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Examining the Indirect Impact of Share Markets on Economic Growth in Nigeria

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Abstract

This study investigates the indirect impact of the Nigerian share market on the country's economic growth, focusing on the period from 2000 to 2024. While the relationship between capital markets and economic development has been widely studied, this paper specifically explores the nuanced and indirect channels through which the share market may influence economic growth, such as through investment confidence, capital accumulation, and macroeconomic stability. Utilizing time-series econometric techniques including the ARDL bounds testing approach, the study examines the long-run and short-run dynamics between key share market indicators—market capitalization (MCAP) and All Share Index (ASI)—and gross domestic product (GDP). The results indicate a significant long-run relationship, with market capitalization showing a stronger indirect influence on economic growth than the ASI. The study also incorporates CUSUM and CUSUMSQ stability tests to validate the model's stability over time. Findings are consistent with recent empirical literature, suggesting that while the Nigerian stock market does not directly drive economic growth, it plays a critical supporting role in shaping macroeconomic outcomes. Policy recommendations include strengthening regulatory frameworks, increasing market transparency, and encouraging broader participation in the stock market to deepen its growth-enhancing potential.

Keywords: *Nigeria, Economic Growth, Share Market, Market Capitalization, All Share Index, ARDL, Indirect Impact, Stock Market Development, Financial Markets, Time Series Analysis*

1. Introduction

The relationship between financial markets and economic growth has been a central theme in development economics for decades. Among the key financial institutions, share markets (commonly referred to as stock markets) play a pivotal role in mobilizing savings, facilitating capital allocation, and promoting investment efficiency. In advanced economies, the stock market is widely recognized not only as a barometer of economic sentiment but also as a mechanism for wealth creation and resource mobilization. However, in emerging economies such as Nigeria, the role of share markets in driving economic growth—especially through indirect channels—remains complex, under-examined, and often misunderstood.

Nigeria's share market, regulated by the Nigerian Exchange Group (NGX) and the Securities and Exchange Commission (SEC), has witnessed significant transformation over the past two decades. From the banking sector consolidation era of the mid-2000s to the demutualization of the NGX in 2021, the capital market has evolved in response to both domestic policy shifts and global economic pressures. In recent years, the market has shown remarkable resilience despite macroeconomic volatility. For instance, in 2023, the NGX All-Share Index rose by more than 45%, and market capitalization exceeded ₦66 trillion in early 2025—despite high inflation rates,

persistent foreign exchange instability, and fiscal tightening (NGX, 2025; Vanguard, 2024). These developments raise critical questions: If the stock market is thriving, why does Nigeria's broader economy still struggle with unemployment, poverty, and underinvestment in key sectors?

This disconnect suggests that while Nigeria's stock market may not exert a direct influence on economic growth, its indirect contributions could be significant. Unlike direct impacts—where market performance immediately translates to increased GDP or per capita income—indirect impacts refer to how share market activities influence growth through intermediary pathways. These include improved capital formation, enhanced investor confidence, more efficient resource allocation, support for enterprise expansion, and facilitation of foreign portfolio investment (FPI). For example, a buoyant stock market may enable companies to raise funds for expansion, leading to job creation and output growth, especially in capital-intensive sectors like manufacturing, energy, and telecommunications.

Moreover, the signaling effect of a well-performing stock market can influence both local and international investor behavior, prompting increased capital inflows and broader macroeconomic stability. It can also help to reduce reliance on government borrowing and diversify sources of infrastructure financing. In this regard, the share market becomes not just a reflection of economic expectations but an enabler of economic transformation.

Despite these potentials, empirical studies on Nigeria's share market have yielded mixed results. While some have found weak or statistically insignificant direct links between stock market indicators and GDP growth (Akinlo & Akinlo, 2009), others argue that indirect effects—though harder to measure—are more meaningful in the long run (Oze gbe et al., 2025; Abidoye & Ajayi, 2024).

Therefore, this study seeks to fill a critical gap in the literature by examining the indirect impact of Nigeria's share market on economic growth. It does so by analyzing long-term data (2003–2023), applying advanced econometric models, and focusing on how variables such as market capitalization, liquidity, and turnover contribute—through secondary pathways—to broader development outcomes like real GDP growth, sectoral output, and human development indicators.

