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RELATIVE CONTRIBUTIONS OF THE NIGERIAN CAPITAL MARKET TO THE GROWTH OF EXTERNAL RESERVES (2005-2014)

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-Abstract-

Virtually all aspects of human endeavour entail the use of money either self generated or borrowed. In capital market, the stock in trade is money which could be raised through various instruments under well governed rules and regulations carefully administered and followed by different institutions or market operators .External reserves constitute an integral part of the wealth of the nation such that the lack of it brings worry to most nations and can limit the ability of the country to make foreign currency denominated payments and limits its spending abroad. Hence, countries are induced to hold reserves to allow monetary authorities to intervene in markets to control the exchange rate and inflation. Adequate reserves also allow the country to borrow from abroad and to hedge against instability and uncertainty of external capital flows. Therefore, the objective of this paper is to access the relative contribution of the Nigerian capital market if any to the growth of her external reserve. The methodology used is purely descriptive and narrative and the data used is secondary. The evidence provided in the study based on the statistical analysis, revealed that the Nigerian capital market can induce the growth of external reserve but it has not contributed to the growth of external reserve in Nigeria. Furthermore, the study recommended among others the need for availability of more investment instruments such as derivatives, futures, swaps, options in the market and the expansion of the Nigerian capital Market by the government creating an enabling investable environment that will increase both the volume of transactions and number of securities traded in the market. This will improve their ability to mobilize resources and efficiently allocate them to the most productive sectors of the economy hence, contributing its portion to the growth of her external reserve.

Keywords: *Nigerian Capital Market, External Reserves, Growth, Country, Economy.*

JEL Classifications: G10, G15

1. INTRODUCTION

All through the ages, the bedrock of economic thinking has been on how economies can grow. An area in which the search for such patterns goes unabated is in the investment arena which has recently been identified as a crucial engine of economic transformation. The dearth of long-term capital especially in the developing countries like Nigeria makes the capital market indispensable. Capital market is an integral part of the financial system that provides an efficient delivery mechanism for mobilization and allocation, management and distribution of long-term funds Alile & Anao (1990). It is a network of financial institutions and infrastructure that interacts to mobilise and allocate long-term funds for the economy. Hence, capital market is the prime motor that drives any economy on its path to growth and development because it is responsible for long-term-growth capital formation Osaze, (2000) Capital market is that part of the financial system that is involved in providing long-term funds for productive use. Capital market facilitates the buying and selling of securities such as shares and bonds, hence, they perform two functions, liquidity and pricing of securities (Pandy, 2010). The capital market as an institutional framework is derived from the concept of use funds, to finance its development requirements (Akinsulire 2004). Capital market provides a bridge by which the savings of surplus unit may be transformed into long term investments of deficit units. Todaro (2004) opines that, for investment to see an economy through the growth path, concerted commitment of the government and private sector is required to raise the savings rate, generate capital and provide an enabling environment where investment can thrive. That is to say, growth in emerging economies is a function of increased capital formation. However, there exist a huge gap between the required capital and the locally mobilized ones in developing countries. To bridge this gap, these countries have turned to the outside world to provide the required capital. This is where the capital market, dealing in longer-term financial contracts is indispensable, being that it enhances employment generation through the development of export oriented industries, improves balance of payment position, increase foreign exchange earnings thereby enhancing the growth of external reserve of a given economy. External reserves are variously called International Reserves, Foreign Reserve or Foreign Exchange Reserves. While there are several definitions of international reserves, the most widely accepted is the one proposed by the IMF in its Balance of Payments Manual, 5th edition. It defined international reserves as consisting of official public sector foreign assets that are readily available to, and controlled by the monetary authorities for direct financing of payment imbalances, and directly regulating the magnitude of such imbalances, through intervention in the exchange markets to affect the currency exchange rate and/or for other purposes (CBN 2007). Evidence indicates that the origins of growth in external reserve differ across countries. In Latin America, a persistent current account deficit was balanced by a current account surplus for most of the last decade. Larger capital account surpluses helped some countries such as Brazil and Venezuela to accumulate reserves. Since the 1997 crisis, East Asia has run capital account deficits and continuous current account surpluses, except for China that maintained twin surpluses (UN-DESA, 2007). In Nigeria, over 85 per cent of foreign exchange reserves is realised from the oil sector. There are five categories of revenue from crude oil production and sales notably: Direct Sales (NNPC), Petroleum Profit Tax (Oil Companies), Royalties, Penalty for Gas Flaring, and Rentals. Other sources of external reserves in Nigeria includes: earnings from net export of goods and services as well as home remittances of nationals living abroad, foreign investments by foreigners in the home country is also a source of reserve accumulation. The net of international transactions, inflow and outflows of foreign exchange also adds to the stock of external reserve when the former exceeds the latter. (Obaseki , 2007)

