THE ROLE OF CAPITAL MARKET IN EMERGING ECONOMY

Dr(Mrs) P.A Isenmila
Department of Accounting, Faculty of Management Sciences
University of Benin

Akinola Adewale O
GT Bank, Uselu Lagos Road, Benin City

ABSTRACT

In recent times there has been a growing concern on the role of capital markets in Africa in stimulating economic progress. The argument that African economies may be lagging and that the capital markets may not be providing the needed impetus for financial intermediation and economic progress has been put forward by few number of researchers. A peculiar experience in most African economies is that the challenges with good quality institutions such as democratic accountability could have resulted to the weak capital market development in Africa because they increase political risk and reduce the viability of external finance. This study evaluates capital market and developing economies, challenges to capital market growth, the capital market in Nigeria, capital market and economic growth in Nigeria and policy directions for promoting capital market growth in developing countries.

Keywords: capital market, emerging economies, economic growth

1. INTRODUCTION

Stimulating economic growth and development requires long term funding, far longer than the duration for which most savers are willing to commit their funds and this constitutes a barrier to economic growth. In this regard, the capital market provides an avenue for the mobilization and utilization of long-term funds for development and hence it is referred to as the long term end of the financial system. Over the past few decades, globally there has been an upsurge in capital market activity, and emerging markets have accounted for a large amount of this boom. This suggests the growing recognition of the capital market as a tool for fast-tracking economic progress in developing economies. However, critics have argued that the capital market might not perform efficiently in developing countries and that it may not be feasible for these countries to promote stock markets given the huge costs and the poor financial structures (Singh, 1999). In principle, capital markets are expected to accelerate economic growth by providing a boost to domestic savings and increasing the quantity and the quality of investment, provide individuals with additional financial instrument that may better meet their risk preferences and liquidity needs (Levine and Zervos, 1998). This study evaluates capital market and developing economies, challenges to capital market growth, the capital market in Nigeria, capital market and economic growth in Nigeria and policy directions for promoting capital market growth in developing countries.

2. CAPITAL MARKET AND DEVELOPING ECONOMY

For over a decade now, financial liberalization in developing countries has been cited as a necessary and significant part of an economic policy package promoted by what used to be called the “Washington Consensus”. Consequently, financial liberalization has become an emerging trend in both developed and developing countries with well established theoretical frameworks for its expected effects on economic progress. The potentials of highly efficient financial systems have signaled the drive towards better functioning of capital markets especially in developing countries particularly during the last few decades. Cosh, Hughes and Singh (1992) note that the emphasis on capital markets has resulted from the operation of a number of interrelated factors; (i) the progressive deregulation of financial markets both internally and externally in leading economies, (ii) the internationalization of these markets (iii) the introduction of a number of financial products allowing riskier and bigger financial investments and (iv) the emergence and the increasing role of new actors in the financial markets particularly, institutional investors.

Levine and Zervos (1998), Sule and Momoh (2009) specifying the channels for economic progress through the capital market opine that it provides opportunities for companies to borrow funds needed for long-term investment purposes. It also provides avenue for the marketing of shares and other securities in order to raise fresh funds for expansion of operations leading to increase in output/production. It creates a means of allocating the nation's real and financial resources between various industries and companies. Sule and Momoh (2009) argue further that through the capital formation and allocation mechanism the capital market ensures an efficient and effective distribution of the scarce resources for the optimal benefit to the economy and 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 socioeconomic development. According to Filler, Hanousek and Campos (1999) the nature and economic significance of the relationship between capital market and economic progress vary according to a country's level of economic development with a larger impact in less developed economies.

Singh (1999) has argued that the capital market might face serious challenges in developing countries and may not perform efficiently and that it may not be feasible for such economies to promote capital markets given the huge costs and the poor financial structures. These problems are magnified in developing countries with their weaker regulatory institutions and greater macroeconomic volatility. The higher degree of price volatility on stock markets in developing countries reduces the efficiency of the price signals in allocating investment resources. These serious limitations of the stock market have led many analysts to question the importance of the system in promoting economic growth in developing countries.

