The Impact of the Capital Market on Investment in the Real Sector of the Nigerian Economy

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Abstract: - **Many efforts have been made towards understanding the relationship between the capital market and investment in the real sector of Nigeria. The objective was set to examine the impact of capital market on investment in Nigeria. The review of theoretical and empirical literature provided a basis for the selection and specification of model which was used to show if and how the capital market impacts investment growth.**

The data used in carrying out this research was sourced from the Central Bank of Nigeria statistical bulletin, 2016. The sample size employed for this study covers a period of 36 years (1981-2016). Preliminary tests were done such as Phillips-Perron unit root test for stationarity of the variables, the Johansen co-integration test was used to ascertain if there's an equilibrium long run relationship between the variables. This study also uses the Error Correction Mechanism (ECM) to determine the impact of market capitalization, aggregate savings, new issues, interest and inflation rates on the gross fixed capital formation in Nigeria.

The result of the study shows that the capital market has a significant impact on capital formation in Nigeria. The potentials of the capital market in fostering investment growth in Nigeria were evaluated by using forecasting techniques and it was seen that investment will drastically decline without an active capital market. On the strength of this evidence, one of the proffered recommendations is that government should introduce policies to encourage investors in the capital market.

Keywords: **Capital Market, Investment, Real Sector, Market Capitalization, All-shares index, Gross Fixed Capital Formation**

I. INTRODUCTION

Any forward-thinking nation seeks an optimum industrial base to move the economy from a traditional and low level of production to a more automated and efficient system of mass production and processing of goods and services. For this level of development to be attained, there must be a sound financial system which would serve as the backbone of such an economy. The real sector is one of the major components of the Nigerian economy and for any country to boast of being fully industrialized, it cannot afford to neglect the real sector. The sector is basically made up of the manufacturing and service industries. These include housing, agriculture, manufacturing industry, mining, infrastructure and services. The capital market is capable, if active and vibrant, of accelerating economic growth and development in addition to a high level of employment creation. To achieve this, the role of the capital market cannot be overemphasized.

The capital market according to Ekezie (2002) is the market for transactions (i.e., lending and borrowing) in long-term loanable funds. The development of the capital market and by implication, the stock market ensures that there are prospects for grander funds mobilization, enhanced efficiency in resource allocation as well as providing relevant information for appraisal (Inanga and Emenuga, 1997). Avibrant capital market helps in savings mobilization for economic growth and development, and ensures proficient allocation of resources through changes in wealth ownership and composition, accelerates the formation of a healthy private sector, and aids the promotion of rapid capital formation (Iyoha 2004). Thus, the financial markets helps in the efficient allocation of funds to highly productive investments in the economy (Edo, 1995 and 1997).

There is an increasing worry of Nigerian firms lacking long-term capital, the real sector has depended mainly on short-term financing such as overdrafts to finance even long-term/ capital projects. According to the maturity matching principle, such financing is risky, such firms need an appropriate mix of short and long-term capital (Demirguc-Kunt & Levine, 1996). In the last twenty years, the link between financial intermediation and economic growth has been an issue of high concern amongst researchers and policy-makers around the world as attempts have been made to empirically evaluate the role capital markets play in economic growth and development.

As a developing economy, Nigeria's capital market has witnessed series of fluctuations and this is hinged on certain negative factors such as the terror acts in Northern Nigeria. Such factors dampen the investment climate of the real sector and to a large extent deter the flow of foreign investment into the sector. According to Edo (2011), "The level of activities in the capital market of developing countries depends on several factors, some having significant impact, while others have insignificant impact. More importantly, it is commonly speculated that the development of the market would be swift if foreign participation is encouraged and improved, but there are impeding factors to foreign participation that have proved quite difficult to eliminate through social and economic policies".

The Nigerian capital market is the core of national economy as it serves as the axis for capital formation and investments, however, the all-important question that immediately comes to mind borders on the extent to which the real sector has been able to access funds from the capital market.

