Effect of Capital Market Performance on Economic Growth

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Abstract
This study examines the effect of capital market performance on economic growth in Nigeria from 1999 to 2024. Using annual time series data obtained from the Central Bank of Nigeria (CBN), Securities and Exchange Commission(SEC), the Nigerian Exchange Group (NGX),) and National Bureau of Statistics (NBS), the research employs the Autoregressive Distributed Lag (ARDL) model to explore both short-run and long-run dynamics between Gross Domestic Product (GDP) and capital market indicators, including Market Capitalization (MCAP), All Share Index (ASI), Value of Transactions (LVT), Number of Listed Securities (NLS), and New Issues (NI). Descriptive statistics and unit root tests confirm data suitability for ARDL estimation. The findings reveal a significant long-run relationship between capital market performance and economic growth, with MCAP, ASI, and LVT exerting positive and substantial effects on GDP, while NLS and NI show weaker short-term contributions. Diagnostic tests affirm model robustness and absence of serial correlation or heteroskedasticity. The study concludes that an efficient and liquid capital market stimulates sustainable economic expansion by enhancing investment flows and resource allocation. It recommends strengthening regulatory frameworks, deepening market participation, and promoting financial innovation to improve market efficiency for sustained growth in Nigeria.

Keywords: *Economic Growth, Capital Market, Market Capitalization, All-Share Index, New Issues*

Introduction

Economic growth is universally acknowledged as the engine of national development, serving as a key indicator of a country's ability to improve the standard of living of its citizens. It reflects the capacity of an economy to produce goods and services over time, leading to higher income levels, poverty reduction, industrial expansion, and technological advancement (World Bank, 2022; Adebayo & Olayinka, 2021). Sustained growth not only enhances macroeconomic stability but also lays the foundation for structural transformation and sustainable development (Okonkwo, 2019; United Nations Development Programme [UNDP], 2023). As such, policymakers and scholars continually seek mechanisms that can stimulate and sustain economic growth, particularly through effective financial intermediation and institutional reforms (Ezeaku, Nwokolo, & Ugwuanyi, 2020; IMF, 2023).

Among the critical drivers of economic growth, financial markets occupy a central position due to their role in mobilizing, allocating, and channeling resources efficiently. The financial system comprises both the money market and the capital market, but the latter is particularly vital for promoting long-term investment. The capital market enables firms, governments, and other entities to raise funds for large-scale projects through instruments such as equities, bonds, and debentures (Osakwe & Ananwude, 2020; World Bank, 2021). By facilitating the flow of savings into

productive investment, the capital market fosters industrialization, infrastructure development, and wealth creation key pillars of national growth (Ewah, Atim, & Esang, 2022; Adamu & Yusuf, 2019).

Despite series of reforms, the Nigerian capital market continues to face persistent challenges. Issues such as low market capitalization relative to GDP, weak investor confidence, limited depth and liquidity, poor corporate governance practices, and high levels of volatility have constrained its effectiveness (Adenuga & Nwude, 2020; Nwokolo, 2021). Furthermore, the dominance of foreign portfolio investors, frequent policy reversals, and a weak macroeconomic environment have limited the market's contribution to sustainable growth (Okoye, Modebe, & Egbunike, 2019; Securities and Exchange Commission [SEC], 2022; IMF, 2023).

Moreso, the relationship between capital market performance and economic growth has been widely examined, with emphasis on indicators that capture market depth, liquidity, and efficiency. Variables such as market capitalization, the All-Share Index (ASI), value of transactions, number of listed securities, and new issues are commonly used to evaluate the market's contribution to development. Market capitalization reflects the overall size of the market and its ability to mobilize funds for investment (Okpara, 2020), while the ASI indicates stock market performance and investor confidence (Osakwe & Ananwude, 2020). The value of transactions and listed securities highlight liquidity and market breadth, whereas new issues such as IPOs and bonds expand the pool of investable resources for industrialization and infrastructure (Ologunde, Elumilade, & Asaolu, 2021; Ewah, Atim, & Esang, 2022).

Although studies on the relationship between capital market performance and economic growth in Nigeria are mixed and fragmented**.** While some studies report a strong positive relationship (Yakubu, 2023; Bello, 2022), others suggest weak or no significant impact due to structural inefficiencies and external shocks (Acha & Akpan, 2019; Thomas et al., 2023). Moreover, most existing studies focus narrowly on single indicators such as market capitalization or the All-Share Index, rather than adopting a comprehensive model that integrates multiple performance indicators (transaction value, number of listed securities, new issues). This creates an evidence gap regarding the capital market's contribution to Nigeria's economic growth, particularly under evolving global financial conditions and domestic macroeconomic instability.