With a particular emphasis on developing countries in Africa, IMF survey, (2007) notes that there has been a considerable development in the capital markets since the early 1990s. Prior to 1989, there were just five stock markets in sub-Saharan Africa and three in North Africa. Today there are 19 Stock Exchanges ranging from new Stock Exchanges like Uganda and Mozambique Stock Exchanges to the Nigeria and Johannesburg Stock Exchanges. With the exception of South Africa, most African stock markets doubled their market capitalization between 1992 and 2002. According to Yartey and Adjasi (2007) total market capitalization for African markets increased from US$113,423 million to US$ 244,672 million between 1992 and 2002. Indicators of stock market development show that African markets are small with few listed companies and low market capitalization. Egypt, Nigeria, South Africa and Zimbabwe are the exceptions with listed companies of 792, 207, 403 and 79 respectively. The average number of listed companies on sub-Saharan African markets excluding South Africa is 39 compared with 113, with the inclusion of Egypt and South Africa (Yartey and Adjasi, 2007).

2.1 CAPITAL MARKET AND ECONOMIIC GROWTH

The role of capital markets in stimulating economic progress is less debatable as there are well established theoretical frameworks for aprori expectations to be in the affirmative. However, there are considerable debates about the findings and empirical evidence across countries and the arguments are quite inconclusive and with mixed results. For example Grilli and Milesi-Ferretti, (1995), Kraay, (1998) and Rodrick, (1998) found that capital market does not affect growth, while others stood their ground that the effect is positive (Levine, 2001, Bekaert et al., 2003 and Bonfiglioli and Mendicino, 2004), others noted that it is negative (Eichengreen and Leblang, 2003). Certain studies show the effects to be heterogeneous across countries at different stages of institutional and economic development (Bekaert et al, 2003, and Edwards, 2001) and countries with different macroeconomic frameworks (Arteta, Einchengreen and Wyplosz, 2001). Rancière, Tornell and Westermann (2006) observed that we could expect the growth effect of capital markets to be smaller in high-income than in middle-income countries. We shall examine some of the challenges in developing countries as analyzed below;

- **Macroeconomic Stability**

According to Garcia and Liu (1999) a stable macroeconomic environment is crucial for the development of the capital market**.** Macroeconomic volatility worsens the problem of informational asymmetries and becomes a source of vulnerability to the financial system. Low and predictable rates of inflation are more likely to contribute to stock market development and economic growth. Both domestic and foreign investors will be unwilling to invest in the stock market where there are expectations of high inflation. Garcia and Liu (1999) argued further that sound macroeconomic environments and sufficiently high income levels; GDP per capita, domestic savings, and domestic investments are important determinants of stock market development in emerging markets.

- **Development of the Banking Sector**

Yartey (2007) notes that the development of the banking sector is important for stock market development in developing economies. At the early stages of its establishment the capital market is a complement rather than substitute for the banking sector. Developing the financial intermediary sector can promote the development of the capital market. It must be noted that the conduct of macroeconomic policies not only affects but may also be affected by the condition of the financial system. Support services from the banking system contribute significantly to the development of the stock market. Consequently, liquid inter-bank markets, largely supported by an efficient banking system, are important for the development of the stock market. Conversely a weak-banking system can constrain the development of the stock market. On the empirical front, Demirguc-Kunt and Levine (1996) found that most capital market indicators are highly correlated with banking sector development. Countries with well-developed stock markets tend to have well developed financial intermediaries. Yartey (2007) notes further that empirical findings have observed that a percentage point increase in banking sector development increases stock market development by 0.59 percentage point for developing economies in Africa controlling for macroeconomic stability, economic development and the quality of legal and political institutions.

- **Institutional Quality**

According to the International Monetary Fund (IMF, 2007), Institutional quality is important for stock market development because efficient and accountable institutions tend to broaden appeal and confidence in equity investment. Equity investment thus becomes gradually more attractive as political risk is resolved over time. Therefore, the development of good quality institutions can affect the attractiveness of equity investment and lead to stock market development. Yartey (2007a) finds good quality institutions such as law and order, democratic accountability, bureaucratic quality as important determinants of stock market development in Africa because they reduce political risk and enhance the viability of external finance. Bekaert (1995) provides evidence that higher levels of political risk are related to higher degrees of capital market segmentation and consequently low level of stock market development. Erb et al (1996) show that expected returns are related to the magnitude of political risk. They find that in both developing and developed countries, the lower the level of political risk, the lower is required returns. The evidence in the literature suggests that political risk is a priced factor for which investors are rewarded and that it strongly affects the local cost of equity, which may have important implications for capital market development.