Thus, the question to be asked is "does capital market have any relative contributions to the growth of external reserve of the Nigerian economy". Hence, this research work tends to find the answers to the above question by looking at the sources of the Nigerian external reserve inflow, the performance of the Nigerian capital market, the role of the Nigerian capital market in economic development and the relative contributions of the Nigeria's capital market to the growth of external reserve. The study is organised into 5 sections: Section 1 presents the introduction. Section 2 is the conceptual framework. The methodology and data analysis are presented in Sections 3 and 4, respectively while conclusion and policy recommendations are addressed in section 5

2. CONCEPTUAL FRAMEWORK

According to Al-Faki (2006), the capital market is a "network of specialized financial institutions, series of mechanisms, processes and infrastructures that, in various ways, facilitate the bringing together of suppliers and users of medium to long term capital for investment in socio-economic developmental projects". A capital market is a market for long term debt and equity securities, where business enterprises (companies) and governments can raise funds for long term investment. It is normally divided into two broad categories – the stock market and the bond market.

The stock market is the market where equity securities such as stocks, representing ownership shares in particular corporations issuing the securities, are traded. These instruments are usually issued by big corporations and promise a return (in the form of dividends) based solely on performance of the issuing corporation. In addition, investors can gain from appreciation of stock prices. The stock securities are usually listed and traded on stock exchanges – corporations or mutual organizations which provide trading facilities for stock brokers and traders. Stock exchange provides facilities for issue and redemption of securities as well as other financial instruments and capital events including payment of income and dividends. They are sometimes referred to as securities exchange to reflect these broad functions. Securities that are traded on a stock exchange include: shares issued by companies, unit trusts, derivatives, pooled investment products and bonds. To be able to trade a security on a certain stock exchange, it has to be listed there.

On the contrary, bond market comprise of long-term borrowing or debt instruments such as treasury notes and bonds, corporate bonds, mortgage securities etc. Most of these instruments promise to pay either fixed streams of income or a stream of income that is determined according to a specific formula over its entire life and return face value upon maturity. As such, they are usually called fixed-income capital market instruments. Typical issuers of bonds include government agencies as well as private corporations.

The capital market is divided into the primary and the secondary market. The primary market or the new issues market provides the avenue through which government and corporate bodies raise fresh funds through the issuance of securities which is subscribed to by the general public or a selected group of investors. The secondary market provides an avenue for sale and purchase of existing securities. Sule and Momoh (2009) found that the secondary market activities have impacted more on Nigeria per capita income by tending to grow stock market earnings through wealth than the primary market.

2.1 The Role And Contributions Of The Nigerian Capital Market To The Economy, Towards The Growth Of External Reserve

The capital market is very vital to the growth, development and strength of any country because it supports government and corporate initiatives, finances the exploitation of new ideas and facilitates the management of financial risk. The rate of economic growth has been linked to the sophistication of the financial market and capital market efficiency. Both markets facilitate the mobilization and channelling of funds into productive constituents and ensuring that the funds are used for the pursuit of socio-economic development without being idle (Akinbohungbe1996; Adebiyi 2005) From 1961, the Nigerian capital market has grown tremendously, particularly during the periods of the indigenization decrees of 1972 and 1977. The securities increased from 8 in 1961 to about 301 in 2008. Over the years, the Nigerian capital market has witnessed relatively stability and also recorded impressive growth. This has positioned it to positively impact the economy. There is clear evidence that the capital market remained an important source of capital for the nation's economic development in financing infrastructural projects, the privatization programme of the government and banking sector recapitalization in Nigeria among others. Sule and Momoh (2009) conclude that the 2005 consolidation exercise of major financial institutions and privatization exercise of most publicly owned enterprises are key indications of government faith in the capital market to drive growth of the Nigerian economy. The role of capital market in the development of the economy includes;

It provides opportunities for companies to borrow funds needed for long-term investment purposes:

There is no gainsaying that capital market is a critical pillar to long term fund mobilisation needed for capital formation to fast track economic growth and development. The short term funding profile of the money market makes it unsuitable for project infrastructure investment hence the capital market which creates an enabling environment for the generation of long-term financing and active private sector participation in infrastructure development. In addition, the capital market provides variety of financing instruments and investor categories which could lead to larger pool of funds than other financing options. The capital market is the market for securities, where companies and governments can raise long term funds. The main function of the capital market is to channel investments from the investors who have surplus funds to the investors who have deficit funds. The funding requirement of corporate bodies and government are often colossal, sometimes running into billions of naira. It is therefore, usually difficult for those bodies to meet such funding requirement solely from internal sources, hence they often look-up to the capital market. It's because the capital market is the ideal source as it enables corporate entities and government to pool monies from a large number of people and institutions.