This study intends to look at the link between the capital market and investment in the real sector of the Nigerian economy in order to ascertain the current situation as well as recommend steps to further improve such conditions. Thus, the study will offer relevant contributions to existing literature in a number of ways;

First, the study will provide an up-to-date analysis on the role the capital market plays on fostering investment in Nigeria's real sector. For example, Ibadin et al (2014) in a study titled "Real Sector, Gross Fixed Capital Formation and the Nigerian Stock Market" made use of data from 1981 to 2010 but this paper intends to use a more updated data up to 2016. This will therefore incorporate all the significant events that took place in the economy within this period.

Second, this study will adopt a rather unique approach in the sense that most studies focus on the impact of the capital market on economic growth, however, there are sectors that help drive economic growth in any economy, so this study empirically looking at the direct impact of the capital market on investment in the real sector is a big plus to existing literature. Ewah, et al (2009) in their research discovered that capital markets offers lots of prospects and opportunities for buying and selling of existing securities amongst investors thereby encouraging the general public to capitalize on investing on securities that have the potentials to foster economic growth. However, they failed to show a linkage as to which of the securities to invest in, but this study, in the course of determining a link between the capital market and investment in the real sector can be very helpful and specific as to which sector the public should invest in.

Finally, a lot of existing studies on the Nigerian capital market were carried out at a time when the market capitalization of the listed equities was below the 1 trillion naira mark and the NSE All-Share index was below 10,000 basis points. This study is thus justifiable, with the current market capitalization over 16 trillion naira and climbing, while the current NSE All-Share index is over 44,000 basis points, it is very important to see how the economy has benefitted or is yet to benefit from the capital market; also, any conclusion reached from the empirical findings will be more relevant to policy makers (NSE, 2018).

II. LITERATURE REVIEW

This section reviews the literature on the impact of capital market on investment in the real sector of the Nigerian economy. The chapter examines the review of theoretical and empirical literature.

2.1 Review of Theoretical Literature

There are relatively few theories that relate the capital market to investment in the real sector, some of such theoretical views are outlined below.

Tobin Q's Theory

Tobin's Q generally can be given as the ratio between a physical asset's replacement values to its market value. Through this theory, James Tobin and William Brainard introduced the use of the letter "q" which didn't appear until Tobin's 1969 article titled "A general equilibrium approach to monetary theory". In the paper, Tobin (1969) writes:

> *"One, the numerator, is the market valuation: the going price in the market for exchanging existing assets. The other, the denominator, is the replacement or reproduction cost: the price in the market for the newly produced commodities. We believe that this ratio has considerable macroeconomic significance and usefulness, as the nexus between financial markets and markets for goods and services."*

In the Q-theory of capital formation, what drives investment and growth is the ratio of the market value of the existing capital stock to its replacement cost (the Q-ratio).

As a result of the above theory, the study's first hypothesis is stated in its null form thus:

$H0_1$: Capital Market does not have any significant impact on the real sector growth in Nigeria

Fundamental Analysis

Fundamental analysis is an approach to stock market trading based on the study of economic trends and of the performances of different organizations, firms and industries. An investor with this type of view sees the ideal portfolio as one that contains securities whose potential returns are highest relative to their current market prices. The analysis starts with a study of factors that affect the whole market. Economic forecasts are studied in detail and evaluated. Then factors affecting each individual industry are considered, such as how much a large budget deficit could affect investment. Finally, the analyst looks at individual firms, and might even do some market research. The search is for extra information that would give a clue that other investors have undervalued or overvalued the firm's stock. This is a highly favored approach to investment among professionals. Thousands of highly trained analysts work for brokerage firms and institutional investors such as mutual and pension funds or give advice through newsletters and financial newspapers.

