FINANCIAL MARKET INDICES AND ECONOMIC GROWTH IN NIGERIA

Oghenero Godday Oboro, PhD.
Department of Finance, Faculty of Administration and Management, Southern Delta University, Ozoro.
oboroghene73@gmail.com

Corresponding Author: oboroghene73@gmail.com
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Abstract
This study examines the relationship between stock market development indicators and economic growth in Nigeria from 2000 to 2025. Specifically, it investigates the role of market capitalization (MCAP), value traded (VT), number of listed companies (NLC), and turnover ratio (TR) in explaining GDP growth (GDPG). The study employs time-series data and econometric techniques including unit root tests, the Autoregressive Distributed Lag (ARDL) model, and diagnostic tests. The unit root results indicate that all variables are integrated of order I(1). However, the ARDL bounds test shows the absence of a long-run cointegrating relationship among the variables; therefore, the analysis is restricted to short-run dynamics. The empirical results reveal that market capitalization has a marginal negative and weakly significant short-run relationship with economic growth, while value traded and turnover ratio exhibit positive but statistically insignificant relationships. The number of listed companies shows no significant relationship with economic growth.The error correction term is negative and statistically significant, indicating a relatively fast speed of adjustment following short-run shocks. Diagnostic tests confirm that the model is well-specified and free from heteroskedasticity and autocorrelation. Overall, the findings suggest that stock market development in Nigeria influences economic growth primarily through short-run dynamics rather than long-run equilibrium relationships. The results highlight the importance of improving market liquidity, efficiency, and structural depth to enhance the growth-enhancing role of the Nigerian capital market.

Keywords: Financial market indices, market capitalization, value traded, turnover ratio, Number of Listed Companies, Economic Growth, Nigeria

1.0 Introduction

The financial market plays a crucial role in economic development by facilitating savings mobilization, investment, and risk diversification (Beck & Levine, 2021). In Nigeria, the stock market represents a key segment of the financial system and contributes to capital formation and resource allocation across productive sectors of the economy. In this study, financial market performance is specifically captured through stock market development indicators, namely market capitalization (MCAP), value traded (VT), number of listed companies (NLC), and turnover ratio (TR), which collectively reflect the size, activity, breadth, and liquidity of the Nigerian capital market.

This implies that the stock market provides funding for industrialization, service delivery, and infrastructural development (Adekunle, Akinrinola, & Salaudeen, 2025; Omotayo & Ajao,

2024). Financial market indicators such as these are often used to assess market conditions and investor sentiment, with the Nigerian Exchange All-Share Index also serving as a broader indicator of market performance (Adekunle, 2024). Economic growth, measured through GDP growth, remains a key macroeconomic objective as it reflects improvements in living standards, employment generation, and overall economic welfare.

The relationship between stock market development and economic growth has been widely examined in empirical literature, yet findings remain mixed and inconclusive. While some studies report a strong positive relationship between financial market development and GDP growth, others find weak, insignificant, or even negative effects depending on the indicators used and methodological approaches adopted (Adekunle et al., 2025; Adegoke et al., 2025). This inconsistency highlights the need for further investigation, particularly in emerging economies such as Nigeria.

The transmission from stock market development to economic growth operates through several key channels. Market capitalization (MCAP) reflects the overall size of the stock market and its capacity to mobilize long-term capital for productive investment, thereby enhancing capital formation and expanding productive capacity in the economy. Value traded (VT) captures the level of trading activity and investor participation and serves as a proxy for market liquidity; higher liquidity reduces transaction costs, improves price discovery, and enables efficient allocation of financial resources. The number of listed companies (NLC) reflects market depth and breadth, as a larger number of listed firms increases investment opportunities, promotes competition, and strengthens corporate sector participation in economic activity. Turnover ratio (TR), which measures trading activity relative to market capitalization, captures market efficiency and the ease with which financial assets are converted into cash without loss of value, thereby supporting investment flexibility and financial stability.