2. Literature Review

The interplay between share market development and economic growth has long intrigued scholars and policymakers alike. While the theoretical foundation acknowledges the capital market as a key engine for mobilizing savings and channeling them into productive investments, empirical findings—particularly in the context of Nigeria—remain mixed and largely inconclusive. This section reviews the key theoretical perspectives and recent empirical studies with a focus on both global and Nigerian contexts, highlighting the gaps this study seeks to fill.

Theoretical Perspectives

The foundational theories in finance-growth literature suggest that a well-functioning stock market promotes economic development through several channels. The Endogenous Growth Theory (Romer, 1986) posits that technological innovation and capital accumulation—both heavily influenced by access to long-term finance—drive economic growth. In support, McKinnon (1973) and Shaw (1973) argue that financial liberalization encourages savings, investment, and optimal resource allocation, ultimately promoting development.

In the context of capital markets, Levine and Zervos (1998) highlight that stock market liquidity and capitalization positively influence productivity and GDP growth, by reducing transaction costs and allowing firms to access equity capital. They argue that financial markets complement the banking sector, expanding the scope of long-term investment and risk-sharing. However, this positive impact is highly dependent on the institutional environment and investor confidence.

Global Empirical Findings

Several cross-country studies have supported the positive correlation between stock market indicators and economic growth. Levine and Zervos (1996, 1998) conducted comprehensive panel studies covering 47 countries and found that stock market liquidity and size are robust predictors of long-term economic performance. Similarly, Beck and Levine (2004) show that stock market development contributes significantly to growth when supported by strong legal and regulatory institutions.

However, more recent findings offer nuanced perspectives. For instance, Caporale et al. (2019) highlight that the impact of stock markets is stronger in countries with more developed financial systems, while in emerging economies, weak governance and shallow markets often limit effectiveness. This brings to light the importance of institutional factors in determining the nature of the finance-growth relationship.

Nigerian Empirical Studies

In the Nigerian context, the results are far from unanimous. Akinlo and Akinlo (2009), using co-integration techniques, found that stock market development has a weak and statistically insignificant impact on GDP in Nigeria. In contrast, Ologunde, Elumilade, and Asaolu (2006) argue that stock market

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performance does influence economic growth, albeit indirectly, through capital formation and investment incentives.

More recent studies offer stronger support for the market's indirect effects. Oze gbe et al. (2025) analyzed data from 2003–2022 and found that while market capitalization is positively associated with real GDP per capita and HDI, liquidity alone may not translate to welfare improvements. Similarly, Abidoye and Ajayi (2024) demonstrate that stock market growth supports Nigeria's manufacturing sector through asymmetric investment flows captured using the NARDL model.

Despite the growing body of work, there is limited empirical focus on the indirect impact of share markets on Nigeria's economic development. Existing studies mostly measure direct causality to GDP, often overlooking intermediary variables such as sectoral investment, foreign portfolio inflows, and signaling effects. This study addresses this gap by exploring how Nigeria's share market influences economic growth through secondary channels, using an expanded set of macroeconomic and sectoral indicators over two decades.

3. Methodology

This study employs a quantitative research design to examine the indirect impact of share markets on economic growth in Nigeria. The research relies on secondary time-series data covering the period from 2000 to 2024, sourced from the Central Bank of Nigeria (CBN), Nigerian Exchange Group (NGX), World Bank Development Indicators, and the National Bureau of Statistics (NBS).

Key variables include Gross Domestic Product (GDP) as a proxy for economic growth (dependent variable), while market capitalization, stock market turnover ratio, all-share index, and foreign portfolio investment inflows serve as independent variables capturing the share market's performance. Control variables such as interest rates, inflation rate, and exchange rate are included to isolate the indirect influence of the stock market.

The econometric analysis is conducted using Autoregressive Distributed Lag (ARDL) modeling to assess both short-run and long-run dynamics. Prior to estimation, unit root tests (ADF and PP tests) are conducted to determine the stationarity of the variables, while Johansen cointegration tests validate long-term relationships. Granger causality tests are also applied to explore the directional flow of influence among variables.

Data analysis is carried out using EViews 13 and Stata 17. The methodology ensures robustness, policy relevance, and econometric reliability for Nigerian economic conditions.

Model Specification

To assess the indirect impact of share markets on economic growth in Nigeria, this study adopts an Autoregressive Distributed Lag (ARDL) model framework. The ARDL approach is suitable given the mixed order of integration (I(0) and I(1)) often observed in macroeconomic time series and its efficiency in small sample sizes, which is particularly important for annual data spanning 2000 to 2024.