It reduces the over reliance of the corporate sector on short term financing for long term projects and also provides opportunities for government to finance projects aimed at providing essential amenities for socio-economic development:

The Nigerian capital market has been a viable source of financing state and local government infrastructural projects through bond issuance. The first State to use the capital market was the defunct Bendel State which issued a ten year N20 million 7% Bendel State of Nigerian Loan Stock in 1978.The maturity was in 1988 (Okereke-Onyiuke 2000). Over the years, some States have gone to the capital market to source for funds to finance their developmental projects. For instance, Akwa-Ibom State raised N6 billion to finance infrastructural development, Delta State raised N5 billion to finance market, Health care, water and education and Edo State raised N1 billion to finance development of Ogba Riverside Housing Estate. Since then, there has been a consistent increase in the amount of bond issuance by the federal government, states and corporate bodies between 2004 and 2014, as shown in the Table.

Below is a Summary of Bonds raised by some state governments between year 2004 & 2014:

Table I: Analysis Of States That Have Accesses The Capital Market Between 2005 – 2014

S/N	State/Local Governments	Year Of Maturity	Year Of Issue	Amount ₦ 'M'	Level Of Subscription (%)	Coupon Rate	Project
1.	1st Akwa Ibom State Revenue Bond	2005/07	2005	6,000.00	100.00	19.5	To finance infrastructural development
2.	Kebbi State Revenue Bond	2006/07	2006	3,500.00	100.00	14.0	Kebbi State University of Science and Technology and Zauro poider irrigation

3.	Lagos State Government Bond – Series 1	2008/2013	2008	50,000.00	117.93	13.0	Re-financing of outstanding loans and financing of on-going projects.
4.	Imo State Government Bond – Series 1	2009/2016	2009	18,500.00	100.00	15.5%	Rehabilitation of its water schemes, rehabilitation & construction of its critical roads and equity investment in 'Imo Wonder Lake & Conference Centre, Oguta'.
5.	Kwara State Government Bond – Series 1	2009/2014	2009	17,000.00	100.00	14.0%	Kwara State Truck Plaza, International Aviation College, Asa Dam mixed use Development, New secretariat, Commercial agricultural projects, Kwara State University, Ilorin water distribution project, Agricultural Irrigation support project, Kwara advanced diagnostic centre, Loan re-financing.

6.	Niger State Government Bond	2009/2014	2009	6,000.00	100.00	14.0%	Rehabilitation of roads in Minna Metropolis and Industrial Layout and construction of roads in seven (7) other locations within the state.
7.	Lagos State Government Bond – Series 2	N/A	2010	57,500.00	100.00	13.75%	Re-financing of outstanding loans and financing of on-going projects
8.	Bayelsa State Government	2010/2017	2010	50,000.00	100.00	13.75%	Repayment of existing obligations owed Equatorial Bank, Bank PHB, Intercontinental Bank, First Bank of Nigeria, Multilateral Debts and World Bank.
9.	Kaduna State Government	2010/2015	2010	8,500.00	100.00	12.5%	To finance Zaria regional water supply (150 MLD treatment plant), Construction of 200 bed specialist hospital, Kaduna Millennium City, Kaduna, Construction of new government house office complex, Kaduna, Construction of Tum Madakiya

							road and construction of 4th bridge across River Kaduna and construction of Kafanchan Campus of Kaduna State University, Kaduna
10.	Ebonyi State Government	2010/2015	2010	16,500.00	100.00	13.0%	Repayment of outstanding bank facilities and financing the construction of Ebonyi State International Market, Abakaliki, Ebony State regional water schemes, Ebonyi roads and bridges of Unity and Ebonyi rice world project.
11.	Edo State Government	2010/2016	2010	25,000.00	100.00	14.0%	Refinancing total debt obligations and finance on-going infrastructural projects.
12.	Niger State Government	N/A	2011	59.28$	N/A	N/A	N/A
13	Benue State Government	N/A	2013	83.63$	N/A	N/A	N/A
14.	Ekiti State Government	N/A	2013	26.87$	N/A	N/A	N/A

15.	Osun State Government	N/A	2014	5.88$	N/A	N/A	N/A
16.	Lagos State Government	N/A	2014	500.66$	N/A	N/A	N/A

Source: Nigerian Capital Market Statistical Bulletin and African Securities Exchanges Association (Various Issues)

Table II: Analysis of companies that have accessed the capital market between 2005 - 2014