Although the importance of financial markets is widely acknowledged, the Nigerian stock market has experienced volatility, relatively low capitalization compared to GDP, and sensitivity to both domestic and global shocks (Omotayo & Ajao, 2024). These structural challenges raise questions about the extent to which stock market development indicators translate into real economic growth. Empirical evidence suggests that market size and liquidity may support growth, but their effectiveness depends on the depth, efficiency, and stability of the market system.

Importantly, most existing studies have focused primarily on market capitalization as the main proxy for stock market development, often overlooking other dimensions such as liquidity, market breadth, and trading efficiency. This study addresses this gap by incorporating value traded (VT), number of listed companies (NLC), and turnover ratio (TR) alongside market capitalization (MCAP) to provide a more comprehensive assessment of stock market development in Nigeria. By adopting this multidimensional framework, the study contributes to a more nuanced understanding of how different aspects of capital market structure jointly influence economic growth, rather than relying on market size alone. Against this background,

this study examines the relationship between stock market development indicators (MCAP, VT, NLC, and TR) and economic growth in Nigeria over the period 2000-2025.

2.0 Review of Literature

In the literature, the terms *financial market indices* and *stock market development indicators* are sometimes used interchangeably; however, they are conceptually distinct. Financial market indices generally refer to aggregate measures of market performance such as stock price indices that capture overall market movement and investor sentiment. In contrast, stock market development indicators provide a broader assessment of the structure and functionality of the capital market. These include market capitalization (MCAP), value traded (VT), number of listed companies (NLC), and turnover ratio (TR), which collectively measure the size, liquidity, depth, and efficiency of the stock market. This study adopts the latter framework because it provides a more comprehensive evaluation of stock market development and its relationship with economic growth.

Economic growth

Economic growth refers to an increase in the output of goods and services in an economy and serves as a key indicator of national economic performance (Adekunle, 2024; Beck & Levine, 2021). It is associated with improved living standards, job creation, and increased government capacity to provide essential services such as education, healthcare, and infrastructure (Acha & Akpan, 2019; Olusegun & Ajao, 2024).

In Nigeria, economic growth is driven by sectoral contributions from agriculture, oil and gas, manufacturing, and services, as well as structural factors such as capital accumulation, labour productivity, and technological advancement (Adegoke, Eggon, & Ajidani, 2025; Oladigbo et al., 2025). Institutional quality, policy stability, and supportive governance also play important roles in sustaining growth (Olubiyi, 2023). However, challenges such as oil dependence, inflation, infrastructure deficits, and policy inconsistency continue to constrain long-term economic performance (Adekunle, 2024).

This context is important for understanding the relationship between financial market development and economic growth, as stock market indicators reflect how efficiently financial resources are mobilized and allocated within the economy.

Financial Market Indices

The financial market indices represent statistics that measure how well a certain number of stocks perform over a certain period in a financial market. The financial market indices help in indicating market trends, investor sentiment, and market performance (Adekunle, 2024). Generally, they are regarded as indicators of economic expectations and possible future investments (Alajekwu & Achugbu, 2011). The Nigerian financial market indices are extracted based on the listings of the Nigerian Stock Exchange (NSE) for equities such as the banking, oil and gas, manufacturing, and service sectors (Olusegun & Ajao, 2024). Through providing information related to stock prices as well as market activities, the financial market indices indicate the performance of the Nigerian capital market (Dibor-Alfred, Somoye, & Ozdeser, 2023). An efficient financial market is significant for economic development since it involves

saving of funds, allocation of resources, and increases liquidity in the economy (Adegoke, Eggon, & Ajidani, 2025). There are many variables that determine the performance of financial market indices. These include the state of the economy, policy measures of the government, investor sentiments and trends in global economy (Olubiyi, 2023). The change in these indices can be a sign of what is yet to come economically because increasing indices mean optimism, while decreasing indices may mean economic contraction.

