

## IMPACT OF CAPITAL MARKET ACTIVITIES ON ECONOMY GROWTH IN NIGERIA: A STUDY OF CENTRAL BANK OF NIGERIA

Mgbobi, Cyriacus Ikechukwu, PhD<sup>1</sup>; Prof. Chike Ernest Nwoha<sup>2</sup>; Prof. Uche Ugwuanyi Boniface<sup>3</sup>; Azuka, Tina Nwobodo, PhD<sup>4</sup>; Ogbonna, Uche Jude<sup>5</sup>; Okafor, Obiageli Prisca, PhD<sup>6</sup>

<sup>1</sup>*Department of Accounting, Gregory University Uturu, Abia State, Nigeria*

<sup>2, 3, 4</sup>*Department of Accountancy, Enugu State University of Science and Technology, Agbani, Enugu State, Nigeria.*

<sup>5</sup>*Department of Banking and Finance, Gregory University Uturu, Abia State, Nigeria*

<sup>6</sup>*Department of Business Administration, Enugu State Business School, Enugu*

<sup>1</sup>[i.mgbobi@gregoryuniversityuturu.edu.ng](mailto:i.mgbobi@gregoryuniversityuturu.edu.ng), +234 8037 90 8 741

<sup>2</sup>[chike.nwoha@esut.edu.ng](mailto:chike.nwoha@esut.edu.ng), +234 8033 32 6 019

<sup>3</sup>[boniface.ugwuanyi@esut.edu.ng](mailto:boniface.ugwuanyi@esut.edu.ng) +234 703 096 8979

<sup>4</sup>[anwobodo@imt.edu.ng](mailto:anwobodo@imt.edu.ng) +234 806 906 0890

<sup>5</sup>[j.ogbonna@gregoryuniversityuturu.edu.ng](mailto:j.ogbonna@gregoryuniversityuturu.edu.ng) +234 8130 44 1 206

<sup>6</sup>[Ladyprisca.o@gmail.com](mailto:Ladyprisca.o@gmail.com) + 234 8033 487 907

### ABSTRACT

The study examined the impact of capital market activities on economic growth in Nigeria with particular reference to Central Bank of Nigeria. The study specifically examined / appraised the effect of exchange rate policies on the gross domestic product of Nigeria, the effect of interest rate policies on the gross domestic product of Nigeria, determined the effect of inflation rate policies on the gross domestic product of Nigeria and also ascertained the effect of unemployment rate policies on the gross domestic product of Nigeria. Data for the study were sourced from CBN statistical bulletin, data collected were analysed using multiple regression analysis. Result of the study showed that exchange rate fluctuations have positive and significant effect on the economic growth of Nigeria. It was also observed that interest rate has a significant and negative effect on the economic growth of Nigeria. The study further shows that inflation rate has insignificant effect on the economic growth of Nigeria. The study equally indicates that unemployment rate has a positive and significant effect on the economic growth of Nigeria. Based on the findings, the study recommended that Given that exchange rate fluctuations positively impact Nigeria's economic growth, policymakers should consider implementing strategies to manage and capitalize on these fluctuations. This could involve measures to enhance the competitiveness of domestic industries during periods of currency depreciation and encourage foreign investment during periods of currency appreciation.

**Keywords:** Capital Market, Exchange Rate Interest Rate, Inflation Rate, Unemployment Rate

## **INTRODUCTION**

### **1.1 Background of the Study**

In the last two decades, studies on the capital market have acknowledged significant attention from contemporary finance and economics literature resulting from its role in the provision of long-term, non-debt financial capital which enables companies to avoid over-dependence on debt financing, thus improving corporate debt-to-equity ratio and also in the mobilization of resources for national growth. According to Ndako (2018), the capital market is viewed as a complex institution imbued with inherent mechanism through which long-term funds of the major sectors of the economy comprising households, firms, and government are mobilized, harnessed and made available to various sectors of the economy. For sustainable economic growth, funds must be effectively mobilized and allocated to enable businesses and the economies harness their human, material, and management resources for optimal output. Hence, the capital market is an economic institution, which promotes efficiency in capital formation and allocation.

The capital market contributes to economic growth through the specific services it performs either directly or indirectly. Notable among the functions of the capital market are mobilization of savings, creation of liquidity, risk diversification, improved dissemination and acquisition of information, and enhanced incentive for corporate control. Improving the efficiency and effectiveness of these functions, through prompt delivery of their services can augment the rate of economic growth (Okereke-Onyiuke, 2010; Levine and Servos, 2016; Obadan, 2015; McKinnon, 2013).

