

CAPITAL MARKET DEVELOPMENT AND CAPITAL FORMATION IN NIGERIA

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ABSTRACT

This study examined capital market development and capital formation in Nigeria. The objective is to examine the extent to which capital market development promote gross fixed capital formation in Nigeria. Time series data sourced from Central Bank of Nigeria statistical bulletin and Stock Exchange Factbook from 1990-2020 was used in the study. Gross fixed capital formation was used as proxy for the dependent variables while market size, capital market liquidity, capital market openness, market capitalization served as proxies for the independent variable. The Ordinary Least Square (OLS) method of cointegration, Augmented Dickey Fuller Unit Root, Granger Causality was used as data analysis technique. The study found that market capitalization in terms of market size, market liquidity and market openness have positive effect on capital formation. The study conclude that capital market development have positive and significant relationship with capital formation through gross fixed capital formation; and recommends that the capital market should further be reformed and its operational efficiency deepened to enhance Nigeria's capital formation.

Keywords: Capital formation, capital market development, capital market liquidity, capital market openness

INTRODUCTION

Nigeria's capital market came into being in 1960, following the report of Barback's committee, set up by the Federal Ministry of Industries to provide advice on how set up a stock market. The committee recommended the creation of facilities for transacting in shares, establishment of rules regulating transfer, reduction or elimination of stamp duties on transfer and elimination of tax deduction at source, as well as measures to encourage savings, and issuing of securities by the government and other organizations (Nwankwo, 1980). The immediate outcome of the committee's recommendation was the creation of the Lagos stock exchange; which was incorporated under the company's ordinance as an association limited by guarantee in September 1960 by a group of four frontline businessmen and three financial institutions under the inspiration of the federal government and the Central Bank of Nigeria. An important part of the capital market is the share market, also referred to as the equity market, which enables the possibility of trading in shares (Hägg, 1988); and the formation of capital.

Capital formation is the difference between the total values of investment between two succeeding time horizons, and could be measured in terms of gross or net fixed capital. Gross

Fixed Capital Formation is conceptualized as the value of acquisition of new fixed assets or improvement in existing fixed assets by the business sector, governments and households which add value to the economy more through investment than consumption. Capital formation means increasing the stock of real capital in a country. It involves making of more capital goods which are used for future production of goods and services. The stages and the processes involve creation of savings and investment of savings (Jhingan, 2005). It is determined by the operational efficiency and depth of the financial market.

The view that finance plays key role in capital formation is traceable to the classical monetary policy theories of 1873 and Schumpeter 1911; but was deepened by 20th century economists who argue that finance is an essential resource and a source of entrepreneurial capacity to drive real growth (Levine et al., 2000). Hence, the Nigerian financial market provides needed mechanism to mobilize long-term funds that facilitate investments that drive growth; by providing exchange mechanisms that facilitate purchase and sell of long-term claims or securities (Ezirim, 2005). Financial intermediaries play a crucial role in fostering technological innovation and capital formation by providing basic services such as savings mobilization, credit allocation and risk management.

Nigeria's capital has undergone constant reforms in the capital market to enable it perform its function effectively; an example is the banking sector consolidation aimed at positioning Nigeria banks to be active and not a spectator in the emerging market (Toby, 2006). In 1997 stock price was deregulated to deepen the capital market transaction. The enactment of the Nigerian Investment Promotion Commission (NIPC) Decree No16, 1995, the Odife Paul report 1997, the establishment of Investor Protection Fund (IPF), the internationalization of the capital market through electronic gadget (Automated Trading System) to enhance the performance of the capital market (Momodu et al., 2009).

The Nigerian financial market is designed to be an avenue for sourcing long-term funds to finance long-term project is not as developed as her foreign counterpart. It has thus not been able to effectively perform its primary function of meeting long-term capital needs of financially deficits sectors through efficient mobilization of fund from surplus units, and channel mobilized funds for economic use (Ojo, 2012). A critical examination of Nigerian capital formation to gross domestic product will elucidate this fact. For instance despite its age establishment Nigerian capital formation is still very poor compared to other developed countries.

However, there has been an age long debate on the causal relationship between finance and macroeconomic indicators such as capital formation and economic growth. While some argued that economic growth indicators are the function of finance, others are of the opinions that finance is the function of economic growth indicators (Leang & Eng, 2014; Oldhiambo, 2011; Eggoh, 2011). The relationship between financial intermediation such as capital market growth and the growth of Nigeria capital formation and other macroeconomic indicators has been categorized by scholars in terms of causality with respect to five possible hypotheses, no causal relation, demand following supply leading, negative causal link from finance to growth and independence (David et al., 2012).