2.2 Review of Empirical Literature

In this section, review of empirical studies on the capital market and investment will be done, however, providing conclusive empirical evidence on the effect of the capital market on investment, not just in the real sector alone has been a challenging endeavour, complicated by a multiplicity of factors. However, some related studies have been carried out and will be examined below;

Al-faki (2008) defined the relationship and impact of the capital market reforms on the financing of the real sector. He emphasized that the economic reforms of the federal government, particularly those that have taken place in the financial sector are projected among other objectives to impact the real sector financing positively. Onyenemere (2008) criticized the deteriorating state of the manufacturing sector which in fact is a component of the real sector. According to him, the Nigerian economy is still stagnated with economic rent-seekers still holding sway. The banks keep declaring astounding profits while the real sector of the economy keeps struggling, he further opined that the financial sector is to be driven by the activities in the real sector, but in Nigeria, there is a disconnect, which makes one us to wonder where all these huge profits from banks are coming from. The manufacturing sector has been shrinking over the years and this has led to massive retrenchment in some Nigerian firms, thus increasing unemployment. In light of this, Okereke (2000) was of the opinion that if capital resources are not made available to such sensitive sectors of the economy, especially industries where demand is rising, and are capable of increasing production and efficiency, the rate of economic growth unavoidably suffers. This assertion is in concordance with that of Obstfeld (1994) which reveals that international risk sharing through internationally integrated stock market improve resources allocation and has the capability to accelerate the rate of economic growth. Therefore, there is a need for global capital market integration.

Ibadin et al (2014), in their study on Real Sector, Gross Fixed Capital Formation and the Nigerian Stock Market used the Error Correction Mechanism (ECM) discovered that in the short run, the performance of real sector cannot be predicted by either indices like the market's new issues or the extent of its fixed capital. The same study also looked at the long run relationships based on the ARDL estimation and discovered that in the long run, the stock market has a very strong impact on real sector development in Nigeria.

Bencivenga, Smith and Starr (1996) came to a conclusion that the liquid-creating ability of any stock market has an effect on the level of economic activities. The logic behind this assertion is that lucrative investments need long-term capital commitment; but quite often, investors are unwilling to trade their savings for longer periods. With liquid equity markets, risks allied with investments are reduced, making it more attractive to investors. As a result of this, the transfer of capital ownership enables firms' long-lasting access to capital that are raised via equity issues. It could therefore be inferred that as liquid market increases the allocation of capital, the prospect for long-term economic growth is improved. In addition, savings and investment are improved due to the drop in the riskiness of investment facilitated by stock market liquidity.

Levine and Zervos (1998) used pooled cross-country time series regression of 47 countries from 1976 to 1993 to assess whether stock market liquidity is associated or has any relationship with growth, capital accumulation and productivity. Following Demiurgic-kunt and Levine (1996)'s methodology, they added measures such as stock market into index of stock market development. The rate of Gross Domestic Product (GDP) per capita was regressed on a variety of variables intended to control for initial conditions, political instability, investment in human capital and macroeconomic conditions and then, included the added index of stock market development. Empirical findings from the study revealed that the measures of stock market liquidity were strongly related to growth, capital accumulation and productivity while stock market size has no significant correlation economic growth.

In light of the foregoing, the second hypothesis in its null form is stated below:

H0$_2$: There is no relationship between the growth in the capital market and the growth of investment in the real sector

Ezeoha, et al (2009) studied the nature of the relationship that exists between stock market development and the level of investment (domestic private investment and foreign private investment) flows in Nigeria. Findings from the study revealed that stock market development promotes domestic private investment flows, thus suggesting the development of the economy's production capacity as well as promotion of the growth of national output. In addition, the results also show that stock market development has not been able to boost the flow of foreign private investment in Nigeria.

A promising investment environment attracts foreign direct investment and boosts the capital market, Aseidu (2002); Ajayi (2006); Dinda (2009); Wahid, Sawkut, Seetanah (2009) argued on the determinants of investment and all these studies have similar conclusions, that investment, both domestic or foreign is attracted more to countries that are less risky for investment and countries with good institutions and aids the development of the capital market via different channels.