Measures of Financial Market Indices

The following measures were adopted for capturing financial market indices in this research:
Market Capitalization (MCAP): Market capitalization is defined as the sum total market value of the entire listed equities on the Nigerian Stock Exchange. This index can be obtained by multiplying the prices of the listed securities by the total number of their issued and outstanding shares (Adekunle, 2024; Acha & Akpan, 2019). The market capitalization is used as a measure of the depth of the market. It captures how well the stock market is able to mobilize resources for economic purposes (Adekunle, Akinrinola, & Salaudeen, 2025; Oladigbo et al., 2025).

Value Traded (VT): Value traded is one of the factors used to measure the overall market activity in terms of total amount of money worth stocks traded in a certain period. If there is high value traded, this indicates that there is a high degree of participation by investors in the stock market activities, which leads to efficient mobilization of resources, which then translates into economic growth (Dibor-Alfred, Somoye, & Ozdeser, 2023).

Number of Listed Companies (NLC): Number of listed companies is one of the stock market indicators that measure the size of the stock market. A large number of listed companies indicates a large number of investment opportunities available, thus enhancing mobilization of resources (Omotayo & Ajao, 2024; Adegoke, Eggon, & Ajidani, 2025). This factor plays a vital role in the analysis of Nigerian stock market in relation to economic growth (Adekunle, 2024; Olusegun & Ajao, 2024).

Turnover Ratio (TR): The turnover ratio is the ratio of the transaction value to market capitalization. The turnover ratio serves as a measure of the market's efficiency and liquidity, reflecting the frequency at which stocks are traded relative to market size (Dibor-Alfred, Somoye, & Ozdeser, 2023; Okey-Nwala & Iwedi, 2024). The higher turnover ratio implies that the market is efficient and liquid because investments are made more effectively to stimulate economic growth (Zakari & Mohammed, 2025).

All the four factors discussed above provide a complete overview of capital markets' performance in terms of size, activity, depth, and efficiency. Their relationship with economic growth allows us to understand the significance of the capital market on economic growth in Nigeria.Collectively, these indicators represent different dimensions of stock market development and their potential transmission to economic growth. Market capitalization captures market size and capital formation capacity, value traded reflects liquidity and investor participation, turnover ratio measures market efficiency and trading velocity, while the number of listed companies represents market depth and financial inclusion. Through these channels,

stock market development can influence economic growth by improving capital allocation efficiency, facilitating investment, and enhancing productivity. However, the strength of these transmission mechanisms depends on institutional quality, market depth, and the extent to which financial activity translates into real sector investment.

Theoretical Review

Financial Development Theory refers to an economics concept developed by McKinnon in 1973. This concept claims that efficient financial systems are significant factors that lead to economic development through effective mobilization and allocation of financial resources for productive use. Efficient financial markets, including stock markets, according to the theory, help in converting savings into investment, thereby generating capital and economic growth (Levine, 2005; McKinnon, 1973).

The following indicators can be used in measuring financial development in Nigeria: Market Capitalization (MCAP), Value Traded (VT), Number of Listed Companies (NLC), and Turnover Ratio (TR) (Adamu & Sanni, 2023). High market capitalization indicates the capability of stock markets in allocating capital to firms. High value traded and turnover ratio indicate the degree of dynamism and liquidity in the market that results in capital efficiency. Also, a high number of listed companies indicates the coverage of the market that leads to allocation of capital to various sectors of the economy (Adenuga, 2020).

This theory suggests that there is a positive relationship between the development of financial markets and economic growth. According to the hypothesis, effective and vibrant financial markets can assist in reducing the cost of capital, enhancing investments, and fostering innovations that drive economic growth. In the case of Nigeria, the Financial Development Theory assists in understanding the connection between the stock market performance and GDP growth in the country (Levine, 2005; Adamu & Sanni, 2023).

Financial Development Theory posits that well-functioning financial markets promote economic growth by efficiently mobilizing savings, allocating capital to productive investments, and facilitating risk diversification (McKinnon, 1973; Levine, 2005). Under this framework, indicators such as market capitalization are expected to exert a positive influence on economic growth by expanding firms' access to long-term financing.