S/N	Company	Coupon Rate	Year Of Issue	Year Of Maturity	Amount ₦ 'M'	Features
1.	Access Bank Plc	1.5 (above 3 months LIBOR)	2005	2005/2013	1,900.00	Redeemable convertible loan stock
2.	Access Bank Plc	12.0% (and 2% spread)	2006	N/A	13,500.00	Convertible loan stock
3.	Crusader (Nig) Plc	12%	2008	2013	4,000.00	Convertible debenture stock
4.	Custodian & Allied Insurance Plc	Variable coupon	2008		1,170.00 (US$ 10 Million)	Redeemable Convertible debenture stock
5.	C & I. Leasing Plc	Variable coupon	2009	2014	2,240.00	Variable coupon
6.	UACN Property Development Co. Plc	10.0%	2010	2015	15,000.00	Fixed Rate Unsecured Non-convertible Bond
7.	United Bank for Africa Plc	14.0%	2010	2017	20,000.00	Fixed Rate Subordinated Unsecured Redeemable Non-convertible Bond
8.	Flours Mills Nigeria Plc–S1	12.0%	2010	2015	37,500.00	Series 1 Fixed Rate Senior Unsecured Bonds

9.	Chellarams Plc	14.0%	2010	2016	1,500.00	Series 1 Senior Unsecured Fixed Rate Bonds
10.	Tantalizers Plc (US$7.0 million)	Floating Rate	2010	2017	1,050.00	Floating Rate Loan stock
11.	AMCON	N/A	2011	N/A	11,197.47$	N/A
12.	DANA Group Plc	N/A	2011	N/A	52.76$	N/A
13.	Lafarge Cement Wapio Nig. Plc.	N/A	2012	N/A	76.40$	N/A
14.	International Finance Corporation	N/A	2013	N/A	75.10$	N/A
15.	Nigerian Aviation Handling Company	N/A	2013	N/A	11.02$	N/A
16.	Dana Group of Companies	N/A	2014	N/A	24.18$	N/A

***The capital market can aid the government in its privatization programme by offering her shares in the public enterprises to members of the public through the stock exchange*:**

The Nigerian Capital Market played a paramount role in the privatization of the State Owned Enterprises by giving creditability and transparency to the exercise.

Between 1989 and 2001, a total of N25.6 billion was realized from the exercise. Also, the shares of the SOEs were sold to Nigerians and associations in all local government through public offers.

It provides avenue for the marketing of shares and other securities in order to raise fresh funds for expansion of operations leading to increase in output/production:

The bank recapitalization exercise of 2005 clearly revealed the importance of the capital market, In fact, most of the banks in Nigeria were able to raise the required capital after going to the capital market through initial public offerings. Soludo (2006), reports that about $650 million was invested in the banking sector in 2005. Al Faki (2006) puts the figure that was raised from the capital market by banks to meet the minimum capital requirement of N25billion as over N406.4 billion. Also, the dual listing of Seplat Petroleum Development Company Plc on the NSE and London Stock Exchange (LSE) in April 2014 marked the first IPO in the Nigerian capital market since the market crash of 2008. Seplat Plc is the first Nigerian company listed on the Main Market of the London Stock Exchange (LSE), and the first pure play upstream oil and gas company listed on the Nigerian Stock Exchange (NSE).

Furthermore, capital market provides a means of allocating the nations real and financial resources between various industries and companies. Through the capital formation and allocation mechanism the capital market ensures an efficient and effective distribution of the scarce resources for the optimal benefit to the economy. Because, when the industries and companies grow, it enhances their industrial output and increases their ability to grow export. And when sustained, favourably balance of payment is achieved hence, the accumulation of external reserve. Also, a country with a sound industrial base which exports a substantial portion of her industrial output is not likely to suffer from seasonal fluctuations in exports, but this is not the case with most of the developing countries which export primary product (Ojukwu, 2012). Hence, external reserves are of great significance for countries like Nigeria which depend on the export of just a few commodities.

2.2 Analysis Of The Nigerian Capital Market Performance

The Nigerian capital market has performed relatively well in the area of bond issuance. Records show that the capacity of the market for raising long term funds have been put to test by the Jumbo offers of governments and corporate bodies which ran into several hundreds of billions of naira in value. The over subscription of most of these offers were instructive as they suggest that the market can finance many more viable projects. The Nigerian capital market is being positioned to play more significant role in economic development with far reaching reforms in the financial sector. Thus, The Nigerian capital market could be assessed as having performed fairly well despite the numerous challenges and problems some of which include the buy and hold attitude of Nigerians, massive ignorance of a large population of the Nigerian public, few investment outlets in the market, lack of capital market friendly economic policies and political instability, private sector led economy and less than full operation of recent developments like the Automated Trading System (ATS), Central Securities Clearing System (CSCS), On-line and Remote Trading, Trade Alerts and Capital Trade Points of the Nigerian Stock Exchange.