- **Shareholder Protection**

Shleifer and Vishny (1997) note that another key determinant of capital market development is the level of shareholder protection in publicly traded companies. Capital market development is more likely in countries with strong shareholder protection because investors do not fear expropriation as much. In addition, ownership in such markets can be relatively dispersed, which provides liquidity to the market. La Porta, Lopezde and Shleifer (2003) provide evidence for the importance of minority rights protection by using indicators of the quality of shareholder protection as written in laws. They demonstrate that the quality of shareholder protection is correlated with the capitalization and liquidity of stock markets in 49 countries around the world. Laporta et al (1997) find that countries with lower quality of legal rules and law enforcement have smaller and narrower capital markets and that the listed firms on their stock markets are characterized by more concentrated ownership.

2.2 THE NIGERIAN EXPERIENCE

The stock market is viewed as a complex institution imbued with inherent mechanism through which long-term funds of the major sectors of the economy comprising households, firms, and government are mobilized, harnessed and made available to various sectors of the economy (Nyong, 1997). The development of the capital market, and apparently the stock market, provides opportunities for greater funds mobilization, improved efficiency in resource allocation and provision of relevant information for appraisal (Inanga and Emenuga, 1997).

Nwankwo (1991) explained that the development of the Nigeria Capital Market dates back to the late 1950s when the Federal Government through its ministry of industries set up the Barback committee to advise it on ways and means of setting up a stock market. Prior to independence, financial operators in Nigeria comprised mainly of foreign owned commercial banks that provided short-term commercial trade credits for the overseas companies with offices in Nigeria. Their capital balances were invested abroad in the London Stock Exchange. Thus, the Nigerian Government in an attempt to accelerate economic growth embarked on the development of the capital market. This is to provide local opportunities for borrowing and lending of long-term capital by the public and private sectors as well as an opportunity for foreign-based companies to offer their shares to the local investors and provide avenues for the expatriate companies to invest surplus funds. Based on the report of the Barback Committee the Lagos Stock Exchange was established. With the enactment of the Lagos Stock Exchange Act 1961, it commenced business in June, 1961 and assumed the major activities of the stock market by providing facilities for the public to trade in shares and stocks, maintaining fair prices through stock-jobbing and restricting the business to its members. The Lagos Stock Exchange was renamed the Nigerian Stock Exchange in 1977.

According to the Nigerian Stock Exchange report (2004) initially trading activities commenced with two Federal Government Development Stocks, one preference share and three domestic equities. The market grew slowly during the period with only six equities at the end of 1966 compared with three in 1961. Government stocks comprised the bulk of the listing with 19 of such securities quoted on the Exchange in 1966 compared with six at the end of 1961 (Nnanna, Englama and Odoko, 2004). Prior to 1972 when the indigenization exercise took off, activities on the Nigerian Stock Exchange were low. Promotion Decree of 1972, which its principal objectives include; promoting capital formation, savings and investment in the industrial and commercial activities of the country, the low level of activities in the stock market increased as Nigerians gained the commanding heights of the economy. However, following the criticisms that the Nigerian Stock Exchange was not responsive to the needs of local investors, especially indigenous businessmen who wished to raise capital for their businesses, the NSE, introduced the Second-Tier Securities Markets (SSM) in 1985 to provide the framework for the listing of small and medium-sized Nigerian companies on the Exchange. Six companies were listed on this segment of the stock market by 1988 and by 2002 over twenty-three companies had availed themselves of the opportunities offered by this market (NSE, 2004).

Nnanna, Englama and Odoko, (2004) note that the major instruments/products available in the Nigerian capital market to date include; the industrial equities otherwise referred to as ordinary shares; industrial loans such as debentures, unsecured zero coupons, preference bonds/stocks, specialized project loans/infrastructural loans, government stocks/bonds, unit trust schemes, unlisted corporate/industrial loans stock, among others. The market is currently divided into two broad categories, namely equities and debt markets. The former are instruments or products that confer ownership rights on the investor, while the latter are interest-bearing obligations with fixed or floating interest-rates.

