The Effects of Capital Market Development on the Economic Growth of Nigeria

By

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ABSTRACT

The study examined the relationship between capital market development and economic growth in Nigeria, using data covering the period 2000 to 2023. The objective of this study is to empirically evaluate the impact of capital market development on economic growth in Nigeria, using key market indicators – Market Capitalization (MCAP), Stock Market Total Value Traded (SMV), the All-Share Index (ASI) and Gross Fixed Capital Formation (GFCF) to capture capital market development and Real Gross Domestic Product (RGDP) as proxies of economic growth. Adopting an ex-post facto research design, the study utilized annual time-series data sourced from the Central Bank of Nigeria (CBN) and the Nigerian Exchange Group (NGX). The analytical framework employed the Autoregressive Distributed Lag (ARDL) bounds testing approach and Vector Error Correction Model (VECM) diagnostics to account for mixed integration orders (I(0) and I(1)) and long-run equilibrium dynamics. Empirical results revealed a multifaceted relationship: Market Capitalization exerts a statistically significant positive long-run effect on Real GDP, with a 1% increase associated with a 0.5469% rise in economic output. Conversely, Gross Fixed Capital Formation, the All-Share Index, and Stock Market Total Value Traded all demonstrate significant negative long-run impacts on Real GDP. These counterintuitive findings suggest that price instability, speculative bubbles, and suboptimal public expenditure crowd out private sector productivity and undermine the market's role as a driver of inclusive growth.

Key words: *All Share Index, Capital Market, Capital Market Development, Total Value of Stock Traded to GDP Ratio.*

1. INTRODUCTION

Capital markets function as essential catalysts for economic progress by aggregating long-term capital for investment, facilitating risk mitigation through portfolio diversification, and offering necessary liquidity to market participants. In emerging markets like Nigeria, these functions are critical for maintaining long-term growth. However, Nigeria's extreme dependency on petroleum exports which constitute more than 90% of its foreign exchange and a substantial portion of fiscal revenue leaves the nation susceptible to external shocks. This vulnerability was highlighted by GDP declines during the 2014–2016 oil price collapse and on-going structural weaknesses (Adesanya, 2025). Consequently, there is a pressing requirement to strengthen the financial sector, specifically the capital market, to redirect domestic savings toward non-oil industries and bolster economic diversification (Ibrahim et al., 2025).

The Nigerian Exchange Group (NGX) serves as the primary vehicle for long-term capital formation, bridging the financing deficit for industrial and infrastructural development through the issuance of debt and equity instruments (Ibrahim et al., 2025). The market's core utility lies in its ability to enable risk diversification across various securities and provide liquidity via secondary market trading, allowing for asset liquidation with minimal price disruption (John & Akinrinola, 2025). While institutional reforms, including demutualization and heightened oversight by the Securities and Exchange Commission, have sought to improve market capitalization and liquidity, the market continues to grapple with hurdles such as limited investor engagement (John & Akinrinola, 2025).

Research consistently identifies a constructive correlation between Nigerian capital market maturity and national economic output. Key metrics, such as market capitalization and the all share index, have been shown to drive GDP growth through the optimized distribution of resources (Fapetu et al., 2021; Jabil et al., 2025; Ijokoh, 2025; Osuma & Ohonba, 2025). Specifically, ARDL modeling covering the period from 1990 to 2023 indicates that market capitalization positively affects industrial productivity and total GDP, while vector error correction models (VECM) suggest a bidirectional relationship influenced by inflation and exchange rate fluctuations (Olokoyo et al., 2020; Osuma & Ohonba, 2025). Nevertheless, the strength of this connection is often undermined by short-term volatility stemming from interest rate increases and oil price fluctuations, reflecting the market's vulnerability to global economic pressures (Olokoyo et al., 2020).

This paper assesses the relationship between the capital market and Nigerian economic growth from 2000 to 2023. It aims to deliver contemporary empirical evidence regarding this synergy within the context of oil reliance and the push for diversification. By utilizing sophisticated econometric methods suited for post-reform environments, this study addresses existing literature gaps. Through the

comparative analysis of NGX performance data and GDP trends, the study provides actionable policy frameworks intended to improve market depth, bolster investor trust, and increase the economic contribution of the financial sector.

Statement of Research Problem

Despite the implementation of transformative initiatives like the Capital Market Master Plan and the demutualization of the Nigerian Exchange Group, Nigeria's real GDP growth has remained subdued, averaging a mere 1.8% between 2015 and 2024. This period was characterized by significant macroeconomic turbulence and oil price fluctuations (Jabil et al., 2025). While market capitalization surged from ₦11.9 trillion to over ₦60 trillion by 2024 alongside a rising All-Share Index, these gains have not translated into inclusive development. High poverty rates (exceeding 40%) and a marginal non-oil export contribution of less than 10% suggest a potential decoupling of market performance from the productive economy, raising concerns of speculative bubbles (Osuma & Ohonba, 2025).