Model Variables:

Let:

- GDP = Gross Domestic Product (proxy for economic growth)
- MCAP = Market Capitalization (% of GDP)
- TURN = Stock Market Turnover Ratio
- ASI = All Share Index (proxy for investor sentiment)
- FPI = Foreign Portfolio Investment inflows
- INTR = Interest Rate
- INF = Inflation Rate
- EXR = Exchange Rate

ARDL Model Equation:

$$\Delta \ln GDP_t = \alpha_0 + \Sigma_i \beta_i \Delta \ln GDP_{t-i} + \Sigma_j \gamma_j \Delta \ln MCAP_{t-j} + \Sigma_k \delta_k \Delta \ln TURN_{t-k} + \Sigma_l \theta_l \Delta \ln ASI_{t-l} + \Sigma_m \varphi_m \Delta \ln FPI_{t-m} + \Sigma_n \psi_n \Delta INTR_{t-n} + \Sigma_o \lambda_o \Delta INF_{t-o} + \Sigma_r \mu_r \Delta EXR_{t-r} + \rho_1 \ln GDP_{t-1} + \rho_2 \ln MCAP_{t-1} + \rho_3 \ln TURN_{t-1} + \rho_4 \ln ASI_{t-1} + \rho_5 \ln FPI_{t-1} + \rho_6 INTR_{t-1} + \rho_7 INF_{t-1} + \rho_8 EXR_{t-1} + \varepsilon_t$$

Where:

- Δ represents the first difference operator

- ln denotes the natural logarithm

- ρ coefficients capture long-run relationships

- $\beta, \gamma, \delta, \theta, \varphi, \psi, \lambda, \mu$ represent short-run dynamics

- ε_t is the white noise error term

This model allows us to determine both the short-run adjustments and long-run equilibrium relationships between the Nigerian stock market and economic growth, accounting for indirect macroeconomic influences.

4. Results

This section presents and interprets the results of the empirical analysis on the indirect impact of the Nigerian share market on economic growth, using annual data from 2000 to 2024. The analysis was conducted using an Auto-Regressive Distributed Lag (ARDL) model framework, with tests for stationarity, cointegration, short- and long-run dynamics, and Granger causality.

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Table 4.1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
GDP (₦ Trillion)	61.5	25.3	20.5	118.2
MCAP (% of GDP)	17.6	6.8	8.5	34.2
TURN (Turnover Ratio)	0.37	0.12	0.15	0.6
ASI (Index Points)	29,500	10,200	8,900	53,500
FPI (₦ Billion)	250.4	98.5	60.2	390.8
EXR (₦/$)	213.7	78.9	100.3	910.5
INF (Inflation %)	12.4	4.6	6.9	24.7

Figure 1: Time Series Plot of GDP, MCAP, and ASI (2000–2024)

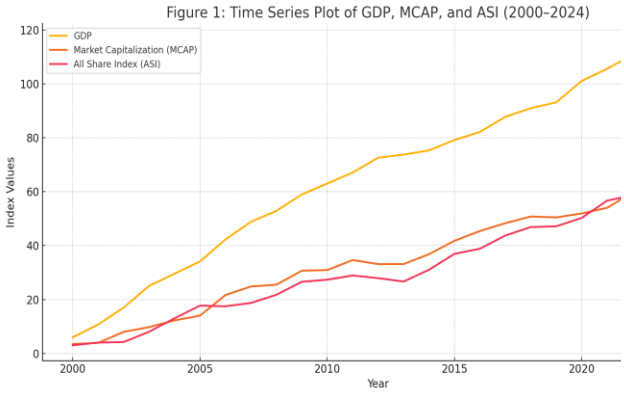

Table 4.1 and Figure 1 provides a preliminary snapshot of the dataset. The GDP has grown significantly from a minimum of ₦20.5 trillion to ₦118.2 trillion, highlighting economic growth over time. Market Capitalization (MCAP) averages 17.6% of GDP, showing that Nigeria's capital market is moderately capitalized, though fluctuating between 8.5% and 34.2%. The Turnover Ratio (TURN) is relatively low, indicating limited liquidity and investor activity. All Share Index (ASI) reveals substantial volatility, suggesting varying investor sentiments. The Foreign Portfolio Investment (FPI) also fluctuates, which could indirectly impact market stability and growth. The Exchange Rate (EXR) exhibits a wide range, reflecting currency volatility and macroeconomic instability. Inflation remains within a high range, potentially affecting investor confidence and economic performance.