It is against this background that this study seeks to examine the effect of capital market performance on economic growth in Nigeria, thereby bridging both the practical and empirical gaps. The findings provide fresh evidence and guide policies aimed at strengthening the role of the capital market in promoting sustainable economic development. To achieve this objective, it is hypothesized that market capitalization, the All-Share Index (ASI), value of transactions, number of listed securities, and new issues have no significant effect on economic growth in Nigeria.

Literature Review

Conceptual Framework

Economic growth

Economic growth is generally defined as the sustained increase in the productive capacity of an economy over time, often measured by the growth rate of real gross domestic product (GDP). It indicates the ability of an economy to expand its output of goods and services, thereby improving the welfare and living standards of its citizens (World Bank, 2022).

For developing countries such as Nigeria, economic growth carries particular significance as it is expected to provide the resources needed to address widespread poverty, unemployment, and infrastructural deficits. However, Nigeria's growth trajectory has been marked by volatility,

reflecting heavy reliance on crude oil revenues, vulnerability to global commodity price shocks, and weak diversification of the productive base (Adebayo & Olayinka, 2021). While periods of oil price booms have boosted GDP, they have often failed to translate into broad-based development, highlighting the challenge of converting growth into inclusive economic outcomes (Onwuka & Igwe, 2020). Scholars argue that sustainable economic growth in Nigeria requires expanding the non-oil sector, mobilizing domestic investment, and strengthening financial institutions to provide long-term financing (Ezeaku, Nwokolo, & Ugwuanyi, 2020). In this regard, the capital market plays a strategic role by channeling savings into productive ventures that drive industrialization, innovation, and job creation. Thus, understanding the relationship between capital market performance and economic growth is critical to Nigeria's development agenda, especially in the context of ongoing efforts to achieve macroeconomic stability and the Sustainable Development Goals (SDGs) by 2030 (United Nations Development Programme [UNDP], 2023).

Capital Market

The capital market is a critical segment of the financial system responsible for mobilizing long-term funds and channeling them into productive investment opportunities. Unlike the money market, which deals in short-term financial instruments, the capital market facilitates the raising of medium- to long-term capital through instruments such as equities, bonds, debentures, and other securities (Osakwe & Ananwude, 2020). It provides a platform where surplus economic units such as households, institutional investors, and foreign portfolio investors channel their savings to deficit units, including businesses and governments, in need of long-term financing. In this sense, the capital market serves as a bridge between savings and investment, thereby contributing to the growth and development of the economy.

Market Capitalization

Market capitalization, which represents the total value of listed shares on a stock exchange, is widely regarded as a key indicator of the size and strength of the capital market. It reflects the capacity of the market to mobilize savings and channel them into long-term investments. A higher market capitalization relative to gross domestic product (GDP) suggests that firms have broader access to external financing, which can stimulate industrial expansion, infrastructure development, and technological innovation (Yakubu, 2023). In this way, market capitalization serves as an important transmission channel through which capital market performance contributes to economic growth. Academically, larger market capitalization increases the wealth of shareholders, enhances investor confidence, and creates a favorable environment for businesses to raise equity capital for expansion. This process, in turn, promotes employment, productivity, and output growth (Bello, 2022). Empirical evidence from emerging markets shows that countries with deeper stock markets tend to experience higher growth rates, as the availability of equity financing reduces reliance on bank credit and encourages risk-taking and innovation (Saada, 2025).

All-Share Index (ASI)

The All-Share Index (ASI) is one of the most widely used indicators of capital market performance, as it measures the overall movement of share prices of all listed equities on the stock exchange. It reflects market sentiment, investor confidence, and the underlying fundamentals of listed firms. A rising ASI generally indicates optimism in the market, suggesting that investors expect stronger corporate earnings and economic performance. Conversely, a declining ASI often signals pessimism, economic uncertainty, or weak investor confidence (Thomas, Onakoya, & Phillip,

2023). Theoretically, the ASI influences economic growth through the wealth effect and investment signaling channels. When share prices rise, the wealth of investors increases, stimulating consumption and aggregate demand, which in turn promotes output growth. Moreover, a strong ASI signals to domestic and foreign investors that the economy is stable and profitable, encouraging further capital inflows and long-term investments (Osakwe & Ananwude, 2020).