There are similar studies which have explored the role of investment and macroeconomic stability in capital market development found a long run relationship between macroeconomic stability (exchange rate and inflation rate) and capital market development (Adam & Tweneboah, 2009; Kalim, 2009; Raza et al., 2012) in Ghana and Pakistan respectively. On the issue of macroeconomic variables determining the value of capital prices, Fama (2012) found that capital prices reflect various variables such as inflation, exchange rate, interest rate and industrial production. Also, any resolution by multinational firms to invest in a select nation hinges on wide-ranging country-specific macroeconomic, social, and political variables (Al Nasser & Garza, 2009).

According to Yartey and Adjasi (2007), capital markets have contributed to the financing of the growth of large corporations in certain African countries, this is because giant African firms have made significant use of the capital

markets to finance their growth. In the case of Africa, however, little proofs are obtainable to back arising theoretical prognoses on the role of the capital market in enhancing capital formation and investments. However, they also disapproved of the role of capital market in investment development, according to their study, without efficient and well-developed financial system, the acclaimed benefits may not be realized. In developing and incompetent systems, for instance, the capital market may not be able to echo real fundamentals and may misinform investors in making optimal investment decisions. In such situations, the growth of the capital market may not be able to impact significant development in the general economy. They advance that the higher degree of price volatility on capital markets in developing countries decreases the efficiency of the price signals in allocating investment resources – a situation that has given rise to a fundamental question over the importance of the system in stimulating economic growth in African countries.

As a result of the above line of discourse, the study's third hypothesis is stated below;

H03: The Capital Market does not possess significant potentials to foster growth in the real sector

III. RESEARCH METHODOLOGY

This study aims at providing empirical evidence of the impact of the capital market on investment in the real sector of the Nigerian economy. The data spans the period of 36 years, from 1981 to 2016 and were sourced from the Central Bank of Nigeria's statistical bulletin (2013). The study will make use of econometric tests such as the Phillip-Perron test for unit root, the Johansen co-integration test will be used to check for long-run equilibrium between the variables. The Error correction mechanism (ECM) will be used as the main model for this study. Also, in order to test the third hypothesis of this research, forecasting techniques will be used to simulate what investment in the real sector would look like in the absence of the capital market.

The theoretical framework for the methodology employed in this research is based on Tobin (1969) and Ibadin et al. (2014).

The model to be used for this study is based on the above studies and can be expressed in a functional form thus;

$RSI = f(NI, MC, AS, INT, INF)$ -   (1)

Where;

RSI = Real Sector Investment (which will be proxied using Gross Fixed Capital Formation)

NI = New Equity Issues; MC = Market Capitalization; AS = Aggregate Savings;

INF = Inflation; INT = Interest Rate

The estimation technique to be used for the above model is the Error Correction Mechanism (ECM). Therefore, equation (1) can be specified as an ECM thus;

$\Delta RSI = \beta_0 + \beta_1 \Delta NI + \beta_2 \Delta MC + \beta_3 \Delta AS + \beta_4 \Delta INF + \beta_5 \Delta INT + \beta_6 \mu_{t-1} + \varepsilon_t$

Where;

Δ = First Difference Operator; μ_{t-1} = The one period lagged value of the error term;

ε_t = Random Error Term. The a-priori expectations are given as; $\beta_0 > 0$; $\beta_1 > 0$; $\beta_2 > 0$; $\beta_3 > 0$; $\beta_4 < 0$; $\beta_5 < 0$; + $\beta_6 < 0$

IV. PRESENTATION AND DISCUSSION OF RESULTS

In this section, we perform the analysis that forms the basis for the empirical evaluation of the study. This is done through the presentation and analysis of the estimated results based on the model specified in chapter four. The first set of test will be unit root test using the Phillips-Perron unit root test then an error correction estimation will be done. Thereafter, forecasting technique will be used to simulate what investment in the real sector would look like without the capital market.