Total New Issues

The contribution of capital market to investment finance in any given period is measured in terms of the amount of fresh funds raised through new issues rather than volume of transactions or market capitalisation. (Nnanna, 2004). The total new issues were valued at N21.5 billion in 1996 but from the period under review, there existed a significant growth in the total new issue. It rose to N235.53billion in 2004 and N730.54billion in 2005. And it further crossed the trillion marks in 2006 being N1.65 trillion that year but fell to N279.25 billion in 2009 and hovered between 302.02billion in 2010 and 312.18billion in 2012. Despite its growing importance as a source of investment finance, capital market has contributed a relatively small portion to financing investment.

Market Capitalization

This is the most widely used indicator in assessing the size of a capital market to an Economy. In a bearish market the market capitalization falls and vice versa for a bullish market. Before 1988, the total market capitalization was less than N10 billion from 1988 to 1994. It hovered between N10 billion to N57 billion. In 2004 it was N2.1125 trillion and N5.121 trillion in 2006.The market capitalization recorded the highest value of N13.2294 trillion in 2007. But this fell to N9.562 trillion in 2008 due to the global financial meltdown. The market capitalisation is still low compared to other emerging markets.

Listed Securities

The total number of listed securities increased from 8 in 1961 to 276 in 2004, 287 in 2005, 288 in 2006 and 310 in 2007 and since then it keeps falling from 310 in 2007 to 266, 264 and 250 in 2009, 2010 and 2011 respectively. And fell further to 254 and 253 in 2013 and 2014. It would be observed that the total listed securities are still low despite over 50 years of the existence of the Nigerian Stock Exchange compared to other African countries like South Africa and Egypt among others.

Value of Transactions

From 1961 to1975, the annual value of the NSE was below N100 million. However, Over the years, the trading value crossed over N100 billion. In 2004, it was N225billion, N262billion In 2005 and N1.076 trillion, N1, 679trillion and fell to 799billion in 2007, 2008 and 2010 respectively. From 1961 to 1994, Government Stock dominated the market between 58.91% and 99.5% whereas from 1995 the industrial securities continue to dominate the market. Sources: Central Bank of Nigeria statistical bulletin and Nigeria Stock Exchange Fact book (various issues).

2.3 Challenges Of The Nigerian Capital Market

The Nigerian capital market, like any other national economy has been faced with many challenges and problems both endogenous and exogenous. Some of these problems are listed below:

- Small Size of the Market
- Problem of Illiquidity of the Market
- Slow growth of Securities Market
- Low level of credit provision to the private sector
- Problem of Manual Call-over
- Double Taxation
- Lack of Effective Underwriting
- Problem of Macro Economic Instability

3. METHODOLOGY

This section specifically focuses on the sources of data and method of data analysis adopted in accessing the relative contribution of the Nigerian capital market to her external reserve. The study adopts a descriptive and analytical technique for data analysis notably graphs with reliance on secondary data obtained from publications of the Central Bank of Nigeria (CBN), statistical bulletin and the Nigeria Stock Exchange annual reports and fact book of various years while others were obtained from academic journals, textbooks and websites. The data included capital market capitalisation, number of listed securities, total new issue and total value of transaction in the Nigerian capital market. The study covered the period of 2005 - 2014.

4. DATA PRESENTATION AND ANALYSIS

This section presents the data and results in descriptive and analytical analysis to bring the message clearer to policy makers, academics, scholars among other relevant stakeholders. The data encapsulates the important data which is related to the study. Table 4.1 represents the stated data such as Total New Issues (TNI), Market Capitalization (MCAP) and Value of Transaction (VTS) and number of listed companies at the Nigerian Stock Exchange spanning from 2005-2014

Table 4.1 Total New Issues (TNI), Market Capitalization (mcap) and Value of Transactions (VTS) at the Nigerian capital market for 2004-2014