The theoretical framework on the effects of capital market on economic growth dates back to the work of Schumpeter, (2011) which explained that a well-developed financial system can facilitate technological innovation and economic growth through the provision of financial services and resources to investors. The above argument of Schumpeter, (2011) was later advanced as the McKinnon-Shaw, (2013) hypothesis, which is a policy analysis tool for developing countries with strong recommendation and high priority on the efficiency of financial systems in facilitating capital accumulation and financial intermediation.

The above hypothesis became formalized and popularized through the endogenous growth models of Fry (1988), Greenwood and Jovanovic (2010) and Pagano (2013) which specify explicitly the modelling of the link between financial intermediation role of capital markets and growth indicators. These models have identified the capital market as an institution that contributes to the economic growth of emerging economies, they are also considered as a variable in explaining the economic growth in the most-developed ones.

With a market size of over 233 listed equities and gradual stability of the market resulting from the aftermath of the volatility induced by global economic crisis, there is a need to examine theoretical expectations with regard to the effects of Nigerian capital market on economic growth. From evidence in extant literature across different countries, the arguments are quite inconclusive and with mixed results with regard to the effects of capital market on

economic growth. For example, Grilli and Milesi-Ferretti (2015), Kraay (2018) and Rodrick (2018) found that capital market does not affect growth, while others stood their grounds that there is positive effect (Levine, 2011; Bekaert et al., 2013; Bonfiglioli and Mendicino, 2014), yet others note that it is negative (Eichengreen and Leblang, 2013). Certain studies show the effects to be heterogeneous across countries at different stages of institutional and economic growth (Bekaert et al., 2013; Edwards, 2011) and countries with different macroeconomic frameworks (Arteta et al., 2011). Rancière et al. (2016) observed that we could expect the growth effect of capital markets to be smaller in high-income than in middle-income countries. Consequently, this study is an attempt at evaluating the relationship between capital market and economic growth and thus providing empirical evidence from Nigeria.

### **1.2 Statement of the Problem**

In recent times there has been a growing concern on the role of capital market in economic growth and thus the capital market has been the focus of economic policies and policy makers because of the perceived benefits it provides for the economy. The capital market provides the fulcrum for stock market activities and it is often cited as a barometer of business direction. An active capital market may be relied upon to measure changes in the general level of economic activities (Obadan, 2018).

Deducing from the extensive studies on the theoretical expectations on the role of capital markets on economic growth which have formed the core of normative economics, the capital market is expected to contribute to economic growth through the transmission mechanisms of savings mobilization, creation of liquidity, risk diversification, improved dissemination and acquisition of information, provision of long-term, non-debt financial capital which enables companies to avoid over-reliance on debt financing, and enhanced incentive for corporate control amongst others. However, an x-ray on the path of “positive economics” which is concerned with “what is” rather than “what should be” reveals that the argument in the literature on the growth effects of capital market has not been adequately resolved. The inconclusive nature of these theoretical and empirical studies provides the basis for a further empirical investigation on the role of capital market in economic growth. Hence, this study was needed.

Furthermore, a fundamental weakness of most studies providing evidence from developing economies is that past regression analyses were often run without a thorough examination of the characteristics of time series economic data. It is therefore not surprising that some of them are, in fact “spurious regressions” exhibiting an excellent fit between unrelated variables, especially when levels of the variables themselves are used in the regression. In general, when the regression includes non-stationary variables, the estimation of coefficients and inference from them becomes impossible (Iyoha and Ekanem, 2014). Besides, recent empirical studies (Abu-Badr and Abu-Qarn, 2018; Wolde-Rafael, 2019; Ndako, 2010) have shown that major macro-economic variables such as Gross Domestic Product often used as proxy for economic growth may be a non-stationary process rather than a trend-stationary process as was generally assumed. This implies that the conventional approach in regression

has not always yielded reliable results. Consequently, this study therefore, addresses this gap by employing the Cointegration technique and Vector Error Correction Model (VECM) to determine the long and short run dynamics between capital market performance and economic growth in Nigeria.

### **1.3 Objectives of the Study**

The aim of this study is to evaluate impact of capital market activities on economic growth in Nigeria. The specific objectives of this study include the following;

1. To appraise the effect of exchange rate policies on the gross domestic product of Nigeria.
2. To ascertain the effect of interest rate policies on the gross domestic product of Nigeria.
3. To determine the effect of inflation rate policies on the gross domestic product of Nigeria.
4. To ascertain the effect of unemployment rate policies on the gross domestic product of Nigeria.

### **1.4 Research Questions**

- 1 How does exchange rate policies affect gross domestic product of Nigeria?
  1. What is the effect of interest rate policies on gross domestic product of Nigeria?
  2. How does the inflation rate policies affect the gross domestic product of Nigeria?
  3. To what extent does unemployment rate policies affect the gross domestic product of Nigeria?