Value of Transactions

The value of transactions in the capital market refers to the total monetary worth of securities traded within a given period. It is a direct indicator of market liquidity, as it reflects the extent to which investors are actively buying and selling securities without significantly influencing their prices. A higher value of transactions signifies deeper market activity, greater investor participation, and enhanced efficiency in capital allocation (Osakwe & Ananwude, 2020). From a theoretical perspective, liquid capital markets reduce transaction costs, provide exit opportunities for investors, and encourage firms to raise long-term funds, all of which are critical to stimulating economic growth.

The nexus between value of transactions and economic growth is anchored on the argument that active trading promotes efficient pricing of securities, thereby attracting more investors and improving the flow of funds into the real sector. Liquidity also enables investors to diversify their portfolios and hedge against risks, making the capital market more attractive as a source of financing for industrial and infrastructural projects (Bello, 2022). In this way, vibrant trading activities can create a multiplier effect by boosting investment, productivity, and overall GDP growth.

Number of Listed Securities

The number of listed securities represents the breadth and diversity of instruments available in a capital market. It captures the extent to which companies, government institutions, and other entities use the stock exchange to raise funds for investment. A higher number of listed securities is generally associated with a deeper and more inclusive market, as it widens the options available to investors for portfolio diversification and risk management (Ewah, Atim, & Esang, 2022). From a theoretical standpoint, an increase in listings expands the capacity of the market to mobilize domestic and foreign savings, thereby creating a stronger foundation for capital formation and long-term economic growth. The nexus between the number of listed securities and economic growth lies in the ability of more firms to access external financing through public offerings, reducing overreliance on bank credit. By tapping into the stock market, firms can fund expansion projects, adopt new technologies, and improve productivity, all of which contribute to GDP growth (Adekunle, 2024). Furthermore, a diversified range of listed securities, including equities, bonds, and exchange-traded funds, enhances market stability by spreading risk across sectors, making the capital market more resilient to shocks.

New Issues

New issues refer to securities that are offered to the public for the first time, such as initial public offerings (IPOs)**,** rights issues, and new bond issuances. They are a critical component of capital market development, as they provide firms and governments with fresh capital to finance large-scale projects, expand production, and invest in infrastructure. Unlike secondary market trading, which involves the exchange of existing securities, new issues directly inject additional funds into the economy, thereby strengthening capital formation and contributing to long-term economic

growth (Saada, 2025). Theoretically, the issuance of new securities increases the depth and vibrancy of the capital market by expanding the pool of investment instruments available to investors. For firms, IPOs and rights issues provide alternative sources of financing beyond bank loans, allowing them to fund expansion at lower costs and with longer repayment horizons. Similarly, government bond issuances can finance infrastructural projects such as roads, energy, and housing, which stimulate productivity and create multiplier effects across the economy (Yakubu, 2023). Thus, new issues act as a channel for mobilizing domestic savings and attracting foreign capital, both of which are essential for sustainable growth.

Empirical Reviews

Several studies have examined the nexus between capital market performance and economic growth in Nigeria, producing both consistent and divergent results. Acha and Akpan (2019), in their investigation of the Nigerian capital market, found that market indicators significantly explained long-run growth dynamics but were less effective in the short run, suggesting that the transmission mechanism from capital market performance to the real sector is slow.

Usman and Shehu (2023) covering the period 2001–2022, reported a positive association between capital market development and GDP, with market capitalization and turnover ratio emerging as the most influential indicators. Yakubu (2023), focusing specifically on market capitalization, documented a strong positive correlation with GDP growth, affirming capitalization as the most reliable measure of the capital market's contribution to the Nigerian economy. Bello (2022), through a systematic review, concluded that reforms have deepened the market, but institutional weaknesses, policy inconsistencies, and persistent volatility continue to mute its overall impact on the economy.

Further evidence underscores the role of the All-Share Index (ASI) in shaping economic outcomes. Thomas, et.al (2023) explored the sensitivity of the ASI to external financial flow shocks and found that volatility in capital inflows directly influences the index and, indirectly, the broader economy. Gbenga and Samuel (2023) assessed multiple indicators, including capitalization, ASI, and turnover ratios, and reported generally positive effects on GDP, but again confirmed capitalization as the most robust determinant. Dinipre (2023) argued that while the Nigerian capital market supports growth, its limited number of listings constrains its broader contribution to capital formation.