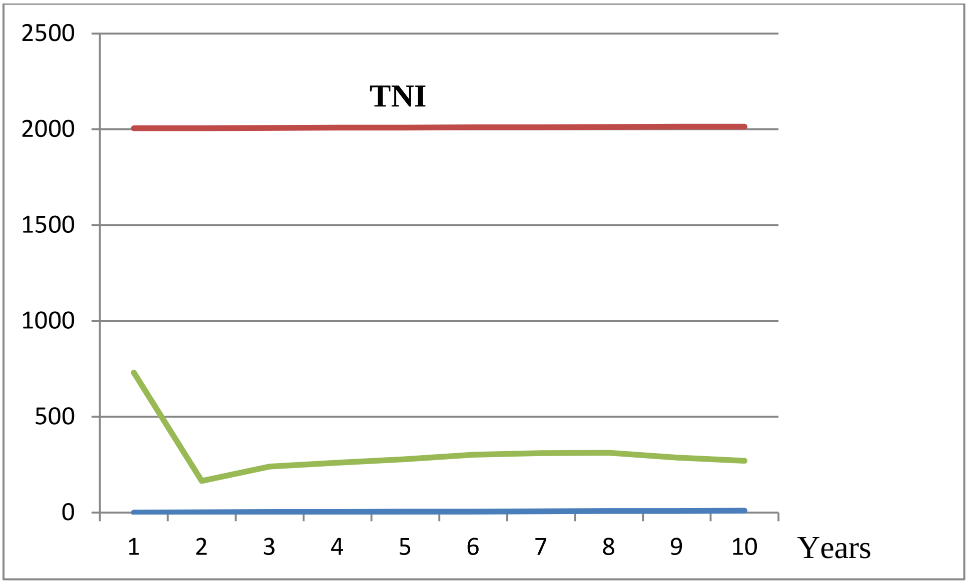
Table 4.1: Capital market performance data

S/N	Year	(₦' Million) Market Capitalization	Number Of Quoted Firms	(₦' Million) Total Value Of Transaction	(₦'billion) Total (New Issue
1.	2005	2,900.10	214	262,935.80	730.54
2.	2006	5,121.00	301	470,253.40	165.00
3.	2007	13,294.60	299	1,076,020.40	240.00
4.	2008	9,563.00	266	1,679,143.70	260.00
5.	2009	7,030.80	262	685,716.20	279.25
6.	2010	9918.2	247	799,910.9	302.02
7.	2011	9,672.7	214	638,925.7	310.89
8.	2012	14,800.9	191	808,994.3	312.18
9.	2013	19,080,000	190	95100.60	286.76
10.	2014	16.880,000	189	79800.00	271.05

Sources: Nigerian Stock Exchange Fact book &CBN Statistical Bulletin. (Various issues)

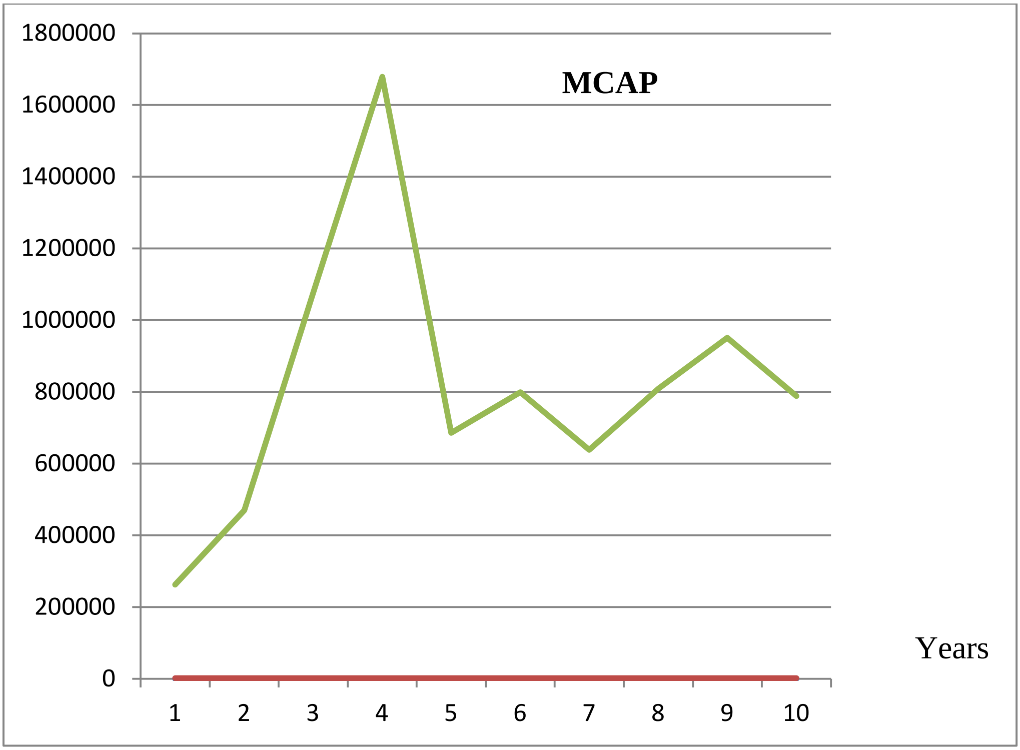
Considering the activities of stock exchange market, it is observed that the market witnessed a tremendous and significant increase in the year 2005. There was an obvious growth in the total new issues because the year; 2005 had N730.54 Billion while the other years; 2006, 2007, 2008 and 2009 witnessed issues of N1.65 trillion, N2.4 trillion, N2.6 trillion and N279.25 trillion respectively. More so, in the years 2010, 2011 and 2012 up to 2014, it was seen to progressively rising from N302.02 trillion to N310.89 trillion to N312.18 trillion respectively. However, there was a continuous growth in the market capitalization from 2005-2007. It later dropped from N9, 563 Billion to N7, 030.80 Billion in 2008 and 2009. In the year, 2010, market capitalization increased to N9, 918.2 Billion. However, there was a slight drop to N9, 672.7 Billion in year 2011. There was a tremendously increase to N14, 800.9 Billion in the year 2012. Hence it increased further from 14.800billion to 19.08trillion in 2013 and fell to 16.88trillion in 2014 as shown in the table. The values of transactions at the Nigerian stock exchange were increasing before the year 2005. Though, it fell to 470.253million in 2006. There was a speedy growth from 2007-2008. There came a drop in the value in 2009. However, in 2010, 2011 till 2014, there was a rise, fall and rise trend respectively as it can be seen from table 4.1