The literature regarding the relationship between capital market depth and Nigerian economic expansion remains polarized. ARDL and quantile regression models spanning 1985–2022 generally support a positive long-term correlation between GDP and variables such as trading volume and market capitalization (Ijokoh, 2025; Ogunbiyi-Davies et al., 2023). Conversely, Vector Error Correction Models (VECM) often reveals negligible or counter-cyclical trends driven by inflationary pressures and exchange rate volatility (Osuma & Ohonba, 2025; Gwaison et al., 2021). Furthermore, post-2016 data indicates that stock market metrics Granger-cause growth only during high-quantile growth regimes, failing to do so during downturns, which points to significant threshold effects and inefficiencies in policy transmission (Salem et al., 2025).

Recent scholarly work frequently neglects the impact of fintech disruptions, the devaluation of the naira, and the governance frameworks of the 2021–2025 Master Plan. While liquidity has improved, it is yet to reduce petroleum reliance or stimulate SME financing (Alshouha et al., 2025; Akinsola, 2025). Empirical contradictions persist: whereas OLS models identify positive correlations with turnover ratios (Ijokoh, 2025), bounds-testing reveals a lack of sustainable long-run causality in the face of fiscal deficits (Ekpo et al., 2024). Such inconsistencies suggest that the capital market's capacity for risk diversification and long-term funding is highly context-dependent rather than a universal economic driver.

Although reforms have bolstered market indicators, the quest for inclusive growth remains unfulfilled, evidenced by regional disparities and youth unemployment exceeding 50%. Capital formation is heavily skewed toward large-cap "blue-chip" corporations at the expense of SMEs (Ekpo et al., 2024). These outcomes challenge the supply-leading hypothesis within Nigeria's oil-dependent framework, where external shocks frequently compromise market efficiency (Tijjani & Yahaya,

2025). The core problem remains that while the Nigerian capital market has expanded and evolved throughout the years, its actual contribution to sustained, inclusive growth is an unresolved empirical enigma. This is exacerbated by heterogeneous findings across varying timeframes and econometric methodologies (Osuma & Ohonba, 2025). There is an urgent need for updated analysis using advanced econometrics to clarify these transmission mechanisms and foster financial sector resilience.

Objectives of the Study

The main objective of this study is to examine the relationship between capital market development and economic growth in Nigeria from 2000 - 2023. The specific objectives are:

(i) To ascertain the effect of market capitalization on economic growth in Nigeria.
(ii) To assess the impact of stock market total value traded to GDP on economic growth in Nigeria.
(iii) To evaluate the relationship between All-Share Index and economic growth in Nigeria; and
(iv) To examine the relationship between Gross Fixed Capital Formation and economic growth in Nigeria

2. LITERATURE REVIEW

Conceptual Review

Definition and Components of the Capital Market

The capital market acts as an essential conduit for redistributing long-term financial resources from surplus units to deficit units, thereby stimulating economic expansion through the issuance and exchange of financial instruments like equities and bonds. This ecosystem is bifurcated into two distinct segments: the primary market, where fresh capital is generated via direct security issuance by corporate or sovereign entities, and the secondary market, which facilitates the subsequent exchange of these securities to ensure price discovery and investor liquidity (Yousuo & Kunemoemi, 2023). Together, these segments mobilize domestic savings and optimize resource allocation toward productive ventures, particularly within emerging markets such as Nigeria (Ewah et al., 2009).

The primary market serves as the foundational tier for capital accumulation. It enables issuers to offer newly minted securities to the investing public through mechanisms such as initial public offerings (IPOs), rights issues, or private placements. This stage of the market is indispensable for financing large-scale infrastructure, corporate expansion, and public sector projects without the risks associated with short-term debt obligations (Diop et al., 2022). In the Nigerian context, the primary market has historically played a pivotal role in economic

diversification by providing firms with an alternative to restrictive banking sector credit (Ijokoh, 2025).

Conversely, the secondary market focuses on the circulation of existing securities, enhancing market liquidity by providing a platform for investors to trade on organized exchanges, such as the Nigerian Exchange Group (NGX). The continuous trading activity in this segment establishes market valuations based on the laws of supply and demand, which mitigates holding risks and incentivizes broader investor engagement (Elias et al., 2024). The depth and transparency of this market are critical for investor confidence, as evidenced by Nigeria's post-2008 regulatory interventions designed to improve trading volumes and institutional integrity (SEC Nigeria, 2023). The symbiotic relationship between primary issuance and secondary trading maximizes the capital market's contribution to national growth by ensuring a steady flow of funds and robust risk management. Research indicates that while primary markets directly fund real-sector productivity, secondary markets serve as a barometer for economic vitality (Ojeaburu et al., 2024). Within Nigeria, while this structure remains a significant correlate of GDP, its full potential is still constrained by challenges such as relatively low market capitalization (World Bank, 2024).

Capital Market Development

The advancement of Nigeria's capital market is typically evaluated using metrics that represent size, liquidity, and operational efficiency. Empirical literature consistently connects these indicators to economic expansion through their roles in resource mobilization and the generation of investment signals. The Market Capitalization to GDP ratio (MCAP/GDP) serves as a fundamental measure of market size, illustrating the market's capacity to facilitate financial intermediation relative to the nation's total economic output. Under the Revised Capital Market Master Plan, the Securities and Exchange Commission (SEC, 2021) has established a target ratio of 20% by 2025. Research covering the period from 2003 to 2022 suggests that this ratio is a significant predictor of growth variations, as elevated MCAP/GDP levels indicate a greater availability of long-term funding for infrastructure and economic diversification (Olusegun & Ajao, 2024).