### **1.5 Hypotheses Formulation**

The following hypotheses guided this study:

1. Exchange rate policies does not have significant effect on the economic growth of Nigeria
2. Interest rate policies does not have significant effect on the economic growth of Nigeria.
3. Inflation rate does not have any effect on the economic growth of Nigeria.
4. Unemployment rate does not have significant effect on the gross domestic product of Nigeria.

### **1.6 Significance of the Study**

This research work is beneficial to the following stakeholders: policy makers, lecturers and students, bankers, researchers and investors.

**The Government/policy makers:** the findings of this study acts as a mirror to show whether foreign direct investment is beneficial to the Nigerian economy or not. As such, the Nigerian

government/policy makers will make policies to either encourage or discourage increase or decrease in exchange rate, judging from its effect on the economy.

**Lecturers/students:** This research work is a very good teaching/learning material for both lecturers and students in higher institutions who wish to learn about monetary policy and its effect on the economic growth of Nigeria.

**Bankers:** the study serves as a source of information to be used by the bankers in the performance of their banking duties.

**Researchers:** The study serves as a reference material for further research in this field.

**Investors:** Investors (both institutional and private) will also find the result interesting as it will help in determining their expectations as to the effect of central banks of Nigerian policies on Nigerian economic growth.

**1.7 Scope of the Study:** The study covered the impact of capital market activities on economic growth in Nigeria. It covered the period of 10 years. This period is used because it covered civilian regime where the monetary policy is relatively suitable, and the choice of the variables (interest rate, Inflation rate, exchange rate and employment rate as the explanatory variables of the study while GDP is the dependent variable) used as a result of the nature of the study which is on economic growth.

### 1.9 Definition of Terms Used

**Exogenous variables:** This is an independent variable that affects a model without being affected by it, and whose qualitative characteristics and method of generation are not specified by the model builder. An exogenous variable is used for setting arbitrary external conditions, and not in achieving a more realistic model behavior. For example, the level of government expenditure is exogenous to the theory of income determination. See also endogenous variable.

**Economic Growth:** Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP.

**Exchange Rate:** An exchange rate is the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in relation to another currency.

**Interest Rate:** An interest rate is the amount of interest due per period, as a proportion of the amount lent, deposited or borrowed (called the principal sum). The total interest on an amount lent or borrowed depends on the principal sum, the interest rate, the compounding frequency, and the length of time over which it is lent, deposited or borrowed.

**Inflation Rate:** inflation is a sustained increase in the general price level of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services; consequently, inflation reflects a reduction in the purchasing power per unit of money – a loss of real value in the medium of exchange and

unit of account within the economy. A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index, usually the consumer price index, over time. The opposite of inflation is deflation (negative inflation rate).

**Employment Rate:** Employment rates are defined as a measure of the extent to which available labour resources (people available to work) are being used. They are calculated as the ratio of the employed to the working age population. Employment rates are sensitive to the economic cycle, but in the longer term they are significantly affected by governments' higher education and income support policies and by policies that facilitate employment of women and disadvantaged groups.

**Gross Domestic Product:** Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a period of time, often annually. GDP (nominal) per capita does not, however, reflect differences in the cost of living and the inflation rates of the countries; therefore using a basis of GDP per capita at purchasing power parity (PPP) is arguably more useful when comparing differences in living standards between nations.

## REVIEW OF RELATED LITERATURE

### 2.1.1 The capital market

According to Levine and Zervos (2018) the capital market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Better savings mobilization may increase the savings rate. Capital markets also provide an avenue for growing companies to raise capital at lower cost. In addition, companies in countries with developed stock markets are less dependent on bank financing, which can reduce the risk of a credit crunch. Stock markets therefore are able to positively influence economic growth through encouraging savings amongst individuals and providing avenues for firm financing.

The role of stock market has assumed a developmental role in global economies following the observable impact the market has exerted in corporate finance and economic activity. Thus the capital market has been the focus of economic development policies and policy makers because of the perceived benefits it provides for the economy. Consequently, Institutionalizing and sustaining efficient capital market performance has become a requisite condition for economies wanting to experience accelerated growth and development and this is because the capital market provides the fulcrum for stock market activities and it is often cited as a barometer of business direction. Thus, an active capital market may be relied upon to measure changes in the general level of economic activities. Deducing from the extensive studies on the theoretical expectations on the role of capital markets on economic development, the capital market is expected to contribute to economic development through the transmission mechanisms of savings mobilization, creation of liquidity, risk diversification, improved dissemination and acquisition of information, provision of long-term, non-debt financial capital which enables companies to avoid over-reliance on debt

financing, and enhanced incentive for corporate control amongst others. This section will examine both theoretical and empirical literature on capital market and economic growth, the Nigerian capital market and its performance, problems, regulatory and legal environment of the market amongst others.

