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Nigerian Capital Market and Manufacturing Sub Sector (1970-2014)

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ABSTRACT

This research work examines the Nigerian capital market and manufacturing sub sector from 1970 to 2014. The main objective of the research work was to examine the impact of capital market on the economic growth and development of Nigerian and to investigate the impact of the manufacturing sector on the economic growth and development of Nigeria. The data use was a secondary collected from the Central Bank of Nigeria (CBN) statistical Bulletins. The data was analyzed using regression. The finding shows that capital market and manufacturing sector has a significant effect on the economic growth of Nigeria. The researcher recommends that government should develop the manufacturing sector and reduce the tax rate that is imposed on them so as to help improve the economic system of the country. Also, to boost the value of transactions in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, future, and swaps options in the market.

INTRODUCTION

Capital market is defined as the market where medium and long terms finance can be raised (Akingbohungbe, 2006). Capital market offers a variety of financial instruments that enable economic agents to pool, price and exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages saving in financial form. This is very essential for government and other institutions in need of long term funds (Nwankwo, 2000). According to Al-Faki (2006), the capital market is a network of specialized financial institutions, series of mechanism, processes and infrastructure that, in various ways facilitate the bringing together of suppliers and users of medium to long term capital for investment in economic developmental project. The growth and development of the capital market in Nigeria can be traced to 1946 with the floating of N600,000 (more than 300,000 pounds sterling) worth of government stocks. However, an organized market for the secondary trading of issued stocks was lacking. In 1959, following the establishment of the Central Bank of Nigeria (CBN) a year earlier, a N4 million (2 million pounds sterling) Federal Government of Nigeria development loan stock was issued in line with its role of fostering economic and financial development. In 1986, Nigeria embraced the International Monetary Fund (IMF) Structural Adjustment Programme (SAP) which influenced the economic policies of the Nigerian government and led to reforms in the late 1980s and early 1990s. The programme was proposed as an economic package to rapidly and effectively transform the Nigeria economy within two years (Yesufu, 1996). Government to judiciously implement some of its policy measures (Oyefusi and Mogbolu, 2003).

Ariyo and Adelegan (2005) contend that the liberalization of capital market led to the growth of the Nigerian capital market, yet its impact at the macro-economic level was negligible. Again the capital market was instrumental to the initial twenty five Banks that were able to meet the minimum capital requirement of N25 billion during the banking sector consolidation in 2005. The stock market has helped government and corporate entities to rise.

According to Alile (2005), the capital market is an institution that contributes to the socio-economic growth and development of emerging and developed economies. This is made possible through some of the vital roles played such as channeling resources, promoting reforms to modernize the financial sectors, financial intermediation capacity to link deficit to the surplus sector of the economy, and a veritable tool in the mobilization and allocation of savings among competitive uses which are critical to the growth and efficiency of the economy. It helps to channel capital or long-term resources to firms with relatively high and increasing productivity thus enhancing economic expansion and growth (osinabi, 2007).

Ekundayo (2002) argues that a nation requires a lot of local and foreign investments to attain sustainable economic growth and development. The capital market provides a means through which this is made possible. However, the paucity of long-term capital has posed the greatest predicament to economic development in most African countries including Nigeria. Osaze (2000) sees the capital market as the driver of any economy to growth and development because it is essential for the long term growth capital formation. It is crucial in the mobilization of savings and channeling of such savings to profitable self-liquidating investment. The Nigerian capital market provides the necessary lubricant that keeps turning the wheel of the economy.

Statement of the Problem

There is abundant evidence that most Nigerian manufacturing sector lack long-term capital. The manufacturing sector has depended mainly on short-term financing such as overdrafts to finance even long-term capital. Based on the maturity matching concept, such financing is risky.

All such firms need to raise an appropriate mix of short- and long-term capital (Demirguc-Kunt& Levine 2006). Most recent literatures on the Nigeria capital market have recognized the tremendous performance the market has recorded in recent times. However, the vital role of the capital market in economic growth and development has not been empirically investigated thereby creating a research gap in this area. This study is undertaken to examine the contribution of the capital market in the Nigerian economic growth and development. Aside the social and institutional factors inhibiting the process of economic development in Nigeria, the bottleneck created by the dearth of finance to the economy constitutes a major setback to its development. As a result, it is necessary to evaluate the Nigerian capital market and manufacturing sector.