LITERATURE REVIEW

Capital Market Development

Okereke (2000) defines capital market as the section of the financial system that is responsible for efficiently channeling funds from surplus to deficit economic units on a long-term basis. The capital market as an institution is rather a network of specialized financial institution that in various ways bring together suppliers and users of fund. These institutions include Merchant Banks, Stock Broking Firms, Issuing House, Venture Capital Companies, Unit Trust Scheme, the Central Bank, the Securities and Exchange Commission and Stock Exchange which is the hallmark of the Capital Market. Capital market development is categorized using three main characteristics: traditional, institutional and asset pricing (Demirgüç-Kunt & Levine, 1996).

Traditional characteristics are concerned with basic growth measures of stock markets, including number of listed companies and market capitalization; and are mostly captured in market size and liquidity (Alile & Anao, 1986). The Institutional characteristics measures include regulatory and legal role that may influence the functioning of the market, information disclosure and transparency requirements as well as market barriers and trading costs Regulation is seen as a way of buoying investor's confidence in brokers and other capital intermediaries and stakeholders. It ensures fair play and transparency in the market operations. This in turn encourages investment and trading in the stock market (BGL Financial Monitor, 2001; Akamiokhor, 1984; Inanga & Emenuga, 1997) transaction cost and trade openness are aspects of regulation Inanga & Emenuga, 1997). The Asset Pricing characteristics on the other hand measures focus on the efficiency of the market especially in relation to the pricing of risk (Osinubi, 1998). It deals with the efficiency of asset pricing process in the securities market (Inanga & Emenuga, 1997).

Mobilization of resources for national development has long been the central focus of development economists. As a result of this, the centrality of savings and investment in economic growth has been given considerable attention in the literature (Demirguc-Kunt & Levine, 2003). For sustainable growth and development, funds must be effectively mobilized and allocated to enable businesses and the economy harness human, material, and management resources for optimal output. The stock market is an economic institution, which promotes efficiency in capital formation and allocation. It enables governments and industry to raise long-term capital for financing new projects, and expanding and modernizing industrial concerns. Through the issuance of equity securities, companies acquire perpetual capital for development; hence, enable companies to avoid over-reliance on debit financing and improving corporate debit-to-equity ratio. Existing literature shows that developed economies explore two channels financial resources mobilization: money and capital markets (Levine, 2005). This is however, not the case in developing economies where emphasis is on money market with little consideration for capital market (Nyong, 2007).

Capital Market and Capital Formation

Pagano (1993) employing the endogenous growth model posits that financial intermediation of the Capital market could affect economic growth through three channels:

- a) Changing the proportion of savings funneled to investment,
- b) Changing the marginal productivity of capital otherwise called Capital formation, and
- c) Changing the rate of savings in the economy.

By this process, Capital market lowers transaction cost, achieves diversification and lowers risk; provides liquidity and lowers information asymmetry by which it contributes to capital formation through channels of marginal productivity of capital. Consequently, Capital market allows entrepreneurs to concentrate their efforts, attention and resources on their core business of creating new values or utility, pursuing innovations for future purposes and engaging in real and financial investment that could result in capital formation.

The Capital market activities in relation to capital formation are captured by some indices such as:

- a) The ratio of new issues to total investment in fixed assets,
- b) The ratio of market capitalization to total investment in fixed assets,
- c) All share index,
- d) Rate of change in the volume of transaction, and
- e) Rate of changing the value of transaction

According to the World Bank (2013), Gross fixed capital formation (formerly gross domestic fixed investment) includes land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. According to the 1993 SNA, net acquisitions of valuables are also considered capital formation. It is therefore the total investment in fixed assets in the economy. It is the total investment in fixed assets financed by new issues of financial securities in the Capital market. Osaze (2007) theorized that these new issues contribute to the stock of capital in an economy and hence capital formation. Market capitalization is the total value of all equity securities listed on a Stock Exchange. It is a function of the prevailing market price of quoted equities and the size of their issued and paid-up capital.