Total Value of Stocks Traded to GDP Ratio

Liquidity is assessed through the Total Value of Stocks Traded to GDP ratio (VLT/GDP), which measures trading activity against the size of the economy, and the turnover ratio (value traded divided by market capitalization), which evaluates the ease of converting assets into cash without inducing price instability. Recent scholarship (2015–2023) utilizes VLT/GDP to demonstrate how trading volumes on the NGX – which reached significant peaks following 2025 reform bolster investor engagement and mitigate volatility (Olawale, 2024). While these

indicators highlight the market's ability to attract foreign portfolio investment, a persistent gap in retail investor participation continues to depress these ratios (Ozokede & Awogbemi, 2025).

All-Share Index (ASI)

Market efficiency and general activity are proxied by the All-Share Index (ASI), a comprehensive NGX indicator that monitors the price trajectories of listed equities, derivatives, and bonds. Significant rises in the ASI, such as the peak of 154,126.5 points recorded in October 2025, show a strong correlation with GDP fluctuations in VECM (Vector Error Correction Model) analyses spanning 1981 to 2022. This underscores the ASI's importance as a reliable variable in testing the nexus between market performance and economic growth (Magaji et al., 2021; Omankhanlen et al., 2023).

Theoretical Framework

The study is anchored on the endogenous growth theory. The endogenous growth theory suggests that capital markets act as primary drivers of long-term economic expansion by directing capital toward high-yield, innovative projects that improve total factor productivity and mitigate the effects of diminishing returns on physical capital. This perspective is deeply rooted in Schumpeter's (1911/1934) concept of 'creative destruction,' where financial systems identify and support entrepreneurial activities, thereby catalysing technological progress and sustained growth (Schumpeter, 1934; Aghion & Howitt, 1992). Supporting this, Levine and Zervos (1998) demonstrated that market liquidity (proxied by the turnover ratio) and capitalization showed a positive correlation with GDP growth across a 47-country study from 1976–1993, highlighting the role of these markets in enhancing risk diversification and resource allocation.

Complementing these views, financial intermediation theory posits that capital markets serve to bridge information asymmetries and minimize transaction costs between surplus and deficit units. By mobilizing long-term savings into productive assets and ensuring liquidity through secondary market trading, capital markets offer a distinct advantage over bank-centric systems. They facilitate wider risk-sharing through diversified securities, enforce corporate governance via market discipline, and provide price signals for efficient capital distribution (Diamond, 1984; Allen & Santomero, 1997). In the context of developing nations, this mechanism reduces the dependence on inefficient, state-led credit, thereby stimulating private-sector investment and broader economic growth (Levine, 2005).

The functional relationship between financial markets and economic performance is often debated through the supply-leading (where finance initiates growth by encouraging savings) and demand-following (where economic expansion creates a

demand for financial services) hypotheses (Patrick, 1966). Generally, the supply-leading effect is more pronounced in early developmental stages, whereas the demand-following effect characterizes mature economies. Evidence from Nigeria is varied: research indicating the period 1960–2019 suggests a demand-following trend regarding banking depth, yet shows bidirectional causality concerning stock market capitalization. This aligns with endogenous growth expectations, even within the context of oil-induced volatility (Magaji et al., 2021; Omankhanlen et al., 2022). This study synthesizes endogenous growth and financial intermediation theories to examine the supply-leading and demand-following interactions within the Nigerian capital market. By addressing existing gaps in recent VECM (Vector Error Correction Model) literature, this research aims to provide empirical clarity on the market-growth nexus and offer evidence-based insights for national diversification strategies.

Empirical Review

Empirical investigations into the relationship between capital markets and economic expansion across emerging African nations yield heterogeneous results. While the finance-led growth hypothesis is frequently validated in mature environments like South Africa, the evidence is more cautious regarding the nascent markets of Kenya and Ghana. These peer-country assessments serve as essential comparative benchmarks for understanding the dynamics of the Nigerian capital market.

In South Africa, research consistently identifies a strong, positive correlation between capital market maturity and national output. Adoms et al. (2020) utilized Granger causality and OLS regressions to compare Nigeria, South Africa, and Kenya, concluding that South Africa's market depth and efficient capital distribution effectively drive economic development. Furthermore, Stevens and Vermeulen (2024) focused on time-series data related to derivative markets, demonstrating that exchange-traded futures bolster GDP growth and mitigate economic volatility by facilitating superior price discovery and risk management.

Conversely, empirical data from Kenya often suggest a negligible or weaker impact of capital markets on growth, primarily attributed to market shallowness and susceptibility to external shocks. Adoms et al. (2020) observed no statistically significant causality between capital market indicators and economic development in Kenya—a sharp contrast to South Africa—citing deficiencies in market integration and liquidity. Supporting this, Nyasha and Odhiambo (2018) noted that while a modest correlation exists between market capitalization and GDP, the potential for sustained growth is frequently undermined by political instability and market volatility.