Objectives of the Study

The broad objective of this study is to examine the Nigerian capital market and its manufacturing sub sector from 1970 to 2014. The specific objectives of the study are as follows:

I. To examines the impact of capital market on the economic growth and development of Nigerian.
II. To investigate the impact of the manufacturing sector on the economic growth and development of Nigeria.

Significance of the Study

The study explored the Nigerian capital market and manufacturing sub sector from the year 1970 to 2014. This research work will provide a broad view of the operations of the capital market. It will contribute to existing literature on the subject matter by investigating empirically the role, which the capital market plays in the economic growth and development of the country. The main importance of this study is that it will provide policy recommendations to policy-makers on ways to improve operations and activities of the capital market and the development of manufacturing sector in Nigeria.

This research work will also be of great important to the government as it will review the importance of capital market and manufacturing sector in Nigerian economy. Also the research work will be of important to researchers who may embark on research of the related topic.

Research Questions

This research was guided by the following research questions:

I. To what extent does capital market affects Nigerian economy?
II. To what extent does manufacturing sub sector affects Nigerian economy?

Hypotheses

Ho: Capital market and manufacturing sub sector DOES NOT have a significant effect on Nigerian economic growth.

H1: Capital market and manufacturing sub sector has a significant effect on Nigerian economic growth.

Conceptual Framework

Capital Market

Capital market is defined as the market where medium to long terms finance can be raised. The capital market is the market for dealing (that is lending and borrowing) in long term loanable funds. Substantial academic literature and government strategies support the finance-led growth hypothesis, based on an observation first made almost a century ago by Joseph Schumpeter that financial markets significantly boost real economic growth and development. Schumpeter (1991) asserted that finance had a positive impact on economic growth as a result of its effects on productivity growth and technological change. As early as 1989 the World Bank also endorsed the view that financial deepening matters for economic growth "by improving the productivity of investment". (Wikipedia, 2013).

Mbat (2001) described it as a forum through which long term funds are made available by the surplus to deficit economic units. It must however, be noted that although all surplus economic units have access to the capital market, not all the deficit economic units have the same easy access to it. The restriction on the part of the borrowers is meant to enforce the security of the funds provided by the lenders. In order to ensure that lenders are not subjected to undue risks the borrowers in the capital need to satisfy certain basic requirement. It has very profound implication for the socio-economic growth and development of any nation.

Manufacturing Sector

Historically, the growth in manufacturing output has been a key element in the successful transformation of most economies that have seen sustained rises in their per capita incomes. In most of Africa, performance in this area has been poor over the last decades. The lack of high-quality data constitutes a major impediment for rigorous policy relevant research on African industry, and the majority of previous economic research on Africa has therefore been based on aggregate data.

Opaluwa (2010) opine that the manufacturing sector plays catalytic role in a modern economy and has many dynamic benefits that are crucial for economic transformation. he noted that in an advanced country, the manufacturing sector is a leading sector in many respects; it is an avenue for increasing productivity in relation to import substitution and export expansion, creating foreign exchange earning capacity, raising employment, promoting the growth of investment at a faster rate than any other sector of the economy, as well as wider and more efficient linkage among different sectors.

According to Obasan and Adediran (2010), the manufacturing sector offered special opportunities for capital accumulation. They explained that capital accumulation can be more easily realized in spatially concentrated manufacturing than in spatially dispersed agriculture. This is one of the reasons why the emergence of manufacturing has been so important in growth and development. Obasan and Adediran (2010) notes that the contribution of the manufacturing industries in the Nigerian economy cannot be over emphasized when considering its employment potentials and financial impacts on the economy. Apart from its role of building grounds for development by laying solid foundation for the economy, they argue that it also serve as import substituting industry and provide ready market for intermediate goods.