BASELINE THEORIES

Efficient Capital Market Hypothesis

This theory posits that investors adjust securities' prices rapidly to reflect the effect of new information. Proponents of efficient market hypothesis argue that stock prices are essentially random and therefore chances of profiting from speculations are non-existent (Maku & Atanda, 2009; Mayowa & Richard, 2012). The market is based on the assumptions that share price follows a random walk and successive price change is independent of each other. This implies that no individual can make abnormal profit from trading in securities since share prices are not mispriced in any form of symmetric or predictable way. Samuel and Wilkes (1981) view an efficient market as the one in which prices of traded securities always fully reflect all publicly available information concerning those securities and that the necessary condition for an efficient market includes accurate signals for investor's choices and shows that today's price reflects all publicly available information which is the best estimate of tomorrow's price. To this end, an efficient market is one in which security prices adjust rapidly to the infusion of new information and current stock prices fully reflect all available information, including attended risks involve. Hence, stock market is said to be efficient if information is widely and cheaply available to investors in such a way that share prices are fair, that is the price reflects all available relevant and ascertainable information in the market which result from the presence of numerous, rational profit maximizing investors who are actively competing with one another.

Financial Intermediation Theory

This theory advocates that capital market should provide a mechanism for the mobilization and transfer of savings from the fund-owners to investments that promise better and higher returns on investment. Since regulation and quantification of direct the capital market activities of borrowing is difficult, it is expected that financial institutions should mediate between owners and users of funds in the impersonal but formal way like the marketable securities created and traded on the Nigerian Stock Exchange (Gorton and Winton, 2002). Financial intermediation entails arrangements covering the activities of capital market with respect to providing mechanism for organizing and managing the payment system, mechanism for the collection and transfer of savings, mechanism covering the investment in long-term financial securities and arrangements covering the activities of financial market complementary to the money and capital markets such as the foreign exchange markets and the futures markets (Nzotta, 2004). Financial intermediation refers to a financial framework that provide a medium of exchange necessary for specialization, mobilization and transfer of savings from those who generated the funds to those who use the funds for investment in the economic system where the funds will yield the highest return. This arrangement enhances productive activities and positively influences aggregate capital formation in the economy.

Empirical Review

Lucky and Uzah (2016) examined factors that determine Nigerian capital formation. The study relied on Time series data from Central Bank of Nigeria (CBN) Statistical Bulletin. The study reports that Nigeria's Gross Fixed Capital Formation (GFCG/GDP) is a function of broad supply credit to private sector gross national savings commercial banks' lending rate, exchange rate, inflation rate, external debt, public expenditure, government revenue terms of trade and operating surplus. Cointegration Test, Augmented Dickey Fuller Unit Root Test, Granger Causality Test and Vector Error Correction Model were used to test the dynamic relationship between the variables.

Torbira and Ogbulu (2014) examined the relationship between fund mobilization by insurance companies and gross fixed capital formation in Nigeria and specifically how gross fixed capital formation responds to stimuli emanating from the insurance companies. The study found that premium from fire accidents, motor vehicles and employee liabilities insurance policies positively and insignificantly elate to gross fixed capital formation in the short-term, while fund mobilization by insurance companies positively and significantly impact on growth of gross fixed capital formation. Egbe et al. (2015) in another study found a bi-directional relationship between industrial output and market capitalization and between industrial output and number of deals, but a unidirectional causality relationship between industrial sector development and value of transaction. Egbe et al. (2015) also reports that capital market has positive and significant impact on industrial output in Nigeria via market capitalization and number of deals.

Adegiwe et al. (2015) examined the effect of stock market development on Nigeria's economic growth and found that that stock market has the potentials of growth inducing, but has not contributed meaningfully to Nigerian economic growth, since only 26.5% of variations in economic growth is ascribable to stock market development. Relatedly, Ifeoluwa and Omotilewa (2015) examined the impact of stock market liquidity on economic growth of Nigeria between 1980 and 2012; and observed that stock market liquidity does not significantly explain economic growth in Nigeria for the periods under study. Esang and Basse (2009) on their part appraised

the impact of capital market efficiency on economic growth of Nigeria using time series data from 1963 to 2004 and found that Nigeria's capital market 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, and misappropriation of funds.

In addition, Okodua and Ewetan (2013) examined stock market performance and sustainable economic growth in Nigeria, using the autoregressive distributed lag (ARDL) estimation technique and reports that the overall output of Nigeria's economy is less sensitive to changes in stock market capitalization and average dividend yield. The study of Ovat (2012) examined the effect of stock market development on economic growth in Nigeria. The study revealed that stock market development contributes significantly to economic growth in Nigeria through market liquidity based indicators: total value of shares traded ratio and turnover ratio. Also Edame et al. (2013) found that stock market has positive and significant impact on economic growth in Nigeria from 1970-2010. Other studies that linked market capitalization or aspects of it to capital formation and economic development include Afolabi (2015), Ikikii and Nzomoi (2013), Okoye and Nwisienyi (2013) among others.