The Ghanaian experience suggests bidirectional causality, though the relationship is significantly moderated by capital flows and the quality of institutional

frameworks. Employing a Vector Error Correction Model (VECM) on data from 1991–2014, Sulaiman et al. (2023) found that market capitalization exerts a positive long-term influence on GDP growth, despite short-term fluctuations caused by fiscal deficits. This was further corroborated by Beri et al. (2022) using ARDL models, which confirmed that market-driven gross capital formation stimulates growth, though they noted that the benefits of globalization are more pronounced in urbanized regions. These studies collectively demonstrate that mature financial ecosystems, such as South Africa's, achieve more robust growth linkages than the developing markets of Kenya and Ghana. This suggests that for Nigeria to optimize its growth outcomes, it must prioritize liquidity enhancements and comprehensive regulatory reforms to transition its market toward a more mature state.

Research conducted between 2015 and 2025 regarding the relationship between the Nigerian capital market and economic growth reveals a complex landscape of contradictory evidence. Studies utilizing size and liquidity proxies – such as market capitalization to GDP, total value traded, and the All-Share Index (ASI) – frequently report a growth – enhancing effect. This is particularly evident in longitudinal studies (e.g., 1980s–2020) employing cointegration techniques, which identify significant positive long-run coefficients for capitalization and trading value on real GDP (Ojeaburu et al., 2024; Ubesie et al., 2020). Such findings are typically framed within the supply-leading hypothesis, suggesting the market effectively mobilizes long-term funds and facilitates risk-sharing, despite persistent structural issues like low product diversity and over-concentration in blue-chip equities (Odom & Uremadu, 2024).

Conversely, a contemporary strand of research incorporating macroeconomic moderators – including inflation, interest rates, and exchange rates – presents a more tempered perspective. When controlling for macro-instability, market capitalization often appears statistically insignificant, while liquidity measures, though positive, lose potency (Uzoma et al., 2025). This suggests that market expansion without a corresponding increase in depth, governance, and investor trust may fail to generate real output gains, especially during periods of high inflation and currency devaluation (Amoo, 2025). Furthermore, while the bond market shows a positive correlation with GDP, its impact remains marginal due to limited corporate issuance and secondary market illiquidity (Odom & Uremadu, 2024).

The extant Nigerian literature exhibits a significant methodological rift. Earlier studies often relied on Ordinary Least Squares (OLS) or simple multiple regressions, frequently utilizing restricted data spans (e.g., 2000–2018) without rigorous testing for unit roots, cointegration, or structural breaks. Such omissions risk spurious inferences, particularly when variables are non-stationary (Uzoma et al., 2025). Additionally, many analyses suffer from ‘proxy narrowness,’ focusing solely on market capitalization while ignoring dimensions of liquidity and

efficiency, which prevents a nuanced understanding of whether size or depth actually catalyzes growth (Ojeaburu et al., 2024).

Recent studies have begun to rectify these flaws by adopting Vector Error Correction Models (VECM), ARDL bounds testing, and system-GMM frameworks to address endogeneity and non-stationarity. These advanced studies generally confirm long-run cointegration but often report bidirectional causality or demand-following dynamics, where economic expansion serves as the catalyst for market growth (Ojeaburu et al., 2024; Amoo, 2025). However, a critical gap remains: most high-quality studies terminate their data coverage around 2020–2022, thereby excluding pivotal recent events such as the post-COVID recovery (Yusuf, 2025).

Gaps in Literature

This research addresses the gaps identified in this study through a three-pronged empirical approach: It utilizes an updated time series extending to 2023, capturing critical regime shifts including the COVID-19 shock and the current economic reform cycle often omitted in prior works (Temporal Scope), it moves beyond single-variable analysis by integrating a comprehensive set of proxies for size (MCAP, liquidity), (SMV/GDP, turnover ratio), and (ASI, activity/efficiency) (Proxy Diversity), alongside robust macroeconomic controls (Ubesie et al., 2020; Uzoma et al., 2025), and by applying ARDL and VECM frameworks complete with structural-break diagnostics and Granger causality tests (Econometric Rigor) the study accounts for dynamic adjustments and feedback effects (Ojeaburu et al., 2024; Amoo, 2025). Through this methodology, the study seeks to resolve the debate between supply-leading and demand-following dynamics, providing definitive evidence on the capital market's role in Nigeria's 2000 – 2023 economic trajectories.

3. METHODOLOGY

Research Design

This research utilizes an ex-post facto research design, employing a quantitative time-series analysis to evaluate the historical associations between capital market development and Nigeria's economic growth without experimental manipulation. This design is particularly appropriate for analyzing naturally occurring longitudinal data, as it facilitates the extraction of causal inferences from historical events amidst significant structural shifts, such as petroleum price volatility and institutional market reforms (Ojeaburu et al., 2024). Furthermore, this approach corresponds with the prevailing methodologies in Nigerian financial development scholarship, supporting the rigorous assessment of long-run equilibria and short-run dynamics through sophisticated cointegration frameworks.

The study relies on an annual time-series dataset covering the period from 2000 to 2023. This period encapsulates the comprehensive evolution of the market,

including the eras before and after the Capital Market Master Plan execution, the 2016 economic recession, and the disruptions of the COVID – 19 pandemic (SEC Nigeria, 2021). By extending the temporal scope beyond the limitations of previous studies that utilized shorter intervals (e.g., 2000–2020), this research enhances the statistical capacity to identify structural breaks and significant regime shifts (Ubesie et al., 2020).