4.1 Phillips-Perron Unit Root Test

Unlike the Augmented Dickey-Fuller test, the Phillips–Perron test makes a non-parametric correction to the t-test statistic. The test is more robust with respect to unspecified autocorrelation and heteroscedasticity in the disturbance process of the test equation which is why it is more suitable for this research; the results are presented below.

Table 4.1 Phillips-Perron Unit Root Test

Variable	Level	First Difference	Order of Integration	Remark
GFCF	2.070101	-5.753207	I(1)	Stationary
MC	0.215423	-5.754421	I(1)	Stationary
NI	1.290198	-6.369092	I(1)	Stationary
AS	3.660378	-5.259053	I(1)	Stationary
INT	-2.170181	-6.602683	I(1)	Stationary
INF	-3.055110	-11.07393	I(1)	Stationary
Test critical values: (First Difference)	1% level		-3.632900(-3.639407)	
	5% level		-2.948404(-2.951125)	
	10% level		-2.612874(-2.614300)	

Source: Computed using E-views 9

From the table above, it can be seen that the variables are not stationary at level, however, when the first difference was taken, all the variables became stationary. This shows that all the variables (i.e. GFCF, MC, NI, AS, INT, INF) are integrated of the same order one I(1), that is, attaining stationarity after the first difference. This is in line with findings of Ibadin et al. (2014). Having established the stationary property of the variables, long run relationships will

be examined in subsequent tests starting with the Johansen co-integration test below.

4.2   Johansen   Maximum   Likelihood   Test   of   Co-integration

This test checks for long run relationship among the variables and is presented in the table below.

Table 4.2 Johansen Co-integration

No. of co-integrating	Trace Statistic		Maximum Eigen Value equation	
	Statistic	P-Value**	Statistic	P-Value**
None	282.3726	0.0000	151.2286	0.0001
At most 1*	131.1440	0.0000	71.56378	0.0000
At most 2*	59.58023	0.0027	**29.39201**	**0.0290**
At most 3*	**30.18822**	**0.0451**	20.05876	0.0701
At most 4	10.12946	0.2709	8.945965	0.2907
At most 5	1.183499	0.2766	1.183499	0.2766

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source: Computed using E-views 9

The trace and maximum eigen value tests produced the same result in that they both rejected the Johansen co-integration null hypothesis that there is no co-integrating relationship between the variables, However, while the trace test indicates four cointegrating equations, the maximum eigen value indicates three co-integrating equations at 5% significance level. The exactly identifying estimates of the Johansen Maximum likelihood estimates show the co-integrating coefficients normalized to gross fixed capital formation are shown in the table below. This will help us in understanding the long run relationships between the variables.

Table 4.3   Normalized Co-integrating Coefficients

Variables	GFCF	MC	NI	AS	INT	INF
Coefficients	1.000000	-0.000486	0.000919	-0.325709	-8.181030	5.475171
Standard Error		(0.000023)	(0.00016)	(0.01987)	(3.96777)	(1.02978)
t-statistics		-21.1304	5.7438	-16.3920	-2.0619	5.3168

Source: Computed using E-views 9

From the above table, it can be seen that all the variables exert a significant influence on capital formation (GFCF) in the long run. The magnitude of impact on GFCF is highest from market capitalization, which has a negative long-run impact. Aggregate savings and interest rate also have negative and significant long run impacts on GFCF but new equity issues and inflation rate exert a long-run positive and significant impact on GFCF.

Having established long run relationship between the independent variables on the gross fixed capital formation, the error correction model is thus estimated below to help determine the nature of short-run impact by market capitalization, new equity issues, aggregate savings, inflation and interest rates on investment (i.e. GFCF).