METHODOLOGY

This study is designed to examine the impact of capital market on capital formation in Nigeria. The research design adopted in this study is the ex-post facto method which is largely quasi-experimental. The data used in this study were collected from secondary sources. The instrument utilized for the collection of secondary data is documentation. Documentary data has been collected via the Nigerian Stock Exchange bulletin (NSE), Security and Exchange Commission (SEC) bulletin and CBN Statistical bulletin. The study utilizes the secondary source because it provides a basis for purposeful research work and also gives a direction for the research work. The multiple regression analysis was used to determine whether the capital market indices (market capitalization, total new issues, volume of transaction and total listed equities) have significantly impacted Nigeria's economic growth proxied by Gross Domestic Product during the period of the study.

Model Specification

From theories, principles and empirical findings, the model below is specified in this study.

$$GFCF = f (MS, CLIQ, TC, MDPP, MC) \quad 1$$

It is empirically stated as:

$$GFCF = S_0 + s_1MS + s_2CLIQ + s_3TC + s_4MDPP + s_5MC + +\mu \quad 2$$

Where:

GFCF = Gross fixed capital formation measured as percentage of gross domestic product

MS = Market Size proxy by market capitalization to GDP

TC = Market capitalization proxy divide by GDP

CLIQ = Capital market liquidity proxy by total transaction to all share price index

MOPP = Capital market openness measured as the percentage of foreign portfolio investment to gross domestic product.

MC = Market Capitalization

S_0 = Regression Intercept

$S_1 - S_6$ = Coefficient of the independent variables to the Dependent variable

μ = Error term

The theoretical relationship based on the hypotheses formulated by scholars is that, finance granger cause economic growth; therefore the theoretical relationship based on the model above is positive.

Unit Root Test

Spurious regression can be detected in regression model by low Durbin Watson and relatively moderate R^2 . Therefore, to distinguish between correlation that arises from share trend and one associated with an underlying causal relationship; we use the Augmented Dickey fuller (Dickey and Fuller, 1979, 1981)

$$X_t = \alpha + \theta X_{t-1} + v_t \tag{3}$$

The null hypotheses for the ADF statistic test are H_0 . Non stationary (unit root) and H_a : Stationary respectively

Co-integration

To search for possible long run relationship amongst the variables, we employ the Johansen and Juselius (1990) approach. Thus, the study constructed a p-dimensional (4x1) vector auto regression model with Gaussian errors that can be expressed by its first differenced error correction form as

$$\Delta Y_t = \Gamma_1 \Delta Y_{t-1} + \Gamma_2 \Delta Y_{t-2} + \dots + \Gamma_{k-1} \Delta Y_{t-k+1} - \Pi Y_{t-1} + \alpha + v_t \tag{4}$$

Where Y_t are the data series studied, v_t is i. i. d, $N(0, \sigma^2)$ $\Gamma_i + -1 + A_1 + A_1 + A_2 + A_3 + \dots + A_i$ for $i = 1, 2, 3, \dots, k-1$, $\Pi = I - A_1 - A_2 - \dots - A_k$. The Π matrix conveys information about the long term relationship among the Y_t variables studied. Hence, testing the co-integration entails testing for the rank r of matrix Π by examine whether the eigen values of Π are significantly different from zero.

Johansen and Juselius (1990) proposed two tests statistics to determine the number of co-integrating vectors (or the rank of Π), namely the trace and the maximum eigen-value (λ -trace) is computed as;

$$\lambda_{trace} = -T \sum_{j=r+1}^n \ln(1 - \lambda_j) \tag{5}$$

The trace tests the null hypothesis that “at most” r co-integration vector, with “more than” r vectors being the alternative hypothesis. The maximum eigenvalue test is given as:

$$\lambda_{max} = -T \ln(1 - \lambda_{r+1}) \tag{6}$$

It tests the null hypothesis of r co-integrating vectors against the alternative hypothesis of $r + 1$ co-integration vectors. In the equation (3) and (4), T is the sample size and λ is the largest canonical correlation.