However, the negative short-run effect of market capitalization observed in this study does not contradict the theory but rather reflects institutional and structural realities within the Nigerian financial market. In emerging economies like Nigeria, increases in market capitalization may be driven more by price volatility, speculative trading, and macroeconomic instability than by real expansion in productive investment. As a result, market capitalization may rise without a corresponding increase in capital formation or output growth.

This suggests a partial breakdown in the transmission mechanism proposed by Financial Development Theory, where financial deepening does not fully translate into real sector development due to weak institutional quality, limited investor protection, and shallow market

structures. Therefore, the theory remains valid, but its effectiveness is contingent on the presence of strong financial institutions and efficient capital allocation mechanisms.

Financial Development Theory provides a coherent framework for understanding how stock market development influences economic growth through multiple channels. In this study, market capitalization (MCAP) represents the size of the financial system and its capacity to mobilize savings into productive investment. Value traded (VT) captures the liquidity function of the stock market, which reduces transaction costs, enhances price discovery, and improves the efficiency of capital allocation.

Turnover ratio (TR) reflects the efficiency of the financial market by measuring the frequency of trading relative to market size. A higher turnover ratio indicates faster reallocation of financial resources, improved market responsiveness, and greater investor participation, all of which are essential for dynamic capital accumulation and economic growth.

The number of listed companies (NLC) represents the breadth and inclusiveness of the financial market. It reflects the extent to which firms across different sectors can access equity financing, thereby improving diversification opportunities for investors and expanding the flow of capital into the productive sectors of the economy. Collectively, these indicators operationalize the key dimensions of financial development size, liquidity, efficiency, and depth through which financial markets are expected to influence economic growth.

While recent empirical studies on Nigeria dominate the literature on stock market development and economic growth, the broader theoretical foundation of the finance–growth nexus is rooted in seminal contributions beyond McKinnon (1973) and Levine (2005). Early works such as Schumpeter's view on financial intermediation emphasize the role of financial markets in driving innovation and productivity, while subsequent theoretical developments highlight the importance of liquidity, risk diversification, and efficient capital allocation in fostering economic growth.

However, much of the recent Nigeria-focused literature tends to rely heavily on short-run empirical estimations without sufficiently engaging with these foundational theories, leading to a gap between theoretical expectations and empirical applications. This study bridges that gap by grounding its analysis in established financial development theory while empirically testing a broader set of stock market indicators.

Empirical Review

Empirical studies on the relationship between stock market development and economic growth in Nigeria have produced mixed and sometimes contradictory findings. Some studies report a positive and significant relationship, while others find weak, insignificant, or context-dependent effects. For instance, Adekunle, Akinrinola, and Salaudeen (2025) found that market capitalization and value traded positively influence economic growth using an ARDL approach. Similarly, Oladigbo et al. (2025) and Dibor-Alfred, Somoye, and Ozdeser (2023) report that improvements in market liquidity and depth significantly enhance GDP growth, suggesting that stock market development supports long-run economic performance.

However, contrasting results have also been documented. Okey-Nwala and Iwedi (2024) observed that although stock market liquidity has a positive effect on growth, the magnitude is weak and varies across time periods. In addition, Adegoke, Eggon, and Ajidani (2025) found that while market capitalization and turnover ratio may positively influence growth, the number of listed firms often shows no significant impact.

These inconsistencies in findings can be attributed to several methodological and contextual differences across studies. First, many studies rely on different proxies for stock market development, with some focusing solely on market capitalization while ignoring liquidity, breadth, and efficiency indicators. Second, variations in econometric techniques (such as OLS, VAR, and ARDL models) produce different short-run and long-run interpretations. Third, differences in time periods and data frequency also contribute to inconsistent results, as Nigeria's financial market has experienced structural changes, policy reforms, and periods of high volatility over time. Finally, some studies fail to incorporate multiple indicators simultaneously, leading to model misspecification and incomplete measurement of stock market development.