Table 4.4 ECM Model

Dependent Variable: Δ(GFCF)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.869377	133.6903	0.006503	0.9949
Δ(MC)	-0.000535	0.000147	-3.644579	0.0011
Δ(NI)	0.003483	0.001174	2.966684	0.0061
Δ(AS)	0.777148	0.213147	3.646065	0.0011
Δ(INT)	-15.46366	35.94762	-0.430172	0.6704
Δ(INF)	-2.981245	6.591730	-0.452270	0.6546
ECM(-1)	-0.720351	0.204757	-3.518076	0.0015
R-squared	0.732790	Mean dependent var		303.8177
Adjusted R-squared	0.675530	S.D. dependent var		1178.768
S.E. of regression	671.4528	Akaike info criterion		16.03362
Sum squared resid	12623767	Schwarz criterion		16.34469
Log likelihood	-273.5884	Hannan-Quinn criter.		16.14100
F-statistic	12.79772	Durbin-Watson stat		1.986887
Prob(F-statistic)	0.000001			

Significance levels: *<0.10, **<0.05, ***<0.01.

Source: Computed using E-views 9

The above error correction model shows that new equity issues and aggregate savings have positive and significant impact on capital formation, this conforms to similar findings made by Okereke (2000) and Ezeoha, et al (2009). Conversely, market capitalization, interest and inflation rates have negative impacts on capital formation, Yartey and Adjasi (2007) argued in this line of thought that although a lot of African firms have financed operations through the capital market, there is still a lot of work to be done in the financial sector so as to help mitigate the negative effect by indices such as inflation and interest rate on investment.
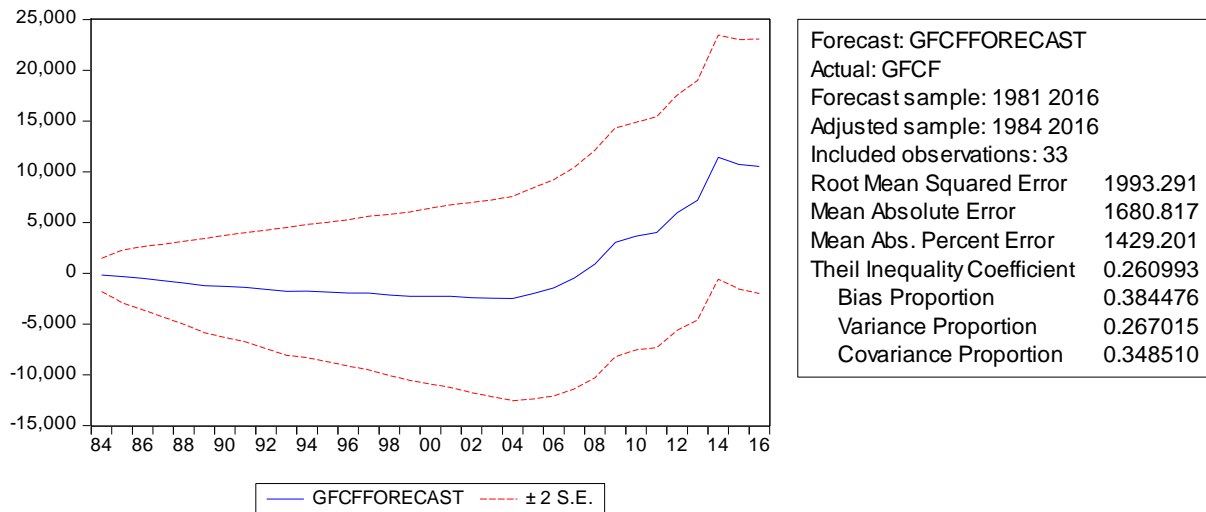
The error correction term (ECM) is both negative and statistically significant, showing that an established long-run relationship can be attained. The speed of adjustment is put at -0.720351 which shows that about 72 percent of the deviations of capital formation from its long-run equilibrium can corrected every year.

The R-squared value of 0.732790 suggests that about 73.3% of the systematic variations in capital formation can be explained by new issues, inflation rate, interest rate, market capitalization, aggregate savings and the error correction term. The adjusted R-squared value of 67.6% shows that the model has a relatively high predictive power and can be used as a policy tool. The goodness-of-fit model is further emphasized

by the statistical significance of the F-statistics which is 12.798with a p-value of 0.0000, this means that all the explanatory variables taken together are significant. The Durbin-Watson statistic of 1.986according to econometric theory implies absence of autocorrelation.