Granger Causality

In case we do not find any evidence for co-integration among the variables, the specification of the Granger causality will be a vector autoregression (VAR) in the first difference form. However, if will find evidence of co-integration, there is the need to augment the Granger-type causality test model with a one period lagged error term. This is a crucial step because as noted by Engel and Granger (1987).

$$Y_t = r_o + \sum_{i=1}^n r_i^y Y_{t-1} \sum_{i=1}^n X_{a1} X \sim \tag{7}$$

and

$$X_t = s_o + \sum_{i=1}^n s_i^y Y_{t-1} \sum_{i=1}^n X_{s1} XY_t \tag{8}$$

Error Correction Model (ECM)

Co-integration is a prerequisite for the error correction mechanism. Since co-integration has been established, it is pertinent to proceed to the error correction model.

A-Priori Expectation of the Result

The explanatory variables are expected to have positive and direct effects on the dependent variables. That is a unit increase in any of the variables is expected to increase capital formation. This can be express mathematically as $a_1, a_2, a_3, a_4, a_5 > 0$.

ANALYSIS AND DISCUSSION OF FINDINGS

Table 1: Unit Root Test Summary Results

Variable	ADF	MacKinnon @ 1%	MacKinnon @ 5%	MacKinnon @ 10%	Prob.	Order of Int	Conclusion
ADF at Level							
GFCF	-2.675561	-3.670170	-2.963972	-2.621007	0.3851	1(0)	Accept H0
CLIQ	-2.597682	-3.670170	-2.963972	-2.621007	0.1045	1(0)	Accept H0
MC	-2.701994	-3.670170	-2.963972	-2.621007	0.0855	1(0)	Accept H0
MDPP	-3.465988	-3.711457	-2.981038	-2.629906	0.0175	1(0)	Accept H0
MS	-1.782594	-3.679322	-2.967767	-2.622989	0.3812	1(0)	Accept H0
TC	-2.236986	-3.670170	-2.963972	-2.621007	0.1981	1(0)	Accept H0
ADF at Difference							
GFCF	-10.62220	-3.679322	-2.967767	-2.622989	0.0000	1(1)	Reject H0
CLIQ	-8.796080	-3.689194	-2.971853	-2.625121	0.0000	1(1)	Reject H0
MC	-4.567255	-3.737853	-2.991878	-2.635542	0.0015	1(1)	Reject H0
MDPP	-4.796926	-3.737853	-2.991878	-2.635542	0.0006	1(1)	Reject H0
MS	-6.916998	-3.699871	-2.976263	-2.627420	0.0000	1(1)	Reject H0
TC	-5.195475	-3.711457	-2.981038	-2.629906	0.0003	1(1)	Reject H0

Source: E-view 9.0

At level, the unit root test shows that the variables are not stationary at level this means the rejection of alternate hypothesis of stationarity in favour of null hypothesis of non stationarity.

The unit root test at first difference shows that all the variables are stationary at first difference; this implies the rejection of null hypothesis of non stationarity in favour of the alternate for stationarity. The above table also implies that the variables are co integrated in the order or 1(1). This allows us to test for co integration using the Johansen co-integration test for trace statistics and maximum Eigen value.

Table 2: Test of Co-Integration

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.833388	121.6346	95.75366	0.0003
At most 1*	0.656957	79.66403	69.81889	0.0314
At most 2*	0.448367	58.63693	47.85613	0.0450
At most 3	0.296241	21.38564	29.79707	0.3340
At most 4	0.250740	11.19738	15.49471	0.1997
At most 5	0.092851	2.825995	3.841466	0.0927
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.833388	51.97054	40.07757	0.0015
At most 1*	0.656957	51.02710	33.87687	0.0455
At most 2*	0.448367	27.85129	27.58434	0.0484
At most 3	0.296241	10.18826	21.13162	0.7268
At most 4	0.250740	8.371389	14.26460	0.3422
At most 5	0.092851	2.825995	3.841466	0.0927

Source: E-view 9.0

At trace statistics the models proved two co-integrating equation, this implies the presence of long run relationship among the variables; therefore the null hypothesis of no cointegration is rejected while the alternate accepted.