Given these limitations, there remains no clear consensus on how stock market development influences economic growth in Nigeria. This justifies the need for a more comprehensive and multidimensional approach that jointly considers market capitalization, value traded, number of listed companies, and turnover ratio in explaining economic growth.

The relationship between stock market development and economic growth has been extensively examined in both developed and emerging economies, producing mixed but informative evidence. Early theoretical and empirical contributions by Levine (2005), King and Levine (1993), and Rajan and Zingales (1998) emphasize that financial markets promote growth by improving capital allocation, reducing information asymmetry, and enhancing investment efficiency. Similarly, Beck and Demirgüç-Kunt argue that the growth effects of financial markets depend on institutional quality, regulatory effectiveness, and market depth rather than market size alone.

In emerging economies, empirical evidence remains mixed. While several Nigeria-specific studies highlight positive effects of stock market indicators on growth, the magnitude and significance of these effects vary depending on methodology, time period, and selected proxies. This variation is consistent with global findings, which suggest that financial market development contributes to growth only when supported by strong institutions, investor protection, and efficient market structures.Therefore, the mixed evidence in Nigeria reflects a broader international debate rather than an isolated phenomenon, reinforcing the need for multidimensional measurement of stock market development.

Gap in Literature

Although extensive empirical studies have examined the relationship between stock market development and economic growth, the findings remain inconsistent and inconclusive. While some studies report that stock market development enhances economic growth through improved

capital mobilisation and liquidity, others find weak, insignificant, or mixed effects depending on the indicators and methodologies used (Olubiyi, 2023; Okey-Nwala & Iwedi, 2024; Adegoke et al., 2025). This inconsistency suggests that the finance growth relationship is not yet fully resolved, particularly in developing economies such as Nigeria.

A further limitation in the existing literature is the over-reliance on market capitalization as the primary proxy for stock market development. Many studies have focused narrowly on MCAP, thereby overlooking other important dimensions such as market liquidity (VT), market breadth (NLC), and market efficiency (TR). As a result, earlier findings may provide an incomplete picture of how stock market development influences economic growth.

In addition, most existing studies tend to examine stock market development using a limited set of indicators or single-dimensional models, which restricts the ability to capture the full complexity of financial market performance. There is therefore a need for a multidimensional approach that jointly considers MCAP, VT, NLC, and TR in explaining economic growth dynamics.

Against this background, this study contributes to the literature by addressing these gaps through the use of a comprehensive set of stock market development indicators and by providing evidence on their combined effect on economic growth in Nigeria. This approach moves beyond the narrow focus on market capitalization and offers a more holistic understanding of the stock market–growth nexus.

3.0 Methodology

This study adopts a quantitative research design to examine the relationship between stock market development indicators and economic growth in Nigeria. The study employs a time-series econometric approach to analyze annual data for the period 2000–2025. The use of time-series data is appropriate because the variables of interest market capitalization, value traded, number of listed companies, turnover ratio, and real GDP grow thare macroeconomic in nature and vary over time within a single economy.

Data for the study were obtained from secondary sources, including the Central Bank of Nigeria Statistical Bulletin, the Nigerian Exchange Group, and the World Bank database. The data were analyzed using descriptive statistics, correlation analysis, unit root tests, and the Autoregressive Distributed Lag (ARDL) bounds testing approach to determine both short-run and long-run relationships among the variables.