Theoretical Framework

The economic theory of production provides the analytical framework for most empirical research on productivity. At the core of the theory is the production function, which postulates a well-defined relationship between a vector of maximum producible outputs and a vector of factors of production. Historical analyses of total factor productivity change conceptualize it as the change in output level controlling for input levels, i.e., the vertical shift of the production function. Consequently, factor productivity has been given such labels as the "residual". A number of studies have attempted to characterize productivity change as embracing technological advance, changing composition of the work force, investments in human capital, reallocation of resources from lower to higher productivity activities, and economies of scale (Nelson, 1981).

Capital Market Theory

According to the capital market theory builds upon the Markowitz portfolio model. The main assumptions of the capital market theory are as follows:

- All Investors are Efficient Investors: Investors follow Markowitz idea of the efficient frontier and choose to invest in portfolios along the frontier.

- Investors Borrow/Lend Money at the Risk-Free Rate: This rate remains static for any amount of money.

- The Time Horizon is equal for All Investors: When choosing investments, investors have equal time horizons for the chosen investments.

- All Assets are Infinitely Divisible: This indicates that fractional shares can be purchased and the stocks can be infinitely divisible.

- No Taxes and Transaction Costs: It is assumed that investor's results are not affected by taxes and transaction costs.

- All Investors Have the Same Probability for Outcomes: When determining the expected return, assume that all investors have the same probability for outcomes.

- No Inflation Exists: Returns are not affected by the inflation rate in a capital market as none exists in capital market theory.

- There is No Mispricing within the Capital Markets: It is assumed that the markets are efficient and that no mispricing within the markets exists.

IMPACT OF CAPITAL MARKET ON ECONOMIC GROWTH OF NIGERIA

The Nigeria capital market provides the necessary lubricant that keep turning the wheel of the economy. It not only provides the funds required for investment but also efficiently allocates these funds to projects of best returns to funds owners. The market is very vital to the growth and development of any country because it support government and corporate initiative finances the exploitation of new ideas and facilitates the management of financial risk. The capital market has impacted on economic growth and development of Nigeria through the following.

I. The capital market encouraged the inflow of foreign capital when foreign companies or investors invest in domestic securities.
II. It reduces the over reliance of the corporate sector on short term financing for long term projects and also provides opportunities for government to finance projects aimed at providing essential amenities for socio-economic development.
III. The capital market aid the government in privatization programme by offering her shares in the public enterprises to members of the public through the stock exchange.

IV. It has impacted positively by providing avenue for the marketing of shares and other securities in order to raise fresh fund for expansion of operations leading to increase production/output.

V. The market provides means of allocating the nation real and financial resources between various sectors, industries and companies. Through the capital formation and allocation mechanism the market efficiently distributes the scarce resources for the optimal benefit to the economy.

EMPIRICAL REVIEW

Osinubi and Amaghionyeodiwe (2013) examined the impact of capital market on the Nigerian economic development. The study was carried out between the period of twenty years (1993-2012). Secondary form of data was used collected from statistical bulletin 2013. Pie chart and regression was the statistical tools used for the analysis. The finding showed that capital market has a significant impact on the Nigerian economy. The researcher recommended that government should improve and invest on capital market to as to stabilize the economy.

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

Ewah, (2011) appraised the impact of the Nigeria capital market efficiency on the economic growth of the nation using time series data from 1991 to 2010. They found that the capital market in Nigeria has potential of growth inducing but it has not contribute meaningfully to the economic growth of Nigeria because of low market capitalization, illiquidity, misappropriation of funds among others.

METHODOLOGY OF RESEARCH

Research Design

This is a survey research work that seeks to evaluate the Nigerian capital market and manufacturing sub sector from 1970 to 2014. This chapter looks into the methods and techniques of the study caring out. They include; source of data collection, instruments and method of data analysis.

Methods of Data Collection

Data are collected from an already published document such as government agencies, research work, library journal, annual report or text books.the data for this study was obtained mainly from secondary sources particularly from Central Bank of Nigeria (CBN) statistical Bulletins, Nigerian Stock Exchange (NSE) fact books, Security and Exchange Commission (SEC) market Bulletins and relevant journals.All these data are within a period of (1970-2014) years. Therefore, in this research work, secondary method of data collection was used due to the nature of the project topic and it economic importance. The researcher found this method of data collection to be more convenient and biased free.