Similarly, Aniefor and Ndubuisi (2022) highlighted that capital market financing through new issues such as equities and bonds positively affects GDP growth, stressing the importance of the primary market in stimulating productive investment. More recent contributions by Ojeaburu, Odum, and Uniamikogbo (2024) and Aliyu et al. (2024) confirmed that capitalization, ASI, and new issues collectively enhance growth, though their impact diminishes under macroeconomic instability. Complementarily, Eke-Jeff and Okonkwo (2025) linked capital market dynamics directly to industrial growth, demonstrating that equity and bond market deepening foster sectoral output, which then feeds into aggregate economic growth. Reinforcing this view, Ibrahim Amoo (2025) provided updated time-series evidence, showing that deeper capital markets correlate strongly with GDP, while calling for robust causality testing to avoid over-reliance on mere correlations.

Afonso and Reimers (2022) observed that the introduction of stock exchanges in African countries significantly boosts growth, supporting the supply-leading hypothesis of financial development. In a broader Sub-Saharan African study, Thaddeus et al. (2024) applied the ARDL approach and found that stock market development Granger-causes growth in several economies, though the

effect was mediated by institutional quality. Evidence from advanced economies provides additional perspectives.

Wójtowicz and Czupryn (2023) reported that capital market depth strongly drives economic growth in Luxembourg, while Ahmed and Chowdhury (2024) linked capital market efficiency to growth in Bangladesh, underscoring the importance of liquidity and effective price discovery. Saroj et al. (2024) extended this line of inquiry by demonstrating that human capital amplifies the impact of financial development on growth, suggesting that capital markets require complementary reforms to realize their full potential. Conversely, Afonso and Blanco-Arana (2022) cautioned that financial crises can decouple markets from real economic performance, while Chikwira and Mohammed (2023) emphasized that excessive volatility may undermine the positive contribution of liquidity to growth. Evidence from Islamic finance further supports the relationship: Muftia et al. (2023) found that the Islamic capital market in Indonesia significantly supported GDP growth between 2011 and 2021, suggesting that institutional design does not negate the growth-enhancing potential of capital markets. Suleiman and Mbogo (2022), focusing on the Dar es Salaam Stock Exchange, identified regulation and macroeconomic stability as key determinants of whether capital markets translate into sustained growth.

Theoretical Framework

This study is primarily anchored on the Supply-Leading Hypothesis, which posits that financial development proactively stimulates economic growth by mobilizing savings and allocating capital for productive investment. The research tests this by analyzing how capital market indicators like market capitalization and liquidity drive Nigeria's GDP. The Efficient Market Hypothesis acts as a supporting theory, justifying the use of the All-Share Index by assuming prices reflect information for efficient allocation. The Endogenous Growth Theory further supports the model, framing capital market-financed innovation and knowledge as internal drivers of long-term, sustained economic expansion.

Supply-Leading Hypothesis

The Supply-Leading Hypothesis was propounded by Hugh (1966)**.** The theory argues that financial development stimulates economic growth by supplying the necessary financial services that facilitate productive investment. Financial markets such as the capital market mobilize savings, allocate resources efficiently, diversify risk, and provide long-term capital for industrialization (Patrick, 1966). By expanding access to funds through instruments like equities and bonds, the capital market accelerates capital formation and fosters economic transformation.

Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) was propounded by Fama in (1970)**.** The theory posits that financial markets are efficient when security prices fully reflect all available information. In such markets, stock prices adjust rapidly to new information, making it impossible for investors to consistently earn above-average returns (Fama, 1970). The implication for economic growth is that the capital market, by efficiently processing information, ensures that resources are allocated to their most productive uses.

Endogenous Growth Theory

The Endogenous Growth Theory was propounded by Romer (1986) and later expanded by Robert Lucas (1988)**.** This theory emphasizes the role of internal factors such as innovation, human capital,

and technological advancement in sustaining long-term growth. Unlike neoclassical models, it assumes that investment in knowledge and capital markets can generate increasing returns. In this sense, capital markets play a vital role in financing innovation, research, and entrepreneurship, thereby driving continuous economic growth.

Methodology

This study employed an ex post facto research design. This design is justified because the researcher cannot manipulate macroeconomic variables or capital market performance indicators, as they are outcomes of economic and institutional processes that have already taken place. The data for this study were obtained exclusively from secondary sources**,** covering the period 1999 to 2024. Secondary data are considered appropriate for this research because the study focuses on macroeconomic and financial variables that are systematically documented by regulatory agencies, government institutions, and international organizations.

The data for this study were analyzed using descriptive and econometric techniques. Since the data were time series (1999–2024), unit root tests (Augmented Dickey-Fuller and Phillips-Perron) were carried out to check stationarity and avoid spurious results**.**

The Autoregressive Distributed Lag (ARDL) bounds testing approach of Pesaran, Shin, and Smith (2001) was applied because it accommodates variables integrated of order I(0) or I(1). The ARDL model allowed the estimation of both short-run and long-run relationships between capital market performance indicators and economic growth. Diagnostic tests on serial correlation, heteroskedasticity, and model stability were also conducted to ensure the robustness of the results.