From the above results, this study therefore rejects the first and second null hypothesis. In order to test for the third hypothesis, we simulate what investment in the real sector would look like without the capital market. This is done using forecasting techniques with the E-views software and the result is shown in the figure below;

Fig 4.1   Forecast Results

Forecast: GFCFFORECAST	
Actual: GFCF	
Forecast sample: 1981 2016	
Adjusted sample: 1984 2016	
Included observations: 33	
Root Mean Squared Error	1993.291
Mean Absolute Error	1680.817
Mean Abs. Percent Error	1429.201
Theil Inequality Coefficient	0.260993
Bias Proportion	0.384476
Variance Proportion	0.267015
Covariance Proportion	0.348510

Source: E-views 9 (Author's computation)

Figure 4.1 shows that the forecasted gross fixed capital formation is within the 2 standard error line, this implies the validity of the forecast. However, the appropriateness of the forecast is given by the Theil inequality coefficient of 0.260993. According to econometric theory, the closer the value of this coefficient is to zero, the better the

forecast method. With the above technique, values for gross fixed capital formation were forecasted between the period of 1984 to 2013 to see what would happen to capital formation without a capital market and the trend comparison of the actual and forecasted gross fixed capital formation are presented below in the diagram;

Fig. 4.2   Trend comparison of Actual and Forecast Gross Fixed Capital Formation
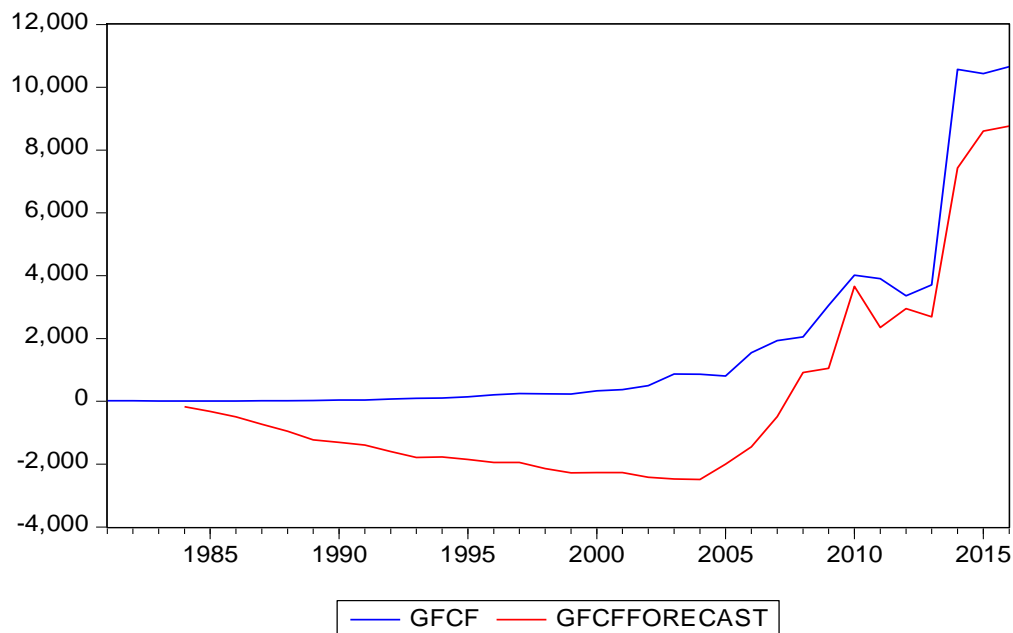
Source: E-views 9 (Author's computation)

From the above diagram it can be seen that initially, the actual gross fixed capital formation experiences a relatively stable increase while that of the forecasted gross fixed capital formation experienced a continuous decrease between 1983 and 2004 before it started rising. It is very important to note that throughout the entire forecast period, the actual GFCF was higher than the forecast GFCF. This therefore implies that without the capital market, investment in the real sector would be far below the level it would have been if there was an active capital market. Thus, it is important that the necessary foundations be laid in the Nigerian capital market at this moment because the forecasting result shows that if the market is well developed, there will be a sustained increase in investment in the real sector of the Nigerian economy. As a result, the third null hypothesis is rejected.