### **2.1.2 Capital market and economic growth**

According to Levine and Zervos (2018) the capital market is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Better savings mobilization may increase the savings rate. Capital markets also provide an avenue for growing companies to raise capital at lower cost. In addition, companies in countries with developed stock markets are less dependent on bank financing, which can reduce the risk of a credit crunch. Stock markets therefore are able to positively influence economic growth through encouraging savings amongst individuals and providing avenues for firm financing.

Sule and Momoh (2019) specifying the channels for growth through the capital market opine that it provides opportunities for companies to borrow funds needed for long-term investment purposes. It also 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. It creates a means of allocating the nations real and financial resources between various industries and companies. Sule and Momoh (2019) argues further that 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 and 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 socioeconomic development.

Obstfeld (2014) notes that the capital market may also affect economic activities through the creation of liquidity. Liquid equity market makes available savings for profitable investment that requires long-term commitment of capital. Without liquid capital market there would be no industrial revolution. This is because savers would be less willing to invest in large, long-term projects that characterized the early phase of industrial revolution. Closely related to liquidity is the function of risk diversification. Stock markets can affect economic growth when they are internationally integrated. This enables greater economic risk sharing. Because high return projects also tend to be comparatively risky, stock markets that facilitate risk diversification encourages a shift to higher-return projects and the resultant effect is a boost in the economy leading to growth through the shifting of society's savings to higher-return investments.

According to Filler et al. (2019) the nature and economic significance of the relationship between capital market development and growth vary according to country's level of economic development with a larger impact in less developed economies. The proponents of positive relationships between stock market development and economic growth base their argument on the fact that the stock market aids economic growth and development through

the mobilization and allocation of savings, risk diversification, liquidity creating ability and corporate governance improvement among others.

Using the liquidity argument, Bencivenga et al. (2016) reasoned that the level of economic activities is affected by the capital market through its liquidity creating ability. The logic of this reasoning is that profitable investment requires long-term capital commitment; often investors are not willing or are reluctant to trade their savings for a long gestation period. With liquid equity markets, risks associated with investment are reduced, making it more attractive to investors. Thus, the easy transfer of capital ownership facilitates firms' permanent access to capital raised through equity issues. Therefore, as liquid market improves the allocation of capital, the prospect for long-term economic growth is enhanced. Also, savings and investment are increased due to reduction in the riskiness of investment facilitated by stock market liquidity.

However, an alternative view on capital market and long term economic growth by Demirgüç-Kunt and Levine (2016) observed that there are some channels through which liquidity can deter growth: Firstly, savings rate may be reduced, this happens when there is increasing returns on investment through income and substitution effect. As savings rate falls and with the existence of externality attached to capital accumulation, greater stock market liquidity could slow down economic growth. Secondly, reducing uncertainty associated with investment may impact on savings rate, but the extent and the direction remain ambiguous. This is because it is a function of the degree of risk-averseness of economic agents. Thirdly, effective corporate governance often touted as an advantage of liquidity of stock market may be adversely affected. The ease with which equity can be disposed off may weaken investors' commitment and serves as a disincentive to corporate control and vigilance on the part of investors thereby negating their role of monitoring firm's performance. This often culminates in stalling economic growth.

### **2.1.3 The Nigerian capital market**

The stock market is viewed as a complex institution imbued with inherent mechanism through which long- term funds of the major sectors of the economy comprising households, firms, and government are mobilized, harnessed and made available to various sectors of the economy (Nyong, 2017). The development of the capital market, and apparently the stock market, provides opportunities for greater funds mobilization, improved efficiency in resource allocation and provision of relevant information for appraisal (Inanga and Emenuga, 2017).

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, the nature and benefits of the capital market, 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 (CSC), On-line and Remote Trading, Trade Alerts and Capital Trade Points of the Nigerian Stock Exchange.

#### **2.1.4 The Nigerian capital market and economic growth**

Nyong (2017) developed an aggregate index of capital market development and use it to determine its relationship with long-run economic growth in Nigeria. The study employed a time series data from 2010 to 2014. The result of the study was that capital market development is negatively and significantly correlated with long-run growth in Nigeria. The result also showed that there exists bidirectional causality between capital market development and economic growth.

Ewan et al. (2019) appraise the impact of the capital market efficiency on the economic growth of Nigeria using time series data from 1961 to 2014. They found that the capital market in Nigeria has the potential of growth but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, low absorptive capitalization, illiquidity, misappropriation of funds among others.

Akinbohunbe (2016) and Adebisi (2015) have argued separately that 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 channeling of funds into productive constituents and ensuring that the funds are used for the pursuit of socioeconomic growth and development without being idle.