Table 3: Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
CLIQ does not Granger Cause GFCF	29	1.89723	0.1718
GFCF does not Granger Cause CLIQ		0.84752	0.4409
MC does not Granger Cause GFCF	29	1.84994	0.1790
GFCF does not Granger Cause MC		1.46954	0.2500
MDPP does not Granger Cause GFCF	29	0.67938	0.5164
GFCF does not Granger Cause MDPP		0.79777	0.4619
MS does not Granger Cause GFCF	29	0.48462	0.6218
GFCF does not Granger Cause MS		0.02520	0.9751
TC does not Granger Cause GFCF	29	0.91019	0.4159
GFCF does not Granger Cause TC		0.79883	0.4615

Source: E-view 9.0

As presented in the above table the variable in model show no causal relationship among the variables, we accept null hypotheses,

Table 4: Vector Error Correction Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(CLIQ(-1))	0.545985	0.213039	2.562843	0.0177
D(MC(-1))	-0.249455	0.335138	-0.744336	0.4646
D(MDPP(-1))	-1.400533	0.927314	-1.510311	0.0452
D(MS(-1))	0.455065	0.266934	1.704785	0.0023
D(TC(-1))	-0.008688	0.032738	-0.265387	0.7932
C	-0.285901	1.051230	-0.271969	0.7882
ECM(-1)	-0.721786	0.262714	-2.747415	0.0118
R-squared	0.597436	Mean dependent var		-0.099655
Adjusted R-squared	0.487646	S.D. dependent var		7.825750
S.E. of regression	5.601587	Akaike info criterion		6.490482
Sum squared resid	690.3112	Schwarz criterion		6.820519
Log likelihood	-87.11199	Hannan-Quinn criter.		6.593846
F-statistic	5.441616	Durbin-Watson stat		1.615939
Prob(F-statistic)	0.001401			

Source: E-view 9.0

Over-Parameterized Result is presented in the above table to check for corrections of short run in the models. From the table model 1 shows that the ECM is properly sign with negative sign. The R^2 shows that 59.7% and 48.7% variations in the dependent variable could be trace to variation in the model; this is again justified by the f statistics and the probability value. From the result presented above it is evidence that macroeconomic variable have significant relationship with Nigeria financial market liquidity.

DISCUSSION OF FINDINGS

The objective of Nigeria's stock exchange is effectively intermediate the Nigerian financial sector. Different reforms over the last four decades, including the deregulation of the financial sector in the last quarter of 1986, the recapitalization of financial institutions (banks and insurance firms) and deepening of the operation of the capital market in the form of internationalization and capital market reforms. The objective of this study is to examine the relationship between capital market development and Nigeria's gross fixed capital formation. The static regression result shows that all the independent variables are positively related to the dependent variable. This finding is in line with the expected result, the underpinning theories (perfect financial intermediation theory), principle and other empirical results such as McCaig and Stengos (2005) whose findings supports the argument that a positive relationship exist between financial intermediation and economic growth.

The findings also aligns with Hao (2006) that financial intermediation has a causal effect and positive impact on growth through the channels of house-holds' savings mobilization and the substitution of loans for state budget appropriations; and Romeo-Avila (2007) that financial intermediation impacts positively on economic growth through three channels. Furthermore, the finding cohere with the findings of Gries et al. (2009) that the adoption of a more balanced policy approach may reduce financial system deficiencies among the Sub-Saharan Countries. The findings confirm the position that finance leads growth, and economic growth induces financial development (Wolde-Rufael, 2009) and that that economic growth granger causes financial development (Odhiambo, 2011).

CONCLUSION AND RECOMMENDATIONS

This study focused on examining the relationship between capital market development and capital formation in Nigeria. The study represents capital market development as capital market size and market liquidity. Based on the results from the statistical analyses, the study conclude that capital market development have positive and significant relationship with capital formation in Nigeria through gross fixed capital formation. The study therefore recommends that the capital market should further be reformed and its operational efficiency deepened to enhance the Nigerian gross fixed capital formation that:

- a) Capital market should further be reformed and be deepened to enhance its operational efficiency for better increase in the Nigeria gross fixed capital formation.
- b) The operating environment such as the political environment, the regulatory, the macroeconomic and the monetary should properly be integrated with the operations of the capital market development to enhance its operational efficiency in Nigeria.
- c) Macroeconomic policies such as income policies should properly be reformed to reduce poverty, reduce unemployment and effective distribution of income that will increase deposit mobilization and savings by that will enhance capital formation.
- d) The entire financial system should properly be put in place for effective functioning to enhance Nigeria gross fixed capital formation.
- e) The regulatory authorities such as the Central Bank of Nigeria (CBN) should partner with the regulators and other financial institutions to enhance effective resource mobilization and allocation in Nigeria.

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