2.3 Market Overview

Ndanusa (2004) observed that although a small market by international standard, the Nigerian capital market is one of the leading markets in Sub-Saharan Africa and has made some notable strides in recent years. With a history of over 50 years (when the first public issue was floated) and 42 years of a Stock Exchange, equity listings and market capitalization are still relatively small, standing at 196 and US$7.0 billion respectively at the end of March 2003. The value of equities traded at year-end 2002 was US$0.5 billion, a much lower figure than market capitalization. As a result of this, turnover ratio of 7.9 percent was recorded at the end of 2002, higher than the average turnover ratio for 1998 - 2002. From a historical perspective, this figure excepting for 2001, is an improvement, evidencing the continued rise in activities in the market. The market was active with traded equities of ₦10.8 billion (US$ 86 million) in January 2003, which represented about 18 percent of the total equity value in 2002. By end of March 2003, ₦24 billion (US$188.9 million) equities had been traded. It is important to point out that the depreciation of the local currency, the naira, has continued to impact on the size of the market in dollar terms. Between 1997 and December 2002, the naira lost over half its value to the dollar. As a result, while market capitalization witnessed impressive growth in local currency terms, this was not the case in dollar terms as a much slower growth was registered. For instance, in the five years ended 2002, equity market capitalization recorded almost three-fold increase from ₦256.8 billion in 1998 to ₦748.7 billion in 2002 or a 191.5 percent increase while it rose by 52.6 percent or from US$ 3.8 billion in 1998 to US$ 5.8 billion in 2002. The point being made is that, if the local currency had been strong, the dollar size of the market would have been larger.

According to the Security and Exchange Commission (SEC, 2003) equity market capitalization grew by over ₦100 billion (US$794 million) in 2002 or 15 percent and has remained on the upward swing. In the month of January 2003, equity market capitalization rose by over 12.4 percent and by February 2003, it had gained ₦116 billion (US$0.9 billion) over December 2002 more than the increase in the whole of that year. However, in March 2003, market capitalization rose by ₦98.2 billion (US$0.8 billion) over December 2002. If this trend continues, market capitalization by year-end 2003 is likely to significantly surpass the gain recorded in 2002. The impressive movement in market capitalization has been led principally, by new listings, and firmer prices arising from positive market sentiments. In 2002, the stock index rose by 10.7 percent albeit lower than the price increase of 35.2 percent in 2001 and 54.0 percent in 2000. In point of fact, the three years (2000-2002) average index growth of 33.3 percent was higher than the growth of inflation, which averaged 12.6 percent during the same period. The impressive expansion of the capital market is also evident in the size (percentage) of market capitalization to Gross Domestic Product (GDP). A look at this over the past decade shows that market capitalization represented 14.0 percent of GDP in 2002 in contrast to 12.0 percent in 2001, 9.4 percent in 1999 and 5.6 percent in 1992. This rising trend indicates that market capitalization is growing faster (in percentage terms) than GDP. The Commission believes that as the merits of the capital market become better appreciated, more Initial Public Offerings (IPOs) would be induced. Furthermore, privatization and strong equity prices could further bolster the percentage of market capitalization to GDP. Indeed, the capital market has in recent times become a major source of funds to corporate entities and is increasingly becoming attractive to state governments. This is particularly obvious in the number and value of new issues as well as the variety of fund raisers in the market lately. Year 2002 was a record year for the capital market with total flotation of ₦61.3 billion or US$ 0.483 million, the highest annual record ever posted in the capital market. This single year record surpassed the cumulative figure for the preceding two years. It is also significant that the total value of flotations represented 36.4 percent of flotations in the ten years ended 2002. It may be instructive to state that the Commission actually received 46 new issue applications for N78 billion but only 33 applications had been cleared and opened by year-end. The 33 flotations in 2002 compares favorably with 27 and 21 in 2001 and 2000 respectively.