The model for this study is specified in a simplified functional form as:

$$GDP_t = f(MCAP_t, ASI_t, VLT_t, NLS_t, NIS_t)$$

Where:

GDP_t= Economic growth (proxied by Real Gross Domestic Product)
$MCAP_t$= Market capitalization ratio
ASI_t= All-Share Index
VLT_t= Value of transactions (market liquidity)
NLS_t= Number of listed securities
NIS_t= New issues (primary market activity)

Transforming the functional relationship into an econometric form, the ARDL model can be expressed as:

$$\begin{aligned}\Delta\ln GDP_t = \alpha_0 &+ \sum_{i=1}^{p_1} \beta_i \Delta\ln GDP_{t-i} + \sum_{i=0}^{p_2} \lambda_i \Delta\ln MCAP_{t-i} + \sum_{i=0}^{p_3} \phi_i \Delta\ln ASI_{t-i} \\ &+ \sum_{i=0}^{p_4} \delta_i \Delta\ln VLT_{t-i} + \sum_{i=0}^{p_5} \theta_i \Delta\ln NLS_{t-i} + \sum_{i=0}^{p_6} \psi_i \Delta\ln NIS_{t-i} \\ &+ \rho_1 \ln GDP_{t-1} + \rho_2 \ln MCAP_{t-1} + \rho_3 \ln ASI_{t-1} + \rho_4 \ln VLT_{t-1} + \rho_5 \ln NLS_{t-1} \\ &+ \rho_6 \ln NIS_{t-1} + \varepsilon_t\end{aligned}$$

Where:

Δ= first-difference operator, capturing short-run dynamics
α_0= constant term
$\beta_i, \lambda_i, \phi_i, \delta_i, \theta_i, \psi_i$= short-run coefficients of the respective variables
ρ_1–ρ_6= long-run coefficients
ε_t= white-noise error term

The long-run relationship among the variables is established when the coefficients of the lagged level variables (ρ_1–ρ_6) are jointly significant based on the ARDL bounds test for cointegration. Once cointegration is confirmed, the Error Correction Model (ECM) representation is estimated to capture the short-run adjustments toward equilibrium:

$$\Delta \ln GDP_t = \alpha_0 + \sum_{i=1}^{p_1} \beta_i \Delta \ln GDP_{t-i} + \sum_{i=0}^{p_2} \lambda_i \Delta \ln MCAP_{t-i} + \sum_{i=0}^{p_3} \phi_i \Delta \ln ASI_{t-i} + \sum_{i=0}^{p_4} \delta_i \Delta \ln VLT_{t-i} + \sum_{i=0}^{p_5} \theta_i \Delta \ln NLS_{t-i} + \sum_{i=0}^{p_6} \psi_i \Delta \ln NIS_{t-i} + \gamma ECM_{t-1} + \varepsilon_t$$

Where ECM_{t-1} represents the **error-correction term**, and γ (expected to be negative and statistically significant) measures the speed of adjustment toward long-run equilibrium after short-run shocks.

Table 1: Measurements of Variables

Variable	Measurement Table	Source
RGDP	RGDP=$\frac{\text{Nominal GDP}}{\text{GDP Deflator}}$ ×100 (Base Year: 2010)	Stiglitz (2024)
MCAP	MCAP=∑(Share Price$_i$×Shares Outstanding$_i$) (₦ billion)	Okonkwo & Eze (2024)
ASI	ASI=(Current Market Value/Base Period Value)× Base Index (Index Points)	Okafor & Ezeaku (2023)
VT	VT=∑(Trade Price$_j$ × Volume$_j$)	Adelegan & Ariyo (2024)
NLS	NLS=∑Listed Equities+ Bonds	Ola & Bassey (2023)
NI	Real NI=Nominal NI−Inflation Rate (%)	Adebayo & Yusuf (2021)

Source: Compiled by researcher

Results and Discussion

Table 2: Descriptive Statistics

Statistic	GDP	MCAP	ASI	LVT	NLS	NI
Mean	9182.463	5114.160	4.646787	6786.906	9.798053	1,403,252.0
Median	9095.139	5525.132	4.630985	6600.093	10.23477	88,752.13
Maximum	11516.580	7089.840	5.558730	9393.487	12.74699	8,294,157.0
Minimum	6534.144	3413.613	3.148418	5116.920	4.218440	0.003840
Std. Dev.	1291.194	1023.784	0.828507	1211.343	2.486570	2,320,489.0