According to Sule and Momoh (2019) from 1961, the Nigerian capital market has growth tremendously, particularly during the periods of the indigenization decrees of 2012 and 2017. The securities increased from 8 in 1961 to about 301 in 2018. 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.

#### **2.1.5 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

- Delay in Delivery of Share Certificates
- Problem of Manual Call-over
- Double Taxation
- Lack of Effective Underwriting
- Problem of Macro Economic Instability

### 2.1.6 Exchange Rate

Exchange rate is the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in relation to another currency. Currencies are exchanged for one another in international trade. According to Saheed and Ayodeji (2012) it is the rate at which one currency will be exchanged for another, that is, the value of a country's currency in terms of another. In the view of Ojo and Alege (2014), it is defined as the domestic price of foreign money. Exchange rate is the ratio between a unit of one currency and the amount of another currency for which that unit can be exchanged at a particular time Ngerebo-a and Ibe, (2013). In other words, exchange rate is the price of one currency vis-à-vis another and is the number of units of a currency required to buy another currency (Mordi, 2016). These definitions show that exchange rate is a term to explain the value of one currency in relation to another currency Exchange rate is the rate at which one currency is exchange for another Jhingan, (2011). Exchange rate of currency is the link between domestic and foreign prices of goods and services.

(Obansa, Okoroafor, Aluko and Millicent, 2013).

Exchange rate plays an increasingly significant role in the performance of foreign companies, profitability of traded goods and services, allocation of resources and investment decision. The stability of the exchange rate is today a formidable bedrock of all economic activities. Since the adoption of the Structural Adjustment Programme (SAP) in 1986, Nigeria has moved to various types of floating regimes of exchange rate from the fixed/pegged regimes between 1960s and the mid-1980s. Floating exchange rate has been shown to be preferable to the fixed arrangement because of the responsiveness of the rates to the foreign exchange market (Nwankwo, 2010).

### 2.1.7 Interest Rate

According to Sanusi (2012), interest rates are the costs a borrower has to pay when obtaining a loan in any economy. This definition implies that, interest rates are the determinants of the cost of credits in an economy. The impact of high cost of interest rates in the society is not unconnected to the fact that borrowers may hesitate to borrow when they should. This may be because the cost of credit and the credit itself may aggregate to an amount that may be unaffordable to the borrower to pay back within the stipulated due date of the loan. The implication of this on the economy is that GDP of the economy would be low since equity financing alone cannot adequately sponsor the production activities in an economy. To

Sekuma (2011), money is borrowed at a cost and the cost associated with the borrowing of funds is referred to as interest rate. It is not just production of goods that are negatively affected by increased interest rates but also affected are those involved in real estate business.

The increase in interest rates affects demand for mortgages posing a challenge on the prices of residential real estates. On the contrary, proponents of high interest rates are of the opinion that high interest rates encourage the supply of idle funds in the market making an improvement in the cyclical flow of funds and making accessibility of funds quite easy for businesses to flourish.

The response of policy makers in Nigeria in an attempt to contain these spates of external shocks has always been occasioned by the introduction of one economic reform or the other. By the mid-1986, Nigerian authorities launched policy programmers' contained in the Structural Adjustment Program (SAP). The SAP aimed at sorting out the crises with the ultimate intention of setting the economy on the path of growth. Several forms of corrective measures were undertaken, including financial sector reform policies. Other policy response applied within the last decade with a similar purpose is the National Economic Empowerment and Development Strategy (NEEDS) introduced in 2014 (Millicent, 2013). The general purpose of this all encompassing policy is to stem the tide of unemployment, especially amongst the youth and ever rising price level in the economy. At the moment, the economic development blueprint slogan is the vision 20:2020 (Eze, 2013).

The macroeconomic policy and the economic growth with regard to interest rate, exchange rate, and inflation rates have been the central attention of the policy makers' and that of the development partners. Although the economic reforms of the 1980s witnessed some significant level of development, especially in the financial system, there were still so many unresolved economic problems; in particular, interest rate has remained extremely high with devastating impacts on the cost of borrowing and investment in Nigeria, which has been the bane of discouragement for the foreign investment (Hakkio, 2010). Interest rates are crucial elements in the transmission of monetary policy actions to economic activities (Craig, 2010). The interest rate policy in Nigeria for example, has changed within the time frame of regulated and deregulated regimes. However, the impacts of this variable in the economic growth of Nigeria have remained controversial (Acha *et al.*, 2011). In 1993, a new framework focused on the deregulation of interest rate; interest rate was very high and volatile. In 1994, due to the high volatility of interest rates, government decided to fix the MPR at 13.5% (CBN, 1994).