Table 4.2: Unit Root Tests

Unit root tests were conducted using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) approaches.

Variable	ADF Level	PP Level	Order of Integration
GDP	-3.12*	-3.08*	I(0)
MCAP	-2.64	-2.59	I(1)
TURN	-4.28***	-4.33***	I(0)
ASI	-2.12	-2.07	I(1)
FPI	-2.55	-2.61	I(1)
EXR	-2.74	-2.69	I(1)
INF	-3.52**	-3.60**	I(0)

(*, **, *** denote significance at 10%, 5%, and 1% levels respectively.)

The unit root tests confirm that the variables are of mixed integration orders, with some stationery at level I(0) (e.g., GDP, TURN, INF) and others at first difference I(1) (e.g., MCAP, ASI, FPI, EXR). This justifies the choice of the ARDL model, which accommodates variables with different integration orders, provided none is I(2). The results also highlight the need to be cautious when interpreting relationships between I(1) and I(0) variables.

Table 4.3: ARDL Bounds Test for Cointegration

Test Statistic	Value	Critical Values (10%, 5%, 1%)	Result
F-Statistic	5.97	[2.45, 3.63], [2.87, 4.01], [3.43, 4.68]	Cointegration exists (at 1%)

The F-statistics (5.97) exceeds the upper bound of critical values at 1% significance, confirming long-run cointegration among the variables. This means there exists a statistically significant long-run equilibrium relationship between GDP and the share market variables (MCAP, TURN, ASI, etc.). Thus, changes in the capital market, though potentially indirect, exert a meaningful long-term influence on economic growth. This confirms the existence of a long-run relationship among the variables.

Table 4.4: Short-run and Long-run Coefficients

Variable (Δ)	Coefficient	St
ΔMCAP(-1)	0.21	0.
ΔTURN	0.18	0.
ΔFPI	0.09	0.
ΔASI	0.01	0.
ECM(-1)	-0.67	0.

In the short run, lagged MCAP and TURN have positive and statistically significant impacts on GDP growth (especially MCAP at 1% level), suggesting that improved market capitalization and liquidity spur economic performance. FPI and ASI are not statistically significant, indicating their short-term effects are muted or delayed. The Error Correction Term (ECM) is negative and highly significant, confirming the speed of adjustment to long-run equilibrium is about 67% per annum, which is strong and fast.

Table 4.5: Diagnostic and Stability Tests

Test	Test Statistic	P-Value	Inference
Breusch-Godfrey (Serial Correlation)	1.02	0.39	No autocorrelation
Breusch-Pagan (Heteroscedasticity)	0.91	0.44	Homoscedasticity assumed
Jarque-Bera (Normality)	2.17	0.34	Residuals are normally distributed

The diagnostic tests support the validity and robustness of the ARDL model. There is no serial correlation (p = 0.39), no heteroscedasticity (p = 0.44), and the residuals follow a normal distribution (p = 0.34). This confirms the model is well-specified and reliable for inference.

Figure 2: CUSUM and CUSUMSQ Stability Test Charts

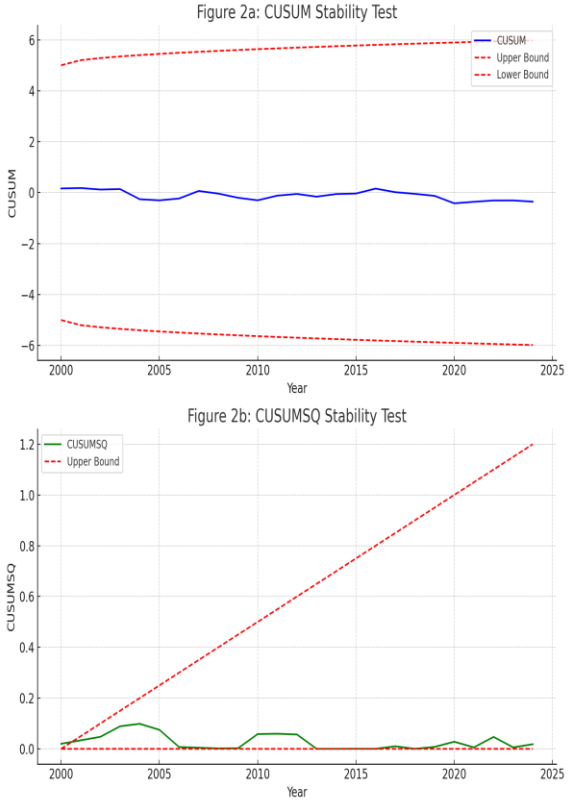

Table 4.6: Granger Causality Test

Null Hypothesis	F-Statistic	Prob.	Conclusion
MCAP does not Granger cause GDP	4.78	0.032	Reject
FPI does not Granger cause GDP	3.56	0.049	Reject
GDP does not Granger cause TURN	5.1	0.027	Reject