Model Specification

This study adopts a time-series ARDL modelling framework to examine the impact of stock market development indicators on economic growth in Nigeria. The ARDL approach is suitable because it allows for the estimation of both short-run and long-run dynamics irrespective of whether variables are integrated of order I(0) or I(1).
The empirical model is specified as:

$$RGDP_t = \beta_0 + \beta_1 MCAP_t + \beta_2 VT_t + \beta_3 NLC_t + \beta_4 TR_t + \varepsilon_t$$

Where:

$RGDP_t$ = Real GDP growth rate at time t
$MCAP_t$ = Market capitalization
VT_t = Value traded
NLC_t = Number of listed companies
TR_t = Turnover ratio
ε_t = error term

Table 1
Variables and Measurement (Revised consistency version)

Variable	Measurement	Description
RGDP	Annual % growth rate of real GDP	Dependent variable
MCAP	Total market value of listed equities	Market size indicator
VT	Total value of shares traded	Market liquidity indicator
NLC	Number of listed companies	Market breadth indicator
TR	Value traded / market capitalization (%)	Market efficiency indicator

Source: Authors compilation, 2026.

Estimation Technique

The study employs the Autoregressive Distributed Lag (ARDL) bounds testing approach to examine both short-run and long-run relationships among the variables. The ARDL model is appropriate for small samples and mixed integration orders (I(0) and I(1)), making it suitable for annual Nigerian macroeconomic data.

4.0 Data Analysis

Analysis of Descriptive Statistics on financial market indices and economic growth.

Table 2

Summary of Descriptive Statistics

	GDPG	MCAP	VT	NLC	TR
Mean	4.259723	14995.51	1116.277	203.3462	11.75821
Median	4.066750	13265.40	725.5500	202.0000	11.94005
Maximum	10.44560	36500.90	3600.800	220.0000	16.84560
Minimum	-1.794300	472.5000	28.40000	186.0000	5.923100
Std. Dev.	2.759301	11272.34	1072.670	7.678241	3.013431

Source: E-views.9 (2026).

From the table above, it is apparent that the mean GDPG is 4.26%, representing moderate growth, with values fluctuating between -1.79% and 10.45%. The values for the MCAP and VT indices have considerable variation, with the mean value for MCAP being ₦14,995.51 billion and for VT being ₦1,116.28 billion. NLC had an almost constant value around 203, while TR had a value of 11.76%.

Analysis of correlation matrix on financial market indices and economic growth.

Table 3

Summary of Correlation Analysis

	GDPG	MCAP	VT	NLC	TR
GDPG	1.000000				
MCAP	-0.512719	1.000000			
VT	-0.446311	0.776428	1.000000		
NLC	0.356248	0.167526	0.226779	1.000000	
TR	-0.331424	0.514770	0.660886	0.396800	1.000000

Source: E-views.9 (2026).

GDPG has a negative correlation with MCAP (-0.51), VT (-0.45), and TR (-0.33), but a positive one with NLC (0.36). The MCAP and VT variables show a strong positive correlation (0.78), whereas TR has moderate positive correlations with MCAP (0.51) and VT (0.66). NLC has relatively low positive correlations with all indices.

Table 4.

Unit Root Test (ADF Test at Level)

Parameter	ADF Test Statistic	Test Critical Value @ 5%	Prob.*
GDPG	-2.247913	-2.973421	0.1987
MCAP	-1.892476	-2.973421	0.3345
VT	-2.156308	-2.973421	0.2239
NLC	-2.518642	-2.973421	0.1276
TR	-2.301754	-2.973421	0.1874

Source: E-views.9 (2026).

Table 5.

ADF Test at First Difference (I(1))

Parameter	ADF Test Statistic	Test Critical Value @ 5%	Prob.*
GDPG	-5.874231	-2.976823	0.0000
MCAP	-5.463812	-2.976823	0.0002
VT	-6.215947	-2.976823	0.0000
NLC	-5.092376	-2.976823	0.0001
TR	-4.985621	-2.976823	0.0001

Source: E-views.9 (2026).

All variables (GDPG, MCAP, VT, NLC, TR) are non-stationary at level, because the values of ADF statistics are smaller than the critical value and p-values > 0.05. After the first difference, all variables become stationary, suggesting that they are I(1).

ARDL Bounds Test

Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	2.831666	4

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: E-views 9. (2026).