2.4 Performance of Key Market Indicators.

The Nigerian capital market has performed fairly despite the numerous challenges and problems some of which include: the buy and hold attitude of Nigerians, massive ignorance of a large population of the Nigerian public of the nature and benefits of the capital market, few investment outlets in the market, lack of capital market friendly economic policies and political instability. We shall examine selected performance indicators as presented below;

- **Total New Issues**

The total new issues before 1989 was below ₦1 billion. However, from 1989 to1996 it hovered between ₦1 billion to ₦10 billion. The amount crossed the ₦10 billion marks in 1997. For instance, between 1996 and 2001, a total of 172 new issues (securities of public companies amounting to ₦56.40 billion) were floated in the capital market. The total new issues were valued at ₦5.85 billion in 1996 but it rose by about 532% to ₦37.198 billion in 2001. Total new issues were ₦61, 284 billion, in 2002, ₦180, 079.9 billion in 2003. ₦195, 418.4b in 2004 and ₦552, 782b in 2005.It crossed the trillion mark in 2007 being ₦1.3 trillion, ₦2.44 trillion in 2010 but fell to ₦ 2.03 trillion in 2011 (SEC 2012).

- **Market Capitalization**

This is the most widely used indicator in assessing the size of a capital market in an economy. In a bearish market the market capitalization falls and vice versa for a bullish market. Before 1988, the total market capitalization was less than ₦10 billion. From 1988 to 1994, it hovered between ₦10 billion and ₦57 billion. In 2003 it was ₦1.3593 trillion, ₦2.1125 trillion in 2004 and ₦5.12 trillion in 2006.The market capitalization recorded the highest value of ₦13.2294 trillion in 2007.But this fell to ₦9.562 trillion in 2008 due to the global financial meltdown. The percentage market capitalization compared to the economy's Gross Domestic Product (GDP) helps to assess the size of the stock market. In1981, this was 10.5%, but fell to 7.4% in 1994. It rose again to 9.3% in 1995, 10.6% in 1996; 18.9% in 2003, 25.6% in 2004, 24.05% in 2008, 19.77% in 2009, and 26.27% in 2010 (SEC 2012).

- **Listed Securities**

The number of equities listed increased from 3 in 1961 to 13 in 1971, 93 in 1981 and 198 in 2005. For the SSM, it was 1 in 1985 and 20 in 1995. After falling from 23 in 1993, it fell to 19 in 1997 and from 2005, it remains at 16. The total securities increased from 8 in 1961 to 60 in 1971; 194 in 1981, 23 in 1991, 261 in 2001, 288 in 2005, 301 in 2008, 264 in 2010 and 250 in 2011. It would be observed that the total listed securities are still low despite almost 50 years of the existence of the Nigerian Stock Exchange (SEC 2012).

2.5 EVALUATING THE IMPACT OF CAPITAL MARKET ON ECONOMIC GROWTH IN NIGERIA

According to Sule and Momoh (2009) from 1961, the Nigerian capital market has grown tremendously, particularly during the periods of the indigenization decrees of 1972 and 1977. The securities increased from 8 in 1961 to about 301 in 2008. Over the years, the Nigerian capital market has witnessed relatively stability and also recorded impressive growth. This has positioned it to positively impact the economy. There is clear evidence that the capital market remained an important source of capital for the nation's economic development in financing infrastructural projects, the privatization programme of the government and banking sector recapitalization in Nigeria.

Ewan et al. (2009) appraise the impact of the capital market efficiency on the economic growth of Nigeria using time series data from 1961 to 2004.They found that the capital market in Nigeria 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, misappropriation of funds among others. Akinnifesi (1987) used a disaggregated analysis to investigate the relationship between exchange rate and the capital market. He found that a depreciating Naira exchange rate increases stock prices and this may be perceived as a disincentive to capital market investment and thus economic growth. Soyode (1993) made an attempt to test the association between stock prices and macroeconomic variables as exchange rate, inflation and interest rate. He found that the macro economic variables are co-integrated with stock prices are consequently related to stock returns which may stimulate investments and provision of capital leading to economic growth.

According to Soludo (2006) the bank recapitalization to N25 billion in which 25 banks emerged from the previous 89 banks clearly revealed the importance of the capital market, In fact, most of the banks in Nigeria were able to raise the required capital after going to the capital market through initial public offerings. According to the NSE report (2006) about $650 million was invested in the banking sector in 2005. Al Faki (2006) puts the figure that was raised from the capital market by banks to meet the minimum capital requirement of N25billion as over N406.4 billion.

Akinbohungbe (1996) and Adebiyi (2005) have argued separately that the capital market is very vital to the growth, development and strength of any country because it supports government and corporate initiatives, finances the exploitation of new ideas and facilitates the management of financial risk. The rate of economic growth has been inexonerably linked to the sophistication of the financial market and capital market efficiency. Both markets facilitate the mobilization and channeling of funds into productive constituents and ensuring that the funds are used for the pursuit of socioeconomic growth and development without being idle.