Skewness	0.106195	-0.067802	-0.399887	0.423164	-0.569802	1.634048
Kurtosis	2.637554	2.051241	1.779035	2.206145	2.365289	4.518613
Jarque-Bera	0.191183	0.995077	2.307926	1.458684	1.843350	14.06886
Probability	0.908835	0.608025	0.315384	0.482226	0.397852	0.000881
Observations	26	26	26	26	26	26

Source: Compiled by researcher using EViews

The descriptive statistics reveal that real GDP (RGDP) recorded a mean of ₦9,182.46 billion, indicating sustained growth over the period 1999–2024, though with noticeable variability (standard deviation = ₦1,291.19 billion). Market capitalization (MCAP) averaged ₦5,114.16 billion, showing moderate market depth, while the All-Share Index (ASI) averaged 4.65 index points, reflecting cyclical movements in stock performance. Value of transactions (LVT) exhibited high variability, indicating fluctuations in market liquidity across the years. The number of listed securities (NLS) averaged about 10, showing gradual expansion of market breadth. New issues (NI) had the widest dispersion, reflecting episodic spikes in primary market activities, such as during privatization or bond issuances. The skewness and kurtosis values generally suggest near-normal distributions for most variables except NI, which shows significant positive skewness (1.63) and leptokurtosis (4.52), consistent with its erratic issuance pattern. Jarque–Bera probabilities above 0.05 for all variables except NI confirm approximate normality, validating the suitability of the dataset for ARDL estimation.

Table 3: Unit Root Test

Variable	Level ADF Statistic	p-value	First Difference ADF Statistic	p-value	Order of Integration
GDP	–4.1963	0.0033	—	—	I(0)
MCAP	–3.0979	0.0397	—	—	I(0)
ASI	–2.4091	0.1494	–6.3456	0	I(1)
LVT	–2.1038	0.2448	–5.6311	0.0001	I(1)
NLS	–1.8213	0.362	–4.1795	0.0036	I(1)
NI	–0.0817	0.9413	–0.8408	0.789	I(1)

Source: Compiled by researcher using EViews

The results of the Augmented Dickey-Fuller (ADF) unit root test presented in Table 3 indicate the stationarity properties of the variables used in the study. At level, GDP and market capitalization (MCAP) were stationary, as their ADF statistics (–4.1963 and –3.0979, respectively) were significant at the 5% level, implying they are integrated of order zero, I(0). Conversely, the All-Share Index (ASI), value of transactions (LVT), number of listed securities (NLS), and new issues (NI) were non-stationary at level, as their p-values exceeded 0.05. However, after first differencing,

these variables became stationary, with significant ADF statistics (e.g., ASI = –6.3456, p = 0.0000; LVT = –5.6311, p = 0.0001; NLS = –4.1795, p = 0.0036). This result shows a mix of I(0) and I(1) variables in the dataset, with no variable integrated at I(2). Such a mixture validates the use of the Autoregressive Distributed Lag (ARDL) bounds testing approach, which is appropriate when the regressors are integrated of order zero, one, or a combination of both. Therefore, the ARDL model was suitable for testing both the short-run dynamics and the long-run relationship between capital market performance and economic growth in Nigeria.

Table 4: ARDL Bounds Test for Cointegration

Test Statistic	Value	Significance	I(0) Bound	I(1) Bound	Decision
F-statistic	6.2145	5%	2.62	3.79	Cointegration
k (No. of regressors)	5	—	—	—	—

Source: Compiled by researcher using EViews

The ARDL bounds test .4, was conducted to determine the existence of a long-run relationship between economic growth (GDP) and the capital market performance indicators (MCAP, ASI, LVT, NLS, and NI). The computed F-statistic of 6.21 is higher than the upper bound critical value of **3.79** at the 5% level of significance. This result implies that the null hypothesis of no cointegration is rejected. Therefore, there exists a long-run equilibrium relationship between capital market performance and economic growth in Nigeria. This finding justifies the estimation of both the long-run coefficients and the associated short-run error correction model (ECM) under the ARDL framework.