4.3 Summary and Policy Implication of Findings

The results obtained in the empirical analysis above are quite interesting and suggest certain policy direction issues.

Firstly, interest rate was seen to negatively impact capital formation. This is in line with monetary economic theories. Interest rate is the price paid for borrowing funds and when it is high, investors would be discouraged to borrow. Since this negative relationship is established, the Nigerian monetary authorities have to make sure that the interest rate is favourable so as to attract more investors which would lead to growth in capital formation and ultimately economic growth.

Secondly, aggregate savings has a positive impact on capital formation. This is also consistent with monetary economics theories. With the availability of savings, there will be investible funds and it is left for the monetary authorities to effectively and efficiently transfer such investible funds from to surplus sector to the deficit sector or the most productive sector in order to ensure growth in capital formation. Again, the Central Bank and other relevant monetary authorities should ensure that the deposit rates are favourable so as to encourage and boost savings by the Nigerian public.

Thirdly, new issues has a positive impact on capital formation. New issues are very important instruments in raising the capital formation of a country. It is the job of the regulatory authorities of the capital market to ensure that there is fairness in the trade of such market instruments.

Fourthly, inflation impacts the gross fixed capital formation negatively. This is in line with macroeconomic theories. Inflation is the persistent increase in the prices of goods and services and as a result reduces the purchasing power of consumers. When consumers reduce their consumption due to inflation, the producers will have no other option than to reduce production. This could lead to unemployment of some factors of production and there will be no need for such investors to increase their capital stock.

Fifthly, there is a negative relationship between market capitalization and capital formation. A broad definition of market capitalization is that it is the market value of a firm's outstanding shares. It is understandable that there is a negative relationship because the more outstanding shares a firm has, it implies that they are not raising money from such shares so there will be no funds to invest in capital. This could also point to the fact that real sector investment is not benefitting fully from the capital market.

Finally, the forecasting technique revealed that the foundations being laid now in the capital market will yield positive and significant results in the long-run, as a result, the government cannot afford to overlook the importance of the capital market in capital formation and overall economic growth.

V. POLICY RECOMMENDATIONS AND CONCLUSION

This section provides policy recommendations based on the results and findings made in the previous section. This is then followed by concluding remarks to the study.

5.1 Policy Recommendations

In light of the results and findings, the following policy recommendations are proffered;

The monetary authorities should allow the interest rate to be determined by market forces, however, a guided regulation is necessary to ensure that the interest rate is one that is favourable to both domestic and foreign investors. The exchange rate should also be allowed to float freely and measures such as dirty floatation should be minimized or totally avoided. There should be an effective information circulation mechanism to disseminate vital stock market information especially regarding new issues. Public awareness should be created so that the general public can be encouraged to participate in the stock market. This would also increase subscriptions to such stock market securities.

Likewise, all dealings of the Nigerian capital market should be made more transparent and the stakeholders should be held accountable as this will bring about confidence in the mind of investors and people will be encouraged to invest. The government should encourage Nigerians to take advantage of the capital market and save for investment growth and capital formation in Nigeria.

5.2 Conclusion

The importance of the capital market in the Nigerian economy cannot be over-emphasized; a lot of studies and arguments have taken place over the years in order to ascertain the relationship between the capital market and a nation's economic growth. While some have found a positive relationship or impact others have contradictory views.

This study in trying to find a relationship between the capital market and investment in the real sector observed while there is a positive relationship between capital market variables like new issues and capital formation, uncertainties in the market does not bode well for capital formation in Nigeria so the

regulatory authorities institute proactive policies in the Nigerian capital market.

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