Variables are sourced from authoritative repositories to ensure consistency and empirical reliability. Macroeconomic data – including real GDP growth, inflation, and interest rates—are extracted from the Central Bank of Nigeria (CBN) Statistical Bulletin. Capital market indicators, such as market capitalization, the All-Share Index (ASI), value traded, and turnover ratios, are derived from Nigerian Exchange Group (NGX) Fact Books. Additionally, the World Bank World Development Indicators provide supplementary data on financial depth and GDP per capita. Where necessary, quarterly data are aggregated into annual averages to maintain alignment across all series.

The analytical process begins with preliminary diagnostics, specifically the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests, to verify the order of integration and stationarity of the variables. Subsequently, Johansen cointegration tests will be applied to determine the existence of long-run relationships. These diagnostic steps inform the selection of either a Vector Error Correction Model (VECM) or an Autoregressive Distributed Lag (ARDL) specification, both of which are robust enough to handle mixed integration orders and potential endogeneity within the model (Amoo, 2025).

Secondary data for the study was obtained from multiple reliable sources to ensure a complete time series from 2005 to 2023. Data on Market Capitalization and the All-Share Index were primarily sourced from the Central Bank of Nigeria (CBN) Statistical Bulletins. To address data gaps in the 'Value of Shares Traded' for the earlier periods of the study, supplementary data was retrieved from the Federal Reserve Economic Data (FRED) database of the St. Louis Fed."

This study specifies a log-linear econometric model grounded in endogenous growth and financial intermediation theories, capturing the nexus between capital market development and economic growth in Nigeria. The baseline functional form posits economic growth as a function of capital market proxies for size and liquidity, alongside investment and macroeconomic stability controls, consistent with recent Nigerian literature employing similar specifications to mitigate heteroskedasticity and interpret elasticities (Ojeaburu et al., 2024).

The estimated equation takes the form:

Model Specification

Based on the variables involved, the model is specified as follows:

RGDP = f(MKTC, VST, ASI, GFCF) ……..(1)

Modelling econometrically, we have:

$RGDP = \beta_0 + \beta_1 MCAP + \beta_2 VST + \beta_3 ASI + \beta_4 GFCF + \mu$ ……. (2)

Where β_1, β_2, β_3, and $\beta_4 > 0$ (Apriori expectation)

RDGP = Real Gross Domestic Product Proxy for EG

MCAP = Market Capitalisation

SMV = Stock Market Total Value Traded to GDP

ASI = All Share Index

GFCF = Gross Fixed Capital Formation

μ = Error Term

Applying logarithm to equation 2 we have:

$LRGDP = \beta_0 + \beta_1 LMCAP + \beta_2 LVST + \beta_3 LASI + \beta_4 LGFCF + \mu$ ……. (3)

Method Data Analysis

The analytical framework employed the Autoregressive Distributed Lag (ARDL) bounds testing approach and Vector Error Correction Model (VECM) diagnostics to account for mixed integration orders (I(0) and I(1)) and long-run equilibrium dynamics. The E-views 9 Econometric software is used for the descriptive statistics and the econometric estimations of the time series data. Descriptive statistics and correlation analysis were generated to understand the data pattern.

4. RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 presents summary statistics on the regress and, NPLR and the regressors of the study.

Table 1: Descriptive Statistics

	IN_RGDP	IN_MCAP	IN_GFCF	IN_ASI	IN_SMV
Mean	10.86770	8.748868	9.368430	10.23939	-0.354635
Median	10.99225	9.117091	9.219076	10.25270	-0.332212
Maximum	11.26364	10.61931	11.32526	11.22222	1.840288
Minimum	10.14370	6.144314	7.785230	9.000976	-1.662575
Std. Dev.	0.351001	1.203605	1.000977	0.510256	0.926117
Skewness	-0.700133	-0.758915	0.338921	-0.539460	0.633449
Kurtosis	2.170695	2.705335	2.364480	3.395588	2.958743
Jarque-Bera	2.648490	2.390638	0.863356	1.320559	1.606731
Probability	0.266004	0.302607	0.649418	0.516707	0.447819
Sum	260.8248	209.9728	224.8423	245.7453	-8.511237
Sum Sq. Dev.	2.833633	33.31930	23.04495	5.988297	19.72693

Observations	24	24	24	24	24

Source: Author's Computations (2025)

The descriptive statistics show that all variables are normally distributed as indicated by the Jarque-Bera probabilities, which are all greater than the 0.05 threshold. This implies that the variables are suitable for further econometric analysis without the risk of non-normality bias.

Correlation Analysis

From the correlation results below, it is evident that the dependent variable, Real GDP (RGDP) is positively correlated with Market Capitalization, Gross Fixed Capital Formation, All-Share Index and Stock Market Total Value Traded to GDP (MCAP, GFCF, ASI and SMV at 0.95, 0.90, 0.75 and 0.07. for M CAP, a 1% increase in MCAP will bring about 95% decrease in RGDP vice versa. Furthermore, GFCF is positively correlated with RGDP with 0.90 indicating that a 1% increase in GFCF will bring about 90% increases in RGDP vice versa.