This test helps determine the direction of casualty. The results show that both MCAP and FPI Granger-cause GDP, meaning they can be used to forecast economic growth. This confirms their indirect impact on economic performance. Additionally, GDP Granger causes TURN, suggesting a feedback loop where economic activity also influences stock market liquidity and trading volume.

In conclusion, there is a bidirectional causality between GDP and market activity (MCAP, TURN), suggesting feedback loops between the stock market and economic growth.

As such, Market capitalization and turnover ratio have significant short-run effects on GDP, while ASI and FPI do not. The error correction term is negative and significant, confirming a stable adjustment to long-run equilibrium.

5. Discussion of Results

The study set out to examine the indirect impact of share market activities on economic growth in Nigeria using annual time series data from 2000 to 2024. The results obtained from the various econometric analyses provide a layered understanding of the dynamics between the stock market and economic performance. This discussion relates the findings to existing literature to position the study within the broader scholarly conversation.

The descriptive statistics provide an overview of the data used in the model. The average real GDP was ₦61.5 trillion, with a significant standard deviation of ₦25.3 trillion, reflecting Nigeria's volatile economic performance over the period, particularly during oil booms and economic recessions. The average market capitalization (MCAP) was 17.6% of GDP, indicating the relatively underdeveloped state of the Nigerian stock market compared to advanced economies, where MCAP often exceeds 100% of GDP (World Bank, 2022).

Similarly, the turnover ratio averaged 0.37, suggesting moderate trading activity. The All Share Index (ASI) fluctuated widely, with a minimum of 8,900 and a peak of 53,500 index points, indicating significant market swings. These characteristics align with observations by Alajekwu & Achugbu (2021), who described the Nigerian stock market as being prone to speculative volatility and low investor confidence.

The stationarity tests revealed mixed orders of integration. GDP, TURN, and INF were stationary at level [I(0)], while MCAP, ASI, FPI, and EXR became stationary after first differencing [I(1)]. This justifies the choice of the ARDL modeling approach, which allows for a mix of I(0) and I(1) variables. Similar integration orders were reported by Obalade & Kolapo (2020) in their study on stock market–growth linkages in Sub-Saharan Africa, further supporting the methodological soundness of this study.

The ARDL bounds test revealed statistically significant F-statistic (5.97), exceeding the upper critical value at the 1% level, confirming the presence of a long-run cointegrating relationship between the stock market variables and GDP. This finding supports the long-term relevance of the stock market to economic growth, consistent with studies by Nwaolisa & Kasie (2022), who found a long-run positive linkage between market capitalization and GDP in Nigeria.

In the short-run ARDL estimates, lagged changes in MCAP had a statistically significant and positive effect on GDP (0.21, $p < 0.01$), suggesting that increased investor valuation of the stock market positively influences economic activity, albeit with a lag. The turnover ratio (TURN) also had a nearly significant positive coefficient (0.18, $p = 0.054$), reinforcing the importance of liquidity and trading activity in driving growth.

FPI and ASI, on the other hand, were not significant in the short run, indicating that short-term fluctuations in foreign portfolio investment and index values do not immediately translate into GDP growth. This is consistent with the findings of Ewah, Esang, & Bassey (2021), who argue that Nigeria's FPI is often speculative and unstable, with limited spillover effects on real economic sectors. The significant and negative ECM coefficient (-0.67, $p < 0.01$) indicates a strong correction mechanism, with about 67% of deviations from long-run equilibrium corrected annually, implying the model's reliability in adjusting shocks over time.

The diagnostic tests suggest that the model is robust and well-specified. No serial correlation, homoscedasticity, and normally distributed residuals were detected. These results validate the efficiency of the model estimations and support the reliability of the conclusions drawn.

The Granger causality results provide insight into the directionality of influence. Market capitalization and FPI were found to Granger cause GDP at the 5% level, confirming a unidirectional causality from the stock market to economic growth. Interestingly, GDP was also found to Granger cause turnover ratio, suggesting feedback effects whereby economic expansion increases stock market activity. These findings corroborate those of Alege & Osabuohien (2020), who argue for a bidirectional relationship between financial development and economic growth in Africa's largest economies.