Statistical Tools Used For the Analysis

Multiple Regressions

The analysis will be done using multiple regression and correlation analysis. Multiple regression analysis is a statistical tool used to study the nature of relationship existing between the dependent variable and independent variables. Hence we can predict one variable from other variable by assuming the nature of the relationship between the variables. Correlation will be used to measure the strength of the relationship between the dependent variable and independents variable.

In this study independent variables are X_1, X_2,and X_3, while that of dependent variable is Y.

Model Specification

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

β_0: It is called the intercept in the regression model, i.e the mean effect of Y (exchange rate) when all the independent variables (X's) are all put at zero.

β_1: This is the change in Y associated with X_1

β_2: Change in Y associated with X_2

β_3: Change in Y associated with X_3

Correlation

This is a form of statistical analysis (test) used to find out the relationship between two sets of variables, one dependent (Y) and other dependent (X) variables.

DECISION RULE: we accept the null hypothesis when the probability value(P-value) is greater than the alpha value, otherwise we reject.

DATA PRESENTATION AND ANALYSIS

This chapter tends to present and analyzed data with aim of scaring the role of capital market and manufacturing sector in economic growth of Nigeria and it further interpret and discuss the result.

DATA PRESENTATION

Year	Real GDP	Unemployment	Income per capital of manufacturing sector(ICM)	Market capitalization (Equities and debts,) (N B)(MC)	Value of transactions (Government and industrial securities (N M) (VOT)	Total listing on the Nigerian Stock Exchange (Equity, industrial loan and govt. stock)(ST)

1970	36278.3	2.0	234	3002.0	199.1	120
1971	356994.3	2.2	267.1	3227.1	189.7	122
1972	433203.5	2.0	405.2	3920.1	176.9	130
1973	356994.3	1.3	290.4	4101.1	187.5	134
1974	433203.5	1.4	300.2	4327.9	192.4	142
1975	329178.7	2.1	299.0	4900.0	222.5	146
1976	312183.5	2.0	371.3	5567.2	267.5	143
1977	329178.7	1.9	360.2	5432.7	284.2	144
1978	541652	1.8	362.1	4421.2	3013.2	148
1979	213451.5	1.7	382.4	5421.2	332.1	157
1980	477533	1.9	372.3	4464.2	388.7	157
1981	205222.1	2.0	455.2	4979.8	304.8	194
1982	199685.3	2.1	533.4	4025.7	215	205
1983	185598.1	2.4	448.5	5768	397.9	212
1984	183563	2.3	159.8	5514.9	256.5	213
1985	201036.3	2.5	817.2	6670.7	316.6	220
1986	205971.4	2.1	833	6794.8	497.9	240
1987	204806.5	2.2	450.7	8297.6	382.4	244
1988	219875.6	2.3	400	10020.8	850.3	253
1989	236729.6	2.1	1629.9	12848.6	610.3	267
1990	267550	2.1	9964.5	16358.4	225.4	295
1991	265379.1	2.1	1870	23125	242.1	239
1992	271365.5	2.1	3306.3	31272.6	491.7	251
1993	274833.3	3	2636.9	47436.1	804.4	272
1994	275450.6	2.0	2161.7	663680	985.9	276
1995	281407.4	2.4	4425.6	180305.1	1838.8	276
1996	293745.4	3.4	5858.2	281815.8	6979.6	276
1997	302022.5	3.5	10875.7	281887.2	10330.5	264
1998	310890.1	17.5	15018.1	262517.3	13571.1	264
1999	312183.5	13.1	12038.5	300041.1	14072	268
2000	329178.7	13.6	17207.8	472290	28153.1	260
2001	356994.3	12.6	37198.8	662561.3	57683.8	261
2002	433203.5	14.8	61284	764975.8	59406.7	258
2003	477533	13.4	180079.9	1359274.2	120402.6	265
2004	527576	11.9	105418.4	2112549.6	225820	277
2005	561931.4	12.3	552782	2900062.1	262935.8	288
2006	595821.6	12.7	707400	5120000	470253.4	294