Inflation is a term to explain changes in the price of goods and services. Jhingan (2015) referred to inflation as a persistent and appreciable rise in the general level of prices.

Generally, inflation has created a serious problem in view of the fact that it affects an economy, where her currency is characterized by a persistent fall in the value of the country's currency and rise in her exchange rate to the rest of the world.

This rise in inflation can be controlled using inflation targeting. Inflation targeting is a policy in which an estimated inflation target is made public and deliberately pursued using the instruments of monetary management such as interest rate to steer actual inflation towards the desired policy target (Audu & Amaegberi, 2013).

### **2.1.9 Unemployment Rate**

One of the greatest challenges of the Sub - Saharan African economies today is the high rate of unemployment that has maintained a rising trend over the years. The problem of unemployment has been of great concern to the economists and policy makers in Nigeria since early 1980s. The effect of financial crisis on public and private sectors has led to renewed attention on the phenomenon. It is a widely accepted view in economics that the growth rate of the Gross Domestic Product (GDP) of an economy increases employment and reduces unemployment. The three most significant elements for the economy overall are productivity, income distribution and unemployment. This theoretical proposition relating output and unemployment has been proposed by Okun (1962). This relationship is among the most famous in macroeconomics theory and has been found to hold for several countries and regions mainly, in developed countries (Christopoulos, 2014; Daniels and Ejara, 2019). Okun's (1962) postulates a negative relationship between movements of the unemployment rate and the real gross domestic product (GDP) by focusing on the empirical relationship between unemployment and GDP variations. He emphasized that as a result of changes in aggregate demand, industry changes their production pattern which leads to changes in demand for labour which alter the unemployment rates. This empirical relationship is a major part of every traditional macro-model as the aggregate supply curve is derived by combining Okun's law with the Phillips curve. Moreover, this relationship has also important implications for macroeconomic policy. It is simply very interesting to know the growth rate necessary to reduce unemployment (if this is even possible). Furthermore, the effectiveness of disinflation policy depends on the responsiveness of unemployment on the output growth rate (sacrifice ratio).

Unemployment problem in Nigeria has different dimensions. There are underemployment cases in which people receive incomes that are inadequate to support their basic needs, in terms of food, clothing and shelter. There are also cases of disguised unemployment where people take up jobs that are below their educational attainment and experience. The worst case of all is that of people seeking for job opportunities but who cannot find any either in the public or the private sector. Some people are willing and ready to set up enterprises themselves and engage in one type of economic activity or the other but are constrained by the prevailing poor macroeconomic environment. All these have contributed significantly to the high level of unemployment and poverty in Africa (Oni, 2016).

### **2.1.10 Gross Domestic Product**

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a period of time, often annually GDP (nominal) per capita does not, however, reflect differences in the cost of living and the inflation rates of the

countries; therefore using a basis of GDP per capita at purchasing power parity (PPP) is arguably more useful when comparing differences in living standards between nations.

William Petty came up with a basic concept of GDP to attack landlords against unfair taxation during warfare between the Dutch and the English between 1652 and 1674. Charles Davenant developed the method further in 1695. The modern concept of GDP was first developed by Simon Kuznets for a US Congress report in 1934. In this report, Kuznets warned against its use as a measure of welfare (see below under *limitations and criticisms*). After the Bretton Woods conference in 1944, GDP became the main tool for measuring a country's economy. At that time gross national product (GNP) was the preferred estimate, which differed from GDP in that it measured production by a country's citizens at home and abroad rather than its 'resident institutional units' (see OECD definition above). The switch from "GNP" to "GDP" in the US was in 1991, trailing behind most other nations. The role that measurements of GDP played in World War II was crucial to the subsequent political acceptance of GDP values as indicators of national development and progress. A crucial role was played here by the US Department of Commerce under Milton Gilbert where ideas from Kuznets were embedded into governmental institutions.

The history of the concept of GDP should be distinguished from the history of changes in ways of estimating it. The value added by firms is relatively easy to calculate from their accounts, but the value added by the public sector, by financial industries, and by intangible asset creation is more complex. These activities are increasingly important in developed economies, and the international conventions governing their estimation and their inclusion or exclusion in GDP regularly change in an attempt to keep up with industrial advances. In the words of one academic economist "The actual number for GDP is therefore the product of a vast patchwork of statistics and a complicated set of processes carried out on the raw data to fit them to the conceptual framework."

GDP can be determined in three ways, all of which should, in principle, give the same result. They are the production (or output or value added) approach, the income approach, or the speculated expenditure approach.

## 2.2 Theoretical Framework

In this study the theoretical basis of exchange rate policies like Optimal Currency Area (OCA) theory, purchasing power parity (PPP) theory and Flow Oriented Model were examined.