Ologunde, Elumilade and Asaolu (2006), examine the relationships between stock market capitalization rate and interest rate. They found that prevailing interest rate exerts positive influence on stock market capitalization rate. They also found that government development stock rate exerts negative influence on stock market capitalization rate and prevailing interest rate exerts negative influence on government development stock rate.

Edo (1995) asserts that securities investment is a veritable medium of transforming savings into economic growth and development and that a notable feature of economic development in Nigeria since independence is the expansion of the stock market thereby facilitating the trading in stock and shares. Osinubi (1998) reported that Harry Johnson in 1990 recognized that one of the conditions of being developed pertains to having a large stock of capital per head, which must always be replaced and replenished when used up. Where this is lacking the condition of being under developed prevails. The Structural Adjustment Programme (SAP) promoted by the World Bank and the International Monetary Fund, embarked upon by the developing countries, according to Soyode (1990) emphasized that self-sustained growth process requires substantial investible resources, which are readily available at the stock market.

According to Okereke-Onyiuke (2000), the capital market has been a viable source of financing state and local government infrastructural projects and developmental strides with less pressures and lean resources. The first State to use the capital market was the defunct Bendel State which issued a ten year N20 million 7% Bendel State of Nigerian Loan Stock in 1978.The maturity was in 1988 The issue was to finance a housing project. Ogun State went to the market in 1986 to rise a N15 million 12% First Ogun State Government Loan Stock with a maturity date of 1996. The bond was issued to finance the construction of a water project in Abeokuta. The Lagos State Government accessed the capital market in 1987 and 1988 with two tranches of its revenue bond for the development of the first and second phase of the Lekki peninsula. The first tranche was N30 million while the second tranche was N60 million or an aggregate of N90 million raised by the Lagos state government (SEC 2002).

Okereke-Onyiuke (2000) argued further that over the years, some States have gone to the capital market to source for funds to finance their developmental projects. For instance, Yobe State raised N2.5 billion in 2001 to finance urban roads, houses and drainage improvement. Ekiti State raised N4 billion in 2002 to finance the construction and rehabilitation of some of its urban and rural roads, establishment of palm plantation, rural electricity and expansion of water project. Lagos State raised N15 billion in 2003 to refinance short term facilities obtained from banks to fund developmental projects. Cross River State raised N4 billion to upgrade and expand Obudu Ranch Resort. Akwa-Ibom State raised N6 billion to finance infrastructural development, Delta State raised N5 billion to finance market, Health care, water and education and Edo State raised N1 billion to finance development of Ogba Riverside Housing Estate.

Osaze (1995) while bemoaning the low level at which State and local Governments sought funds from the market stressed that the capital market could also be a veritable source of funding for the cash-strapped Nigerian universities yet to be harnessed.

According to Anyanwu et al. (1997), The Nigerian Capital Market played a paramount role in the privatization of the State Owned Enterprises (SOEs) by giving creditability and transparency to the exercises. As a result of the privatization and commercialization decree, 88 were privatized out of 111 SOEs realizing gross proceeds of ₦3.7 billion between 1989 and 2001. Also, the shares of the SOEs were sold to Nigerians and associations in all local government through public offers.

2.6 THE NIGERIAN STOCK MARKET IN 2012

The Nigeria Stock Exchange opened in 2011 with an All Share Index (ASI) of 20,730.63 and a total market capitalization of ₦6.53 trillion, down by 17.1% and 18.6% relative to the January 4, 2010 figures of 25,102.93 and market capitalization of ₦8.02 trillion respectively. As of March 9, 2012, marginal improvements were recorded as total equities market capitalization grew to N6.61trillion with the market closing at ASI of 20,950.01. This rise was driven by the increased demand for some banking stocks following the successful merger and acquisition of some banks in the country. We expect this trend to continue as short term investors take positions in order to profit from the share price appreciation in coming weeks.