Fig. 4.1



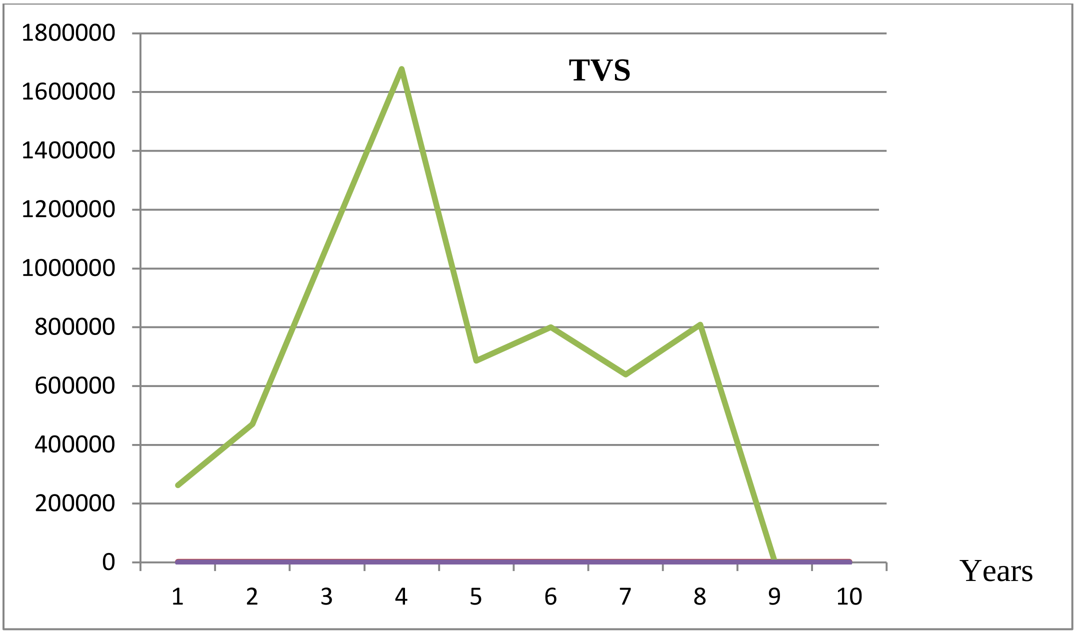
It can be seen from table 4.1 that there was small increase in the total new issues. The growth of TNI trended high to a peak in 2005 but witnessed a sharp decrease in 2006. However, there were fluctuations in the trend from 2008 to 2014.

Fig. 4.2



Obviously, the increase in the market capitalization is supposed to bring about positive changes in the capital market. The market sustained a continuous growth with respect to the capitalization but witnessed a decrease in 2008 which had N9, 563 while 2009 had N7, 030.80 Billion. However, there was a slight drop to N9, 672.7 Billion in year 2011. There was a tremendously increase to N14, 800.9 trillion and 19.08trillion in the year 2012 and 2013 respectively but fell to 16.88trillion in 2014.