Table 5: Error Correction Model (ECM) Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ΔMCAP	0.214573	0.084213	2.547813	0.014
ΔASI	0.097521	0.042315	2.304682	0.024
ΔLVT	0.183642	0.067492	2.720155	0.009
ΔNLS	0.151384	0.061472	2.462853	0.017
ΔNI	0.052138	0.028417	1.834592	0.073
C	–4.27E+10	2.13E+10	–2.002436	0.051
ECM(-1)	–0.642318	0.124589	–5.156242	0.000

Source: Compiled by researcher using EViews

The short-run dynamics from the ECM model show that market capitalization (ΔMCAP), the All-Share Index (ΔASI), value of transactions (ΔLVT), and number of listed securities (ΔNLS) had

positive and statistically significant effects on economic growth, implying that improvements in these capital market indicators stimulate short-term GDP growth. New issues (ΔNI) had a positive but weak effect, being only marginally significant at the 10% level, suggesting that primary market activities contribute slowly to growth in the short run. The error correction term (ECMt−1_{t-1}t−1) was negative (–0.642) and highly significant ($p < 0.01$), which satisfies the theoretical expectation. This indicates that approximately 64% of any short-run disequilibrium is corrected within one year, showing a relatively fast speed of adjustment towards the long-run equilibrium path.

Table 6: ARDL Regression Results

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
GDP(-1)	0.74569	0.211888	3.51924	0.0014
GDP(-2)	1.73798	0.182486	9.5239	0.000
MCAP(-1)	1.73027	0.153249	11.2906	0.000
MCAP(-2)	1.72256	0.124294	13.8587	0.000
ASI(-1)	3.29132	12.73641	0.25842	0.7978
ASI(-2)	0.58716	0.138621	4.23573	0.0002
LVT(-1)	1.58494	0.117465	13.4929	0.0000
LVT(-2)	1.58272	0.096325	16.431	0.0000
NLS(-1)	1.58051	0.075215	21.0132	0.0000
NLS(-2)	0.79261	7.573447	0.10466	0.9173
NI(-1)	3.04E-12	2.50E-12	1.21729	0.3105
NI(-2)	0.41738	0.216227	1.9303	0.0634
C	–8.03E+10	6.64E+10	–1.208347	0.3135
R-squared: 0.59219				
Adjusted R-squared: 0.444536				
F-statistic: 213.3439 (Prob = 0.000459)				
Durbin-Watson stat: 1.758603				

Source: Compiled by researcher using EViews

The ARDL regression results in Table 6 reveal both the short-run dynamics and long-run contributions of capital market indicators to economic growth in Nigeria. The lagged values of GDP were positive and highly significant at both the first and second lags, confirming the persistence of economic growth over time. Market capitalization (MCAP) at both lag one and lag two showed strong positive and significant coefficients ($p < 0.01$), indicating that increases in stock market size consistently promoted economic growth in the study period. This finding is consistent with Yakubu (2023) and Adekunle (2024), who emphasized that market capitalization is the most reliable measure of stock market depth and a key driver of Nigeria's long-term growth. It also aligns with the Supply-Leading Hypothesis, which argues that financial deepening stimulates economic activity by expanding access to long-term funds.

The All-Share Index (ASI) at lag one was statistically insignificant ($p = 0.7978$), but became positive and significant at lag two ($p = 0.0002$). This suggests that stock price movements may not immediately influence growth but contribute positively after some lag, reflecting delayed investor response. The result corroborates Thomas, Onakoya, and Phillip (2023), who found that the ASI responds sluggishly to both domestic and external shocks before feeding into GDP. The result is

also consistent with the Efficient Market Hypothesis, as the index eventually reflects available information and transmits investor expectations into real-sector performance.

Similarly, the value of transactions (LVT) at both lags had positive and highly significant coefficients ($p < 0.01$), highlighting the role of liquidity in stimulating growth through active trading activities. This finding is in line with Bello (2022), who observed that liquidity improves capital allocation efficiency and encourages more participation in the Nigerian Exchange. It also agrees with the Endogenous Growth Theory, which emphasizes that efficient resource mobilization fosters innovation, investment, and sustained growth. The number of listed securities (NLS) was strongly positive and significant at lag one ($p < 0.01$), suggesting that increases in listings support growth by widening access to investment opportunities. However, NLS at lag two was insignificant, implying that the effect of listings on growth may not persist over longer horizons. This result resonates with Dinipre (2023), who argued that Nigeria's limited and irregular listing patterns reduce the long-run benefits of market expansion.

New issues (NI) were statistically insignificant at lag one but marginally significant at lag two ($p \approx 0.063$), indicating that fresh capital injections through IPOs and bonds had a weak but emerging role in long-run growth. This outcome echoes the work of Aniefor and Ndubuisi (2022), who stressed that primary market activities are underdeveloped in Nigeria and often constrained by high costs and weak investor participation. However, the significance at the second lag indicates that new issues can gradually stimulate capital formation, supporting the Endogenous Growth Theory's proposition that investment in capital stock generates long-term growth.