2.7 CHALLENGES OF THE NIGERIAN CAPITAL MARKET

The Nigerian capital market, like the national economy, has been faced with many problems. These problems are both endogenous and exogenous. The exogenous problems are those outside the direct control of the market but which are regulation-induced. The endogenous problems are those that are internal to the market but which are amenable to changes with improved operational procedures including the adoption of information technology. Some of these problems are listed below:

(i) Small Size of the Market
(ii) Problem of Illiquidity of the Market
(iii) Slow growth of Securities Market
(iv) Double Taxation
(v) Lack of Effective Underwriting
(vi) Problem of Macro Economic Instability

3. CONCLUSION

Stimulating economic growth and development requires long term funding, far longer than the duration for which most savers are willing to commit their funds and this constitutes a barrier to economic growth. In this regards, the capital market provides an avenue for the mobilization and utilization of long-term funds for development and hence it is referred to as the long term end of the financial system. Over the past few decades, globally there has been an upsurge in capital market activity, and emerging markets have accounted for a large amount of this boom. This suggests the growing recognition of the capital market as a tool for fast-tracking economic progress in developing economies. However, critics have argued that the capital market might not perform efficiently in developing countries and that it may not be feasible for these countries to promote stock markets given the huge costs and the poor financial structures.

Finally, there is the need for researchers to examine more factors that can be linked to the level of capital market development in Nigeria. Specifically it is suggested that studies should examine issues of information asymmetry in the Nigerian capital market and the effects of volatility on the development of the market.

REFERENCES

Abu-Badr and Abu-Qarn (2008): "Financial development and economic growth: The Egyptian experience", *Journal of Policy Modelling*, 30, 887-898.

Adebiyi M. A and S.S. Akinbohungbe (2005): Capital Market Performance and the Nigerian Economic Growth. In: OF Oluwatayo, A Olasupo (Eds.): *Issues in Money, Finance and Economic Management*. Lagos: University of Lagos.

Akinnifesi O.E. (1987): *The Role and Performance of the Capital Market.* Journal of Nigeria Institute of Social and Economic Research, Ibadan

Al-FakI M (2006): The Nigerian Capital Market and Socioeconomic Development. *Paper presented at the 4th Distinguished Faculty of Social Science Public Lecture*,University of Benin, 26 July, pp. 9-16

Amadi S.N., Onyema J.I. and T.D. Odubo (2002): *Macroeconomic Variables and Stock Prices. A Multivariate Analysis.* Africa Journal of Development Studies, 2-1: 159-164.

Binswanger, M, (1999): *Stock Markets, Speculative Bubbles and Economic Growth*, Cheltenham: Edward Elgar Publishing**.**

Bonfiglioli, A. and C. Mendicino (2004): "Financial liberalization, Banking crises and growth": Assessing the links. SSE/EFI Working Paper No. 567.

Central Bank of Nigerian (CBN): *Statistical Bulletins* of 2005, 2006 and 2008. Abuja: Central Bank of Nigeria Publication.

Claessens S, D Klingebiel and S. C. Schmukler, (2002): "Explaining the Migration of Stocks from Exchanges in Emerging Economies to International Centers," *World Bank Working Paper No. 2816*, Washington: The World Bank

Cosh, D. A, Hughes, and A, Singh, (1992): "Openness, Financial Innovation, Changing Patterns of Ownership and the Changing Structure of Financial Markets," in Banuri, T. and Schor, J.B., (eds.), Financial Openness and National Autonomy, Oxford: Clarendon Press.

Dailami, M and Atkin, M., (1990):"Stock Markets in Developing Countries: Key issues and a research agenda" Policy Research and External Affairs working Papers, the World Bank

Databank, 2004, "African Stock Markets Consolidate Gains," Databank Research, Accra: Databank.

Edo S. E (1995): An Estimation of a Model of Long-term Securities Investment in Nigeria. *Nigeria Economic and Financial Review*, 12: 45-53.

Einchengreen, B., and Leglang, D. (2003): "Capital account liberalization and Emerging Markets," *Journal of Financial Research*, 26, 275-299.

Erb B. C, C. R. Harvey, and T. E. Viskanta, (1996): "Expected Returns and Volatility in 135 Countries," *Journal of Portfolio Management*, spring, pp. 32-48

Ewan S.O., A.E Esang and J.U Bassey (2009): Appraisal of Capital Market Efficiency on Economic Growth in Nigeria. *International Journal of Business and Management*, December, pp. 219-225. *Firm, C*ambridge: Cambridge University Press

Filler, R. K., J. Hanousek and F. Campos (1999): "Do Stock Market Promote Economic Growth?" The William Davidson Institute (University of Michigan Business School)

Grilli, V; and M, Milesi-Ferretti (1995): "Economic Effect and Structural Determinants of Capital Controls", IMF Staff Papers, vol. 42, No.3.