Fig. 4.3



It is a clear view from the above figure 4.1 that values of transactions at the Nigerian stock

Exchange witnessed growth from 2005 t0 2008. Although, it was 470,253.40 Billion in 2006, there was a rapid increase in 2007 and 2008 to 1,076,020.40 and 685,716.20 respectively. There came a decrease in the value in 2009. However, in 2010, 2011, 2012 till 2014, there was a rise, fall and rise trend respectively

Table 4.2: Growth In The Number Of Listed Securities In The Capital Market 2005 – 2014

Classification	**Number of Listed Securities**	**Number of Listed Securities**	**Number of Listed Securities**	**Number of Listed Securities**	**Number of Listed Securities**	**Number of Listed Securities**	**Number of Listed Securities**	**Number of Listed Securities**	**Number of Listed Securities**	**Number of Listed Securities**
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Equities	214	202	212	213	216	217	201	198	198	1.96
Corporate Bonds/Debenture	50	47	47	46	5	15	12	19	18	17
Fed/State Government Bonds	23	39	51	40	45	32	36	38	34	34
ETF	0	0	0	0	0	0	1	1	1	4
Supra: Total	287	288	310	299	266	264	250	256	254	253

Sources: The Nigerian Stock Exchange Annual Report and Account Various Years

May looking at the graph, there is upward movement of the transaction at the Nigerian Capital Market within the period under review. However, it was observed that there were fluctuations in the trend. Observing the movement, the value of transactions at the Nigeria stock exchange (VTS), the total new issues (TNI) and the market capitalization (MCAP) were considered in the graph. Within 2004-2014, the movement was gradually trending up but had a swift and significant upward movement within 2005-2008. Eventually, there came a downward trending from 2009 which is likened to the result of the market crash of 2008. Within 2010 and 2014, there was a rise, fall and rise trend respectively. There is now no gainsaying that there are fluctuations in the upward movement of the transaction at the Nigerian Capital Market within the period. Observing the movement, the value of transactions at the Nigeria stock exchange (VTS), the total new issues (TNI) and the market capitalization (MCAP) was viewed from the graph within 2004-2014; the movement was gradually trending up but had a swift and significant upward movement within 2005-2008. This is also evident in the growth of listed securities. Eventually, there came a downward trending between 2008 and 2009. However, within 2010 and 2014, there were fluctuations in the capital market performance. Thus, these fluctuations in the movement of the transaction can be attributed to the behaviours of investors and the capital market activities.

5. CONCLUSION

The evidence provided in this study based on the statistical analysis, showed that the capital market can induce the growth of external reserve but it has not contributed to the external reserve of Nigeria. The Nigerian capital market is no exception to other developing countries which are working towards reforming and deepening their financial systems through the expansion of its capital markets in order to improve their ability to mobilize resources and efficiently allocate them to the most productive sectors of the economy so as to enhance a sustainable economic growth hence attracting more foreign investment inflows thereby contributing to the growth of her external reserve. Though, during the period under review, the market had faced exogenous and endogenous problems. A number of indicators like the Market capitalisation which portrayed the size of capital market, value of transaction which represents the market liquidity, total new issue which is the amount of fresh fund raised by the market and the total number of listed securities are used to show how the market has grown over the time. As indicated by the current trends, the market seems to be saddled with low liquidity and slow growth in listings. The market is seen as facing a lot of challenge in its development hence, so it is crucial that the policies related to the market should be given a serious and accelerated attention. The paper concludes that the Nigerian capital market is yet to create more confidence to investors, especially in terms of transparency and accountability, for sustainable and increasing capitalization necessary for sustainable economic growth in the country.

6. RECOMMENDATIONS

In order for the Nigerian capital market to be a pivotal force in Nigeria economic growth and development hence, contributing to the growth of external reserve the following recommendations are put forward: First, improvement in the declining market capitalization by encouraging more foreign investors to participate in the market, maintain state of the art technology like automated trading and settlement practices, electronic fund clearance and eliminate physical transfer of shares. There is also need to restore confidence to the market by regulatory authorities through ensuring transparency and fair trading transactions and dealings in the stock exchange. Moreover, the total listing in the NSE is still a far cry compare to other stock exchanges like South Africa and Egypt. Therefore, to increase the number of listed companies there is need to ensure stable macroeconomic environment, encourage foreign multinational companies (MNCs) or their subsidiaries to be listed on the Nigerian Stock Exchange and relax the listing requirements. For new issues, increase the minimum equity capital requirements for companies other than banks, insurance companies and other financial institutions, encourage merger and consolidation and aggressive enlightenment programme to increase awareness of the benefits of investing in the capital market. Also, to boost the value of transactions in the Nigerian capital market, there is need for availability of more investment instruments such as derivatives, futures, swaps, options in the market. Lastly, the paper recommends expansion of the Nigerian capital Market by the government creating an enabling investable environment, that will increase both the volume of transactions and number of securities traded in the market. This will improve their ability to mobilize resources and efficiently allocate them to the most productive sectors of the economy hence, contributing its portion to the growth of external reserve.

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