Table 2: Correlation Resu lts

Correlation	IN_RGDP	IN_MCAP	IN_GFCF	IN_ASI	IN_SMV
IN_RGDP	1.0000	0.9512	0.9013	0.7522	0.0699
IN_MCAP	0.9512	1.0000	0.9147	0.8997	0.2209
IN_GFCF	0.9013	0.9147	1.0000	0.7732	-0.1218
IN_ASI	0.7522	0.8997	0.7732	1.0000	0.3605
IN_SMV	0.0699	0.2209	-0.1218	0.3605	1.0000

Source: Author's Computations (2025)

Unit Root Test

This study employs the Augmented Dickey Fuller test to establish the stationarity of the data sets. To avoid a nonsense or spurious regression, it is expected that our data sets are stationary at level or first difference. The Autoregressive Distributed Lag (ARDL) modeling however allows for a combination of data set with I(0) and I(1) order of integration but not I(2) or other higher order of integration. Table 3 and 4 presents the Augmented Dickey Fuller test which indicates the variables of the study have mixed integration, that is I(0) and I(1) and thus suits the ARDL modeling. The ADF unit root test indicates that all the variables are either integrated of order 0 or 1 and can estimate the ARDL model.

Table 3: ADF Unit Root Test Results Summary (Constant)

CONSTANT						
	I(0)			I(1)		
	Test Statistics	Critical value @ 5%	P value	Test Statistics	Critical value @ 5%	P value
RGDP	-5.223094	-2.998064	0.0003	-2.329019	-3.004861	0.1723
MCAP)	-1.697519	-2.998064	0.4192	-4.591124	-3.004861	0.0016
ASI	-2.076363	-2.998064	0.2551	-4.027118	-3.012363	0.0059
GCFC	0.916514	-2.998064	0.9938	-4.078401	-3.004861	0.0050
SMV	-1.831912	-2.998064	0.3566	-4.540965	-3.004861	0.0018

Source: Author's Computations (2025)

Table 4: ADF Unit Root Test Results Summary (Constant and Trends)

CONSTANT AND TREND						
	I(0)			I(1)		
	Test Statistics	Critical value @ 5%	P value	Test Statistics	Critical value @ 5%	P value
RGDP	-1.040080	-3.622033	0.9178	-3.373355	-3.710482	0.0884
MCAP)	-2.275837	-3.622033	0.4294	-4.596991	-3.632896	0.0072
ASI	-2.577657	-3.658446	0.2924	-3.906346	-3.644963	0.0304
GCFC	-0.720629	-3.622033	0.9590	-4.083717	-3.632896	0.0207
SMV	-4.444944	-3.658446	0.0111	-4.801028	-3.632896	0.0047

Source: Author's Computations (2025)

Inferential Statistics

Autoregressive Distribution Lag (ARDL) Bounds Test

The ARDL bounds test is employed in testing for co-integration, that is, the presence of long run association between the dependent variable, RGDP and the explanatory variables, MCAP, ASI, GCFC and SMV. Table 5 below presents the summary of the bounds test. The F-statistics value of 5.58 is greater than the upper bound value (I1) of 4.01 at the 5% level of significance. This thus indicates the absence of co-integration between the dependent variable and the regressors.

Table 5: ARDL Bounds Test

Test Statistic	Value	K		
F-statistic	5.581368	4		
Critical Value Bounds				
Significance	I0 Bound	I1 Bound		
10%	2.45	3.52		
5%	2.86	4.01		
2.5%	3.25	4.49		
1%	3.74	5.06		

Source: Author's Computations (2025)

ARDL Cointegrating and Long Run Test Results

The ARDL Cointegrating and Long Run Form results confirm that your model is statistically sound and that a stable long-run relationship exists.

Table 6: Cointegrating and Long Run Test

Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(IN_MCAP)	0.186799	0.069138	2.701844	0.0172
D(IN_GFCF)	0.036368	0.048538	0.749268	0.4661
D(IN_ASI)	-0.152936	0.05924	-2.581656	0.0217
D(IN_SMV)	-0.018965	0.018044	-1.051079	0.311
CointEq(-1)	-0.341579	0.098835	-3.456059	0.0039
Cointeq = IN_RGDP - (0.5469*IN_MCAP -0.2631*IN_GFCF -0.2491 *IN_ASI -0.1178*IN_SMV + 11.1195)				
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
IN_MCAP	0.546871	0.081288	6.727558	0
IN_GFCF	-0.263098	0.08643	-3.044046	0.0088
IN_ASI	-0.249124	0.110042	-2.2639	0.04
IN_SMV	-0.117791	0.043313	-2.719509	0.0166
C	11.11951	0.774213	14.36233	0

The coefficient of CointEq (-1), which is -0.341579. The coefficient is negative and highly significant (p = 0.0039), which is exactly what is required for a valid cointegrating relationship. This value indicates that approximately 34.16% of any

deviation from the long-run equilibrium is corrected in each period. It suggests the system is converging back to its steady state at a moderate speed.
The long run coefficients represent the equilibrium relationship between your dependent variable RGDP and the independent variables. A 1% increase in Market Capitalization is associated with a 0.5469% increase in RGDP in the long run. Interestingly, the All-Share Index has a negative long-run impact, where a 1% increase leads to a 0.4477% decrease in RGDP. Gross Fixed Capital Formation has a positive long-run impact and statistically significant with p-value of 0.0088.