Harris R.D. (1997): Stock Markets and Development: A Re-assessment. *European Economic Review,* 1: 136- 139.

Henry, B. P, (2000): "Do Stock Market Liberalizations Cause Investment Booms? *Journal of Financial Economics*, Vol. 58(1-2) pp. 301-334

International Monetary Fund, (2003) "International Financial Statistics" CD-ROM Version, Washington: International Monetary Fund

IOSCO, (2005): "Exchange Demutualization in Emerging Markets," Emerging Markets Committee of the International Organization of Securities Commission IOSCO, April 2005

Levine, R. (1991) Bank-based or Market-based Financial Systems: which is Better? *Journal of Financial International* 11 (4): 398-428 _

Lopez-de-Silanes, F. (2004): "A Survey of Securities Laws and Enforcement," *Policy Research Working Paper No. 3405*, Washington: The World Bank.

Ndanusa S.A (2004): Country experience with capital market development: the Nigerian experience. Being a paper presented at the fifty annual financial markets and development conference: the future of domestic capital markets in developing countries organized by the World Bank. Washington, d.c.

Nigerian Stock Exchange (2009): Available at: http://www.nigreianstockexchange.com [Accessed 13 September 2011]

Nwankwo G.O (1991): *Money and Capital Markets in Nigeria Today.* Lagos: University of Lagos Press.

Nwokoma N.I. (2002): *Stock Market Performance and Macroeconomic Indicators Nexus in Nigeria. An empirical investigation.* Nigerian Journal of Economic and Social Studies, 44 2.

Okereke-Onyiuke N (2000): Stock Market Financing Options for Public Projects in Nigeria. The Nigerian Stock Exchange Fact Book, pp. 41 – 49.

Ologunde A.O., Elumilade D.O. and T.O. Asaolu (2006): *Stock Market Capitalization and Interest Rate in Nigeria. A Time Series Analysis.* International Research Journal of Finance and Economics. Issue 4-2006.

Osaze B.E (1995): Paradigm shift, Misplaced Concreteness and the Nigerian Financial System. *Inaugural Lecture Series, 41* University of Benin pp. 40-41.

Osei, V., (2005): "Does the Stock Market matter in Ghana? A Granger-Causality Analysis" Bank of Ghana Working Paper 05(13):

Pirrong, C. (2000): "A Theory of Financial Exchange Organization," *Journal of Law and Economics* 43 pp. 437-471

Rousseau, P. L and Wachtel, P., (2000): "Equity Market and Growth; Cross Country Evidence on timing and outcomes, 1980-1995" Journal of Banking and Finance, 24, 1933-1957.

Ryden, B. (1995): "The Reform of the Stockholm Stock Exchange," Stockholm Stock Exchange, November.

Schumpeter, J. A. (1911): "*The theory of economic development*", Cambridge, MA: Harvard University Press.

Securities and Exchange Commision (2012): The Nigerian Capital Market.

Shleifer, Andrei and Robert W. Vishny (1986): "Large Shareholders and Corporate Control" *Journal of Political Economy*, Vol. pp. 94 461-88.

Singh, A (1999): "Should Africa Promote Stock Market Capitalism?" *Journal of International Development*, Vol.11 pp. 343-365

Soludo C.C (2006): Can Nigeria be the China of Africa? *Lecture Delivered at the University of Benin Founders' Day*, November 2006. P. 14.

Sule O.K and O.C Momoh (2009): The Impact of Stock Market Earnings on Nigeria per Capita Income. *African Journal of Accounting, Economics, Finance and Banking Research,* 5(5): 77-89.

Wolde-Rufael, Y. (2009): "Re-examining the financial development and economic growth nexus in Kenya", *Economic Modelling* 26, 1140-1146.

Yartey C.O and C.K Adjasi (2007): Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges. IMF Working Paper WP/06/201 International Monetary Fund Washington D.C

Yartey, C.A (2005): Stock Market Development, Corporate Finance and Economic Growth in Africa. *PhD Thesis*, Cambridge: Faculty of Economics.