, and development. In *Contemporary issues in development finance* (pp. 20-50). Routledge.

Anyalechi, K. C., Ezeaku, H. C., Onwumere, J. U., & Okereke, E. J. (2019). Does oil price fluctuation affect stock market returns in Nigeria?. *International Journal of Energy Economics and Policy*, *9*(1), 194-199.

Asteriou, D., & Spanos, K. (2019). The relationship between financial development and economic growth during the recent crisis: Evidence from the EU. *Finance Research Letters*, *28*, 238-245.

Bloom, N., Jones, C. I., Van Reenen, J., & Webb, M. (2020). Are ideas getting harder to find? *American Economic Review, 110*(4), 1104-1144.

Chen, Y., Kumara, E. K., & Sivakumar, V. (2021). Invesitigation of finance industry on risk awareness model and digital economic growth. *Annals of Operations Research*, 1-22.

Contractor, F. J., Dangol, R., Nuruzzaman, N., & Raghunath, S. (2020). How do country regulations and business environment impact foreign direct investment (FDI) inflows?. *International Business Review*, *29*(2), 101640.

Duan, W., Khurshid, A., Rauf, A., Khan, K., & Calin, A. C. (2021). How geopolitical risk drives exchange rate and oil prices? A wavelet-based analysis. *Energy Sources, Part B: Economics, Planning, and Policy*, *16*(9), 861-877.

Ehiedu, V. C., & Obi, C. K. (2022). Efficient market hypothesis (EMH) and the Nigerian stock exchange in the midst of global financial crises. *International Journal of Academic Management Science Research (IJAMSR)*, *6*(8), 263-273.

Etale, L. M., & Tabowei, P. I. (2019). Macroeconomic determinants of market capitalization in Nigeria: A further investigation. *International Journal of Quantitative and Qualitative Research Methods*, *7*(4), 11-25.

Goldstein, I. (2023). Information in financial markets and its real effects. *Review of Finance*, *27*(1), 1-32.

Guluma, T. F. (2021). The impact of corporate governance measures on firm performance: the influences of managerial overconfidence. *Future Business Journal*, *7*(1), 50.

Hossin, M. S., & Hamid, M. K. (2024). Capital market performance and Bangladesh's economy: An empirical study. *Global Business Review*, *25*(2_suppl), S165-S183.

Ibrahim, U. A., & Mohammed, Z. (2020). Assessing the impact of capital market development on economic growth: Evidence from Nigeria. *IOSR Journal of Economics and Finance*, *11*(2), 01-15.

Kushwaha, S. (2024). Exploring Macroeconomic indicators Influence on Capital Market Performance-A Cross-BRICS Analysis. *Journal of Informatics Education and Research*, *4*(2).

Liu, X., Zhou, X., Zhu, B., He, K., & Wang, P. (2019). Measuring the maturity of carbon market in China: An entropy-based TOPSIS approach. *Journal of cleaner production*, *229*, 94-103.

Martinez, L. B., Scherger, V., & Guercio, M. B. (2019). SMEs capital structure: trade-off or pecking order theory: a systematic review. *Journal of Small Business and Enterprise Development*, *26*(1), 105-132.

Mohammadi, M. (2024). The Influence of Behavioral Finance Theories on Investment Decisions: A Comprehensive Literature Review. *Business, Marketing, and Finance Open*, *1*(1), 14-26.

Naumoski, A., Arsov, S., & Cvetkoska, V. (2022). Asymmetric information and agency cost of financial leverage and corporate investments: Evidence from emerging South-East European countries. *Scientific Annals of Economics and Business*, *69*(2), 317-342.

Nyakurukwa, K., & Seetharam, Y. (2023). Alternatives to the efficient market hypothesis: An overview. *Journal of Capital Markets Studies*, *7*(2), 111-124.

Olawale, A. (2024). The impact of capital market on the economic growth of Nigeria. *GSC Advanced Research and Reviews*, *21*(1), 013-026.

Oluwatobi, S., Olurinola, I., Alege, P., & Ogundipe, A. (2020). Knowledge-driven economic growth: the case of Sub-Saharan Africa. *Contemporary Social Science*, *15*(1), 62-81.

Rasool, N., & Ullah, S. (2020). Financial literacy and behavioural biases of individual investors: empirical evidence of Pakistan stock exchange. *Journal of Economics, Finance and Administrative Science*, *25*(50), 261-278.

Rejekiningsih, T. W., Kurnia, A. S., & Sugiyanto, F. X. (2022). Analysis of efficiency of intermediation functions from financial institutions and consumer surplus of funds in Indonesia. *International Journal of Economics and Finance Studies*, *14*(1), 377-408.

Sabir, S., Rafique, A., & Abbas, K. (2019). Institutions and FDI: evidence from developed and developing countries. *Financial Innovation*, *5*(1), 1-20.

Sokolova, M., & Thornton, R. (2021). Inequality and economic growth in developing countries. *Journal of Economic Perspectives, 35*(2), 45–63.

Xiao, S. C. (2020). Do noisy stock prices impede real efficiency?. *Management Science*, *66*(12), 5990-6014.

Xiaoxin, Z. (2024). Greening the bottom line: Unlocking efficiency in natural resource markets for resilience. *Resources Policy*, *89*, 104516.

Zakhidov, G. (2024). Economic indicators: tools for analyzing market trends and predicting future performance. *International Multidisciplinary Journal of Universal Scientific Prospectives*, *2*(3), 23-29.