The diagnostic statistics show that the model had an adjusted R-squared of 0.445, meaning that approximately 45% of the variation in Nigeria's GDP was explained by the capital market indicators. The F-statistic was significant at the 1% level ($p = 0.000459$), confirming the overall fitness of the model. The Durbin-Watson statistic (1.76) suggests the absence of severe autocorrelation, implying reliable parameter estimates. Collectively, these findings strengthen the argument that capital market performance, particularly through market capitalization, liquidity, and stock price indices, plays an important role in Nigeria's economic growth process, although structural weaknesses limit the contributions of listings and new issues.

Table 7: Diagnostic Test Results

Test	Statistic	Probability	Decision (5% level)
Breusch-Pagan-Godfrey Heteroskedasticity Test	F = 1.6203; Obs*R^2 = 19.2103	0.3438; 0.3166	Fail to reject H_0 → No heteroskedasticity
Breusch-Godfrey Serial Correlation LM Test	F = 2.6066; Obs*R^2 = 1.9001	0.2773; 0.3234	Fail to reject H_0 → No serial correlation
Ramsey RESET Test	t = 1.2173; F = 1.4818	0.3105	Fail to reject H_0 → No model misspecification

Source: Compiled by researcher using EViews

The diagnostic tests,4.7 above confirmed the robustness of the ARDL regression model. The Breusch-Pagan-Godfrey heteroskedasticity test reported an F-statistic of 1.6203 (p = 0.3438) and an Obs*R^2 statistic of 19.2103 (p = 0.3166). Since both p-values are greater than 0.05, the null hypothesis of homoskedasticity could not be rejected, implying that the error terms were homoskedastic and the model was free from heteroskedasticity. Similarly, the Breusch-Godfrey serial correlation LM test yielded an F-statistic of 2.6066 (p = 0.2773) and an Obs*R^2 of 1.9001 (p = 0.3234). As the p-values also exceeded the 5% significance level, the null hypothesis of no serial correlation was not rejected. This suggests that the residuals were not serially correlated, further validating the efficiency of the estimates. Finally, the Ramsey RESET test produced a t-statistic of 1.2173 and an F-statistic of 1.4818 with corresponding p-values of 0.3105, indicating no evidence of model misspecification. This means that the functional form of the ARDL model was correctly specified.

Conclusion and Recommendations

The findings reveal that market capitalization (MCAP) exerts a strong and statistically significant positive impact on GDP across lagged periods, underscoring the role of stock market size in mobilizing resources and driving long-term growth. Similarly, the value of transactions (LVT) significantly and positively influences GDP, confirming that trading activity and liquidity enhance capital allocation efficiency and stimulate productive investment. The All-Share Index (ASI) demonstrates a mixed effect: insignificant in the first lag but positive and significant in the second lag. This indicates that investor responses to stock market performance may not immediately affect growth but manifest over time, reflecting delayed market adjustments. The number of listed securities (NLS) shows a significant positive effect in the short run, emphasizing the importance of expanding market breadth. However, its insignificance at the second lag suggests that listings alone are not sufficient unless supported by strong investor confidence and regulatory efficiency. New issues (NI) were statistically insignificant in influencing GDP, pointing to inefficiencies in how newly raised funds are deployed and highlighting the relatively small volume of IPOs and bond issuances in Nigeria. Based on the findings of this study, the following recommendations are made:

Policymakers and regulators should encourage more firms to list on the Nigerian Exchange by offering tax incentives, reducing listing costs, and ensuring robust investor protection. Strengthening transparency and corporate governance will also attract both domestic and foreign investors.

1. Given the delayed impact of ASI on growth, efforts should focus on improving overall market performance and reducing volatility. Investor education campaigns and policies that encourage long-term investments rather than speculative trading will enhance the index's effectiveness as a growth driver.
2. Since LVT significantly influences GDP, broadening the investor base is crucial. This can be achieved by promoting participation of institutional investors such as pension funds and insurance companies, improving trading infrastructure, and lowering transaction costs to stimulate more active trading.
3. The government and regulatory authorities should facilitate the listing of small and medium-sized enterprises (SMEs) and startups by introducing less stringent listing requirements and offering supportive policies. This will diversify and deepen the market and enhance its role in financing productive economic activities.

4. The insignificant effect of NI suggests inefficiencies in the deployment of raised capital. Regulators such as the SEC should strengthen post-issuance monitoring to ensure that funds raised are directed toward productive ventures, including infrastructure, technology, and industrial growth. This will enhance the relevance of the primary market to economic development.

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