2007	634251.1	14.9	1935080	13294059	1076020.4	310
2008	672202.6	19.7	1509230	9562970	1679143.7	301
2009	716949.7	20.2	1724214	7030.8	685716.2	266
2010	859234.5	20.3	236979.6	8323.22	76345.2	268
2011	893245.7	23.3	310330.5	60234.3	13571.1	290
2012	821956.1	23.6	1213571.1	70234.5	514072	281
2013	921990.0	24.3	1214072.3	7675.8	48153.1	308
2014	1010213.3	26.4	428153.1	4975.7	46683.8	305

Sources: Central Bank of Nigeria (CBN), NSE Statistical Bulletin (Various issues), 2014

Hypotheses

Ho: Capital market and manufacturing sub sector DOES NOT have a significant effect on Nigerian economic growth.

H1: Capital market and manufacturing sub sector has a significant effect on Nigerian economic growth.

Level of significant = 0.05

DECISION RULE: we accept the null hypothesis when the probability value (P-value) is greater than the alpha value, otherwise we reject.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.862[a]	.743	.710	1.35384E6

a. Predictors: (Constant), ST, VOT, GDP, UNEMPLOY, ICM

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1292593.867	1131628.454		-1.142	.260
	GDP	.628	1.833	.057	.343	.734
	UNEMPLOY	-83542.875	57853.118	-.266	-1.444	.157
	ICM	.035	.967	-.007	-.036	.971
	VOT	7.015	1.246	.886	5.631	.000
	ST	7356.762	4584.828	.175	1.605	.117

a. Dependent Variable: MC

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.066E14	5	4.131E13	22.540	.000[a]
	Residual	7.148E13	39	1.833E12		
	Total	2.780E14	44			

a. Predictors: (Constant), ST, VOT, GDP, UNEMPLOY, ICM

b. Dependent Variable: MC

GDP= real GDP

UNEMPLOY= unemployment

CM = Income per capital of manufacturing sector

MC= Market capitalization (Equities and debts,) MC

VOT= Value of transactions

The regression equation is MC = - 1292594 + 0.63 GDP - 83543 UNEMP + 0.035 ICM + 7.02 VOT + 7357 ST

From the regression equation above, it shows that for every unit increase in capital market, GDP increases by 0.63, unemployment decreases by

83543 and the income per capital of manufacturing company increases by 0.035. The regression equation also shows that value of transaction increases by 7357 for every unit increase of capital market of the country.
Also from the anova table, it shows that the probability value (0.001) which is great than the alpha value (0.05), the researcher therefore reject the null hypothesis and accept the alternative hypothesis and conclude that Capital market and manufacturing sub sector has a significant effect on Nigerian economic growth.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

SUMMARY

The study examined the Nigerian capital market and manufacturing sub sector from the year 1970 to 2014. The findings of the study reveal the following

I. that for every unit increase in capital market, GDP increases by 0.63 which shows that capital market has a significant effect on Nigerian economy
II. Also that for every unit increase in capital market, unemployment decreases by 83543. This shows that capital market affect the economic system of Nigeria.
III. That for every unit increase in capital market, the income per capital of manufacturing company increases by 0.035.
IV. Also from the anova table, it shows that capital market and manufacturing sub sector has a significant effect on Nigerian economic growth.

CONCLUSION

The study reveals that the capital market impact on economic growth via GDP, market capitalization, value of transaction and total listing of equity and government stock. As it was observed market capitalization, government stock and value of transaction are important capital market variables that are capable of influencing economic growth. Hence the capital market and manufacturing sub sector remain one of the mainstreams in every economy that has the power to influence or impact economic growth therefore the organized private sector is to invest in it.

RECOMMENDATIONS

In order for the Nigeria capital market and manufacturing sector to be pivotal force in Nigeria economic growth and development, the researcher recommends that government should develop the manufacturing sector and reduce the tax rate that is impose on them so as to help improve the economic system of the country. Also, to boost the value of transactions in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, convertibles, future, and swaps options in the market.

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