The ARDL Bounds Test results indicate an F-statistic value of 2.8317, which is lower than the 5% upper bound critical value. This implies that the null hypothesis of no long-run relationship cannot be rejected. Therefore, there is no evidence of cointegration among the variables at the 5% significance level. Given this result, the analysis is limited to the short-run dynamics of the model. Consequently, interpretation of long-run coefficients is not appropriate within the context of this study, as a stable long-run equilibrium relationship has not been statistically established.

However, the estimated model includes an error correction term (CointEq (-1)), which is negative and statistically significant (-1.0433, p = 0.0005). This result indicates that although a long-run cointegrating relationship is not confirmed by the Bounds Test, short-run deviations in the system adjust relatively quickly toward equilibrium. The magnitude of the coefficient suggests a strong speed of adjustment, meaning that approximately 104% of short-run disequilibrium is corrected within one period.

Therefore, the findings of this study should be interpreted as evidence of short-run dynamic relationships rather than long-run equilibrium effects between stock market development indicators and economic growth in Nigeria.

Heteroskedasticity Test: Breusch-Pagan-Godfrey

Test Statistic	**Probability**
Prob. F(9,12)	0.9360
Prob. Chi-Square(9)	0.8655
Prob. Chi-Square(9)	0.9991

Source: E-views 9. (2026).

The Breusch-Pagan-Godfrey test shows p-values > 0.05, indicating no heteroskedasticity.

Regression Result

Short Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(MCAP)	-0.000996	0.000496	-2.006301	0.0593
D(VT)	0.006016	0.003434	1.751792	0.0959
D(NLC)	-0.023868	0.117522	-0.203096	0.8412
D(TR)	1.227243	0.776110	1.581275	0.1303
CointEq(-1)	-1.043272	0.250581	-4.163413	0.0005

R-squared	0.837439
Adjusted R-squared	0.773372
F-statistic	61.22323
Prob(F-statistic)	0.000000
Durbin-Watson stat	2.166344

Source: E-views 9. (2026).

This regression shows the model's ability to explain the changes in GDPG. This is seen from the values of $R^2 = 0.84$, Adjusted $R^2 = 0.77$. The significance of the model is proved by F-statistic = 61.22 ($p < 0.001$). There is no autocorrelation in the regression, because the Durbin-Watson statistics is equal to 2.17.

Discussion of Results

The relationship between stock market development indicators and economic growth in Nigeria is better understood through their transmission mechanisms rather than statistical signs alone. Market capitalization (MCAP) is expected to enhance economic growth by enabling firms to raise long-term capital for productive investment. However, in Nigeria, increases in MCAP often reflect price revaluation and speculative activity rather than expansion in real productive capacity. This limits its effectiveness in driving output growth and helps explain the observed marginal short-run negative effect.

Value traded (VT) operates through the liquidity channel by improving market activity, reducing transaction costs, and enhancing price discovery. These functions facilitate more efficient allocation of capital and support investment decisions. Nevertheless, its weak statistical significance suggests that liquidity in the Nigerian stock market remains insufficiently deep to generate strong spillover effects on real economic activity. Turnover ratio (TR), which measures trading activity relative to market size, reflects market efficiency and the speed of asset reallocation. A higher turnover ratio typically signals a more active market that supports investor participation and portfolio adjustment. However, the weak impact observed in this study

indicates structural inefficiencies and limited participation by long-term institutional investors, which constrain its contribution to economic growth.

The number of listed companies (NLC) represents market breadth and the degree of investment opportunities available in the capital market. While theory suggests that a larger listing base should improve access to capital and diversification, evidence from Nigeria indicates that listing expansion does not necessarily translate into productive or high-performing firms, thereby limiting its growth effect.Overall, the results suggest that although stock market development is present in Nigeria, its contribution to economic growth remains constrained by structural weaknesses such as low investor confidence, shallow market depth, and speculative trading behavior. These conditions weaken the transmission from financial market development to real sector expansion.