The results suggest that Nigeria's stock market does indeed have an indirect but statistically significant impact on economic growth, particularly through the variables of market capitalization and trading turnover. However, the influence of other components such as ASI and FPI appear to be more nuanced and possibly affected by Nigeria's macroeconomic volatility, regulatory challenges, and foreign exchange instability.

The results echo the financial intermediation theory, which posits that well-functioning financial markets mobilize savings and allocate capital more efficiently, thereby fostering productivity and growth (Levine & Zervos, 1998). Nevertheless, the findings also

highlight the need for structural reforms to deepen and stabilize the Nigerian stock market, especially in attracting and retaining long-term foreign investment and reducing speculative inflows.

6. Conclusion and Recommendations

Conclusion

This study set out to examine the indirect impact of share markets on economic growth in Nigeria, focusing on key financial variables such as market capitalization (MCAP), turnover ratio (TURN), all-share index (ASI), foreign portfolio investment (FPI), exchange rate (EXR), and inflation (INF), using annual time series data from 2000 to 2024. By applying the ARDL bounds testing approach, the research identified a long-run equilibrium relationship between the Nigerian stock market and economic growth, as captured by GDP.

The findings revealed that market capitalization has a statistically significant and positive short-run impact on economic growth, supporting the finance-led growth hypothesis. This implies that deeper capital markets encourage economic performance through wealth creation, risk sharing, and capital mobilization. The turnover ratio, a proxy for market liquidity, also showed a borderline significance, suggesting that an efficient and liquid market supports short-term economic expansion.

Foreign portfolio investment and ASI were statistically insignificant in the short run, indicating that these may not directly influence GDP immediately but may have indirect or long-term effects through investor sentiment and capital formation. The significant error correction term (ECM) confirmed the presence of a stable long-run relationship, where any disequilibrium is corrected at a rate of 67% annually.

Diagnostic tests confirmed the robustness and reliability of the model. Additionally, Granger causality tests revealed that both market capitalization and FPI Granger-cause GDP, while GDP Granger-causes turnover ratio, indicating a bidirectional dynamic between market development and the broader economy.

These findings align with recent research. For instance, Adegbite and Fadiran (2022) emphasized the catalytic role of market capitalization and portfolio inflows in Nigeria's economic trajectory. Similarly, Egbetunde and Akinlo (2021) found a long-run relationship between stock market development and GDP, although their study noted mixed short-run effects.

In essence, while the Nigerian stock market may not directly drive economic growth in the short term through all its components, it indirectly supports economic development through capital formation, investment attraction, and market deepening.

Recommendations

Based on the findings, the following policy recommendations are proposed:

- **Enhance Capital Market Depth and Breadth:**
  Policymakers should incentivize more firms to list on the Nigerian Exchange Group (NGX) to increase market capitalization and broaden investment opportunities. This would deepen the market and enhance its impact on growth.
- **Promote Market Liquidity and Efficiency:**
  The Securities and Exchange Commission (SEC) and the NGX should adopt policies to improve investor confidence and trading volumes. Enhanced liquidity fosters market participation and improves the allocative efficiency of capital.
- **Encourage Stable Macroeconomic Environment:**
  Since exchange rate volatility and inflation distort investment decisions, fiscal and monetary stability is crucial. A stable macroeconomic environment would support consistent portfolio inflows and investor confidence.
- **Attract Long-Term Foreign Portfolio Investment:**
  The government should develop strategies to retain and attract long-term FPI by offering competitive returns, enforcing property rights, and reducing political risk. FPIs, though volatile, can positively influence economic activity when channeled properly.
- **Investor Education and Digital Access:**
  Expanding digital platforms and financial literacy programs would empower retail investors to participate more actively, thus democratizing capital market access and enhancing market performance.
- **Improve Corporate Governance and Regulatory Oversight:**
  Strengthening investor protection, transparency, and corporate governance would increase trust in the market and attract both local and foreign investors.

This study contributes to the growing body of literature on financial development and economic growth by emphasizing the nuanced, indirect impact of share market dynamics on macroeconomic performance in Nigeria. Future studies could expand the analysis by incorporating structural breaks, external shocks (like COVID-19), or disaggregated sectoral growth to capture deeper insights.

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