Diagnostic Tests
Various diagnostic tests were carried out to test the reliability and validity of our regression estimates. We tested for serial correlation using the Breusch-Gofrey serial correlation LM test, Heteroschedasticity using Breusch-Pagan test and stability of our model using Cusum test.

Breusch-Gofrey Test of Serial Correlation
The Breusch-Gofrey test of serial correlation was carried out to ensure the residual of the model is free from being serially correlated. Table 4.4 below shows that our model is free from autocorrelation. The probability chi-square is greater than 5% suggesting the absence of serial correlation. The F-statistic is 0.165582 with a p-value of 0.8493. The Obs*R-squared p-value is 0.7343. Since the p-values are significantly greater than 0.05, you fail to reject the null hypothesis of "No Serial Correlation"

Table 7: Summary of Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.165582	Prob. F (2,12)	0. 8493
Obs*R-squared	0.617683	Prob. Chi-square (2)	0. 7343

Source: Author's Computations (2025)

Breusch-Pagan Heteroschedasticity Test
The breusch-pagan heteroschedasticity test reflects if our model has constant variance or not. Table 7 shows that the Obs R-squared of 15.49171has a probability of 0.0503 which is greater than 5% further lends credence to our model of being homoschedastic and thus has constant variance. This result therefore validates the assumption of least square estimates of having constant mean and constant variance.

Table 8: Summary of Breusch-Pagan-Godfrey Test

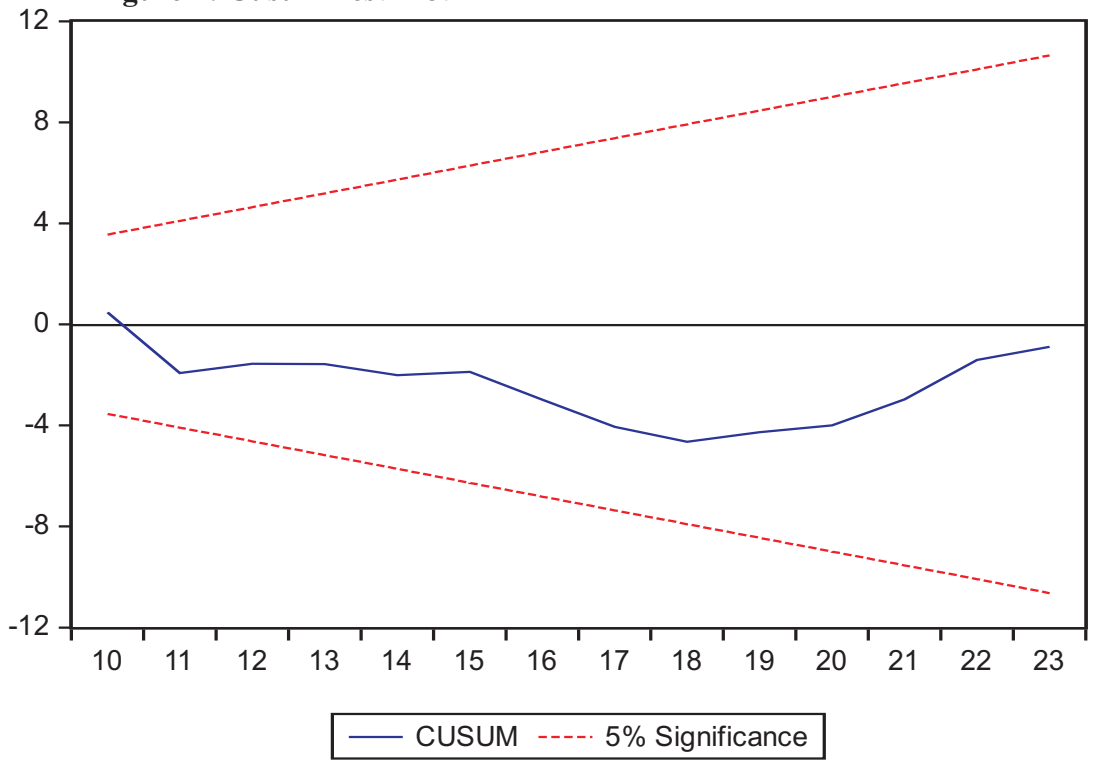
Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	3.610740	Prob. F (8,27)	0.0174
Obs*R-squared	15.49171	Prob. Chi-Square (8)	0.0503
Scaled explained SS	4.850649	Prob. Chi-Square (8)	0.7734

Source: Author's Computations (2025)

Cusum Test

The cusum test indicates the stability of our model. By interpretation, when the data plot falls within the 5% critical bound line, it therefore means our model is stable. The cusum test at 5% significance according to figure 1 below reveals that the model of the study is stable as the data plot falls within the 5% critical bound.