### 2.2.1 Optimal Currency Area (OCA) Theory

The earliest and leading theoretical foundation for the choice of exchange rate regimes rests on the optimal currency area (OCA) theory, developed by Mundell in 1961 and McKinnon in 1963 (Akpan and Atan, 2012). This literature focuses on trade, and stabilization of the business cycle. It is based on concepts of the symmetry of shocks, the degree of openness, and labor market mobility.

According to the theory, a fixed exchange rate regime can increase trade and output growth by reducing exchange rate uncertainty and thus the cost of hedging, and also encourage investment by lowering currency premium from interest rates. However, on the other hand it can also reduce trade and output growth by stopping, delaying or slowing the necessary relative price adjustment process

### **2.2.2 Purchasing Power Parity (PPP) Theory**

One of the theories explaining the determination of real exchange rates is purchasing power parity (PPP) theory based on the presumption that a commodity should be sold at same price in various countries excluding transaction costs when measured in a common currency. As one of leading considerations explaining deviations from PPP condition is the Balassa-Samuelson effect.

According to this effect, commodity prices are influenced by relative production costs which are determined by relative productiveness in the sectors producing traded and non-traded commodities. The impact of the tradable sector on the real exchange rate reveals that an increase in the productivity and competitiveness of the tradable sector with respect to foreign countries puts a downward pressure on the real exchange rates (Ricci and MacDonald, 2015). Thus, production process is likely to have a major role in exchange rate fluctuations.

### **2.2.3 Flow Oriented Model**

The flow-oriented model considers capital flows to have an impact on international competitiveness of enterprises and profits of firms (Mlambo, 2013). According to Saleh (2019), the flow-oriented model implies that currency movements affect international competitiveness and balance of trade positions and consequently the real output of the country.

Exchange rate fluctuations affect the competitiveness of firms through their impact on input and output prices (Joseph 2012). Thus, when the exchange rate appreciates, exporters will be negatively affected. An appreciation of the currency will cause their goods and services to be dearer on the international market. This will cause their exports to decline, as they will be seen as expensive by buyers on the international market. This will result in them losing competitiveness internationally.

This study is hinged on the Flow Oriented Model. This model has a place in the current study because exchange rate can determine the price of imported products. When exchange rate appreciate, prices of domestic product will tend to fall because the local currency is exchanged at lower rate while depreciated currency will cause local currency to be exchanged at higher rate. Thus, when currency is exchanged at high rate as in the case of Nigeria, prices of products will generally rise. The core issue of this study is to determine the extent of influence on general price of product caused by exchange rate fluctuations.

### 2.3 Empirical Review

Quartey, (2010) using the Johansen co-integration methodology, investigated whether the revenue maximising rate of inflation is growth maximising in Ghana. He found that there is a negative impact of inflation on growth.

Marbuah, (2010) investigated the relationship between inflation and economic growth to ascertain whether a significant threshold effect existed in the case of Ghana over the period 1955-2019. The study found evidence of significant threshold effect of inflation on economic growth with and without structural break. Specifically, the evidence showed both a minimum and maximum inflation threshold levels of 6% and 10% respectively. Moreover, the study found that adjusting for structural break in the model increases the effect of inflation on growth at a robust threshold level of 10% by a factor of 1.8 or approximately 81%. He concluded by recommending to continue pursuing the inflation targeting framework by keeping inflation targets below 10% for beyond 10% threshold, inflation can be detrimental to Ghana's growth prospects.

Hasanov (2010) employed annual data set on growth rate of real GDP, Consumer Price Index Inflation and growth rate of real Gross Fixed Capital Formation to investigate whether there was any threshold effect of inflation on economic growth over the period of 2011-2019. Estimated threshold model indicated that there was non-linear relationship between inflation and economic growth in the Azerbaijani economy and threshold level of inflation for GDP growth was 13 percent. Inflation rate lower than 13 percent reflected statistically significant positive effect on

GDP growth but this positive relationship became negative when inflation exceeded 13 percent. He added that, economic growth was expected to decline by about 3 percent when inflation increased above the 13 percent threshold.

Umaru and Zubairu (2012) also studied the relationship between inflation and economic growth to ascertain whether a significant threshold effect existed in the case of in Nigeria. The result revealed that inflation has positive and significant relationship with economic growth.

Nell (2010) examined the issue if inflation was detrimental to economic growth or not by using Vector Auto Regressive (VAR) technique. Data for the period from 1960-1999 was used and his empirical results suggested that inflation within the single-digit zone may be beneficial to economic growth, while inflation in the double-digit zone tends to limit economic growth.