Empirically, MCAP has a marginal negative short-run effect on GDP growth, with a coefficient of -0.000996 and a p-value of 0.0593. This suggests that increases in market capitalization may reflect valuation distortions or short-term market corrections rather than real economic expansion. This finding is consistent with Olubiyi (2023), who argues that stock market growth in Nigeria does not always translate into immediate economic gains due to structural inefficiencies, but contrasts with Adegoke, Eggon, and Ajidani (2025) and Oladigbo et al. (2025), who report positive effects.

VT has a positive but statistically insignificant effect on GDP growth ($\beta = 0.006016$, $p = 0.0959$), indicating that while trading activity supports economic performance through liquidity improvements, its effect remains weak in the short run. This aligns with Okey-Nwala and Iwedi (2024) and Dibor-Alfred, Somoye, and Ozdeser (2023), who emphasize the growth-enhancing role of liquidity, albeit with limited magnitude in developing markets.Similarly, NLC shows a negative and insignificant relationship with GDP growth ($\beta = -0.023868$, $p = 0.8412$), suggesting that an increase in listed firms does not automatically improve economic performance. This supports Alajekwu and Achugbu (2011) and is consistent with recent evidence by Adegoke et al. (2025), which finds weak effects of market breadth on growth.

TR exhibits a positive but insignificant effect on GDP growth ($\beta = 1.227243$, $p = 0.1303$), implying that improvements in trading efficiency may support economic activity, although the relationship is not statistically strong in the short run. This finding is consistent with Acha and Akpan (2019) and Oladigbo et al. (2025), who report similar weak but positive efficiency-growth relationships. The error correction term is negative and highly significant (-1.043272, $p = 0.0005$), indicating a rapid adjustment toward short-run equilibrium following shocks. This suggests that while a stable long-run relationship is not established, short-run disequilibria are corrected quickly, consistent with Dibor-Alfred, Somoye, and Ozdeser (2023).

In summary, the findings indicate heterogeneous effects across stock market indicators: MCAP shows a weak negative influence, VT and TR exhibit positive but limited effects, while NLC remains largely insignificant. Overall, the evidence suggests that the Nigerian stock market

influences economic growth primarily through short-run financial dynamics, with its effectiveness constrained by structural and institutional limitations rather than market size alone.

5.0 Conclusion and Recommendation

This study examined the relationship between stock market development indicators (market capitalization, value traded, number of listed companies, and turnover ratio) and economic growth in Nigeria over the period 2000-2025. Using the Autoregressive Distributed Lag (ARDL) approach, the study found that the variables are integrated of order I(1), but the Bounds Test indicates that there is no evidence of a long-run cointegrating relationship among the variables.

Consequently, the analysis is restricted to the short-run dynamics of the model. The results show that market capitalization has a negative and marginally significant effect on economic growth, while value traded and turnover ratio exhibit positive but statistically weak effects. The number of listed companies shows no significant relationship with economic growth. The error correction term is negative and significant, indicating a relatively fast speed of adjustment to short-run equilibrium, but this does not confirm long-run equilibrium.

Overall, the findings suggest that stock market development in Nigeria influences economic growth mainly through short-run dynamics, and its impact depends more on market activity and efficiency than on market size.

Recommendations

Based on the empirical findings, the following policy recommendations are made:

1. **Enhance market liquidity and trading activity**: Since value traded shows a positive relationship with economic growth, policies should focus on improving trading activity through investor participation, reduced transaction costs, and improved market accessibility.
2. **Strengthen market efficiency and transparency:** The positive effect of turnover ratio suggests that a more efficient and liquid market supports economic activity. Regulatory bodies should improve transparency, information disclosure, and trading systems to enhance market efficiency.
3. **Review structural issues affecting market capitalization impact:** The negative effect of market capitalization suggests that increases in market size do not automatically translate into economic growth in Nigeria. Policymakers should ensure that growth in market capitalization reflects real productive investment rather than speculative activity or valuation distortions.
4. **Deepen capital market participation through reforms:** Efforts should focus on increasing the quality rather than only the quantity of listed firms, as the number of listed companies was found to have no significant effect on economic growth.

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