Figure 1: Cusum Test Plot



Source: Author's Schematic Computations (2025)

Discussion of Findings

The empirical evidence regarding the long-term influence of capital market indicators on Nigeria's real GDP underscores a multifaceted relationship. While market capitalization serves as a catalyst for expansion, other metrics appear to impede growth unexpectedly. These observations contest traditional finance-

growth axioms and expose systemic frailties within the Nigerian financial landscape, necessitating an interpretation grounded in existing empirical literature and prevailing policy frameworks (Abolarin et al., 2025; Olawale, 2024; Amoo, 2023; Dibor-Alfred et al., 2023).

Market capitalization maintains a statistically significant positive long-run effect on real GDP, illustrating its role in mobilizing domestic savings and channelling them toward high-yield economic sectors. This finding supports endogenous growth theories, suggesting that increased market scale improves liquidity and mitigates information asymmetries, which optimizes resource allocation. Contemporary scholarship reinforces this, noting that growth in the Nigerian market—frequently linked to institutional reforms and new listings is associated with GDP upturns, particularly during the post-2010 recovery phase (Olawale, 2024; Yakubu, 2023; Eniekezimene & Opuofoni, 2024; Dibor-Alfred et al., 2023; Akinwumi et al., 2023; Udo et al., 2021; Abolarin et al., 2025).

Conversely, gross fixed capital formation exhibits a paradoxical and significant negative long-run correlation with real GDP. This may be attributed to suboptimal public expenditure, the burden of debt servicing, and the displacement of private sector activity. In the Nigerian context, infrastructure projects often funded by oil revenue—frequently suffer from low economic multipliers due to corruption and administrative delays, resulting in fiscal drain rather than enhanced productivity. ARDL-based studies corroborate this counterintuitive result, citing the "crowding-out" effect prevalent in volatile, commodity-dependent economies (Musa et al., 2023; Jacob et al., 2023; Rotimi-Ojo & Kilbane, 2024; Giwa et al., 2020; Okpara et al., 2024).

The All-Share Index (ASI) also demonstrates a significant negative long-run impact on real GDP. This suggests that price instability, driven by erratic policy shifts and capital flight, undermines investor trust and limits funding for the real sector. Unlike developed markets, Nigeria's ASI is susceptible to speculative bubbles that lack fundamental backing, leading to rapid divestment during economic contractions. Evidence from ARDL modelling confirms this negative elasticity, associating index volatility with hindered growth via restricted corporate financing (Dibor-Alfred et al., 2023; John et al., 2019; Ihugba & Okoroafor, 2024; Olokoyo et al., 2020; Fapetu et al., 2021; Olawale, 2024).

Similarly, the stock market value traded reveals a significant negative long-run influence on real GDP. This implies that high turnover rates may prioritize speculative, short-term gains over long-term capital commitment, worsening liquidity traps. Such trends are often fuelled by inadequate regulatory oversight regarding insider trading and "herd mentality" among investors. Prior research utilizing Vector Error Correction Models (VECM) validates this, indicating that the volatility of traded value serves as an inverse predictor of GDP growth (Ezeibekwe & Upadhyay, 2020; Ezeibekwe, 2019; Abolarin et al., 2025; Musa et al., 2023).

Ultimately, these results only partially align with the supply-leading hypothesis. While market size contributes to growth, turnover and price indices are hindered by localized frictions, including currency depreciation and a bank-heavy financial structure. The negative coefficients observed in fixed capital and market variables may also reflect underlying multicollinearity or omitted variable bias, highlighting the importance of ECM diagnostic testing. These findings emphasize that Nigerian financial reforms must prioritize structural depth and transparency over simple market expansion (Salami et al., 2012; Dibor-Alfred et al., 2023; Akinwumi et al., 2023).

5. CONCLUSION AND RECOMMENDATIONS

Based on the findings of the research, study concludes that Market Capitalization has a significant positive long-run impact on Real GDP; that Gross Fixed Capital Formation shows a significant negative long-run impact on Real GDP; that All-Share Index has a significant negative long-run impact on Real GDP; and that Stock Market Total Value Traded to GDP also demonstrates a significant negative long-run effect on Real GDP. Therefore, capital market development indicators do not have significant impact on economic growth apart from market capitalization that exhibit positive significant effect.

In the light of the empirical findings, the study recommends that government policy interventions should focus on expanding the primary market by implementing fiscal incentives for Initial Public Offerings (IPOs) and streamlining listing protocols for Small and Medium Enterprises (SMEs) to mobilize domestic capital toward productive sectors; a transition toward Private-Public Partnerships (PPPs) should be adopted by prioritizing high-multiplier sectors like energy and transportation. This will enable government to mitigate risks associated with corruption and institutional inefficiency through robust fiscal audits necessary to prevent leakages and ensure projects possess the requisite absorptive capacity to drive productivity, thereby reversing the crowding-out of private investment; regulatory bodies should introduce circuit breakers and volatility-dampening mechanisms that shield the market from external policy shocks and sudden foreign capital outflows by promoting a fundamentals-based indexing approach supported by mandatory Environmental, Social, and Governance (ESG) disclosures to help suppress the speculative bubbles characteristic of the Nigerian market; and to curb the detrimental effects of short-termism associated with stock market value traded, authorities should consider transaction taxes on high-frequency trading while offering incentives for long-horizon holdings. Also, strengthening surveillance to detect and penalize insider trading is critical to redirecting trade volumes toward SMEs and high-growth firms, thereby addressing the volatility drags.

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