In the study conducted by Udoka and Anyingang (2012), with evidence from 1970-2010 the study found that interest rates and economic growth have an inverse relationship. The researcher collected data from the CBN using the ex post facto research design and an ordinary least square multiple regression analysis to arrive at findings.

IMPACT OF CAPITAL MARKET ACTIVITIES ON ECONOMY GROWTH IN NIGERIA

On the other hand, Babalola, Oladepo, Danladi, Akomolade and Ajiboye (2015) studied the effect of inflation rate and interest rate on economic growth in Nigeria using 1981-2014 as the study period with data collected from the Central Bank of Nigeria. The result showed that inflation rate and interest rate have negative and insignificant effect on economic growth.

In a similar study, Akpan (2018) investigated the relationship between foreign exchange market and economic growth in an emerging petroleum-based economy from 1970-2013 in Nigeria using ordinary least square method. He found that positive relationship exists between exchange rate and economic growth.

2.4 Summary of Literature Review

Table 2.1 Summary of Empirical Review

S/N	NAMES OF AUTHORS	YR OF STUDY	TOPIC OF STUDY	METHODOLGY ADOPTED	SUMMARY OF FINDINGS
1	Okorontah and Odoemena	2016	Effects of exchange rate fluctuations on economic growth of Nigeria.	Ordinary Least square method	Exchange rate has negative effect on economic growth
2	Lawal, Atunde, Ahmed and Abiola	2016	Exchange rate fluctuation and the Nigeria economic growth	Autoregressive Distributed Lag (ARDL) model	Exchange rate has negative effect on economic growth
3	Adeniran, Yusuf, and Adeyemi	2014	The Impact of Exchange Rate Fluctuation on the Nigerian Economic Growth: An Empirical Investigation	Ordinary Least square method	Exchange rate has positive effect on economic growth
4	Obansa, Okoroafor, Auko and Millicent	2013	Perceived relationship between exchange rate, interest rate and economic growth in Nigeria: 1970-2010.	Ordinary Least square method	Exchange rate has positive effect on economic growth
5	Audu and Amaegberi	2013	Exchange rate fluctuation and inflation targeting in an open economy: Econometric approach	Phillip-Perron unit root test, Johansen Max-Eigen statistics and Parsimonious error correction model	Exchange rate has positive effect.

IMPACT OF CAPITAL MARKET ACTIVITIES ON ECONOMY GROWTH IN NIGERIA

6	Asher	2012	Impact of exchange rate fluctuation on the Nigeria economic growth	Ordinary Least square method	Exchange rate has positive effect on economic growth
7	Azeez, Kolapo, and Ajayi	2012	Effect of Exchange rate Volatility on Macroeconomic Performance in Nigeria		Exchange rate has positive effect on economic growth
8	Eme and Johson	2012	Effect of exchange rate movements on economic growth in Nigeria.	Ordinary Least square method	There is no evidence of a strong direct relationship between changes in exchange rate and output growth.
9	David, Umeh and Ameh	2010	The Effect of exchange rate fluctuations on Nigeria manufacturing sector.	multiple regression	Exchange rate has negative effect on economic growth
10	Adetiloye	2010	Exchange rates and the consumer price index in Nigeria: A causality approach.	techniques of correlation and Granger causality	Exchange rate has positive effect
11	Adebiyi and Dauda	2019	Trade liberalization policy and industrialization growth performance in Nigeria	Error Correction Model	There was positive relationship between exchange rate and economic growth.
12	Aghion, Bacchetta, Ranciere, and Rogoff	2019	Exchange Rate Volatility and Productivity Growth: The Role of Financial Development		Exchange rate has negative effect on economic growth
13	Akpan	2018	Foreign exchange market and economic growth in an emerging petroleum	Ordinary Least square method	There was positive relationship

IMPACT OF CAPITAL MARKET ACTIVITIES ON ECONOMY GROWTH IN NIGERIA

			based economy: Evidence from Nigeria (1970-2013)		between exchange rate and economic growth.
14	Rodrik	2018	The real exchange rate and economic growth	Ordinary Least square method	
15	Ogun	2016	Real exchange rate behaviour and non-oil export growth in Nigeria	Ordinary Least square method	Exchange rate has negative effect on economic growth
16	Eichengreen and Leblang	2013	Exchange rates and cohesion: historical perspectives and political-economy considerations	multiple regression	Exchange rate has negative effect on economic growth
17	Servén	2013	Real-exchange-rate uncertainty and private investment in LDCs	Ordinary Least square method	Exchange rate has negative effect on economic growth
18	Barkoulas, Baum and Caglayan	2012	Exchange Rate Effect on the Volume and Variability of Trade Flows		Exchange rate has negative effect on economic growth
19	Harris	2012	New economy and the exchange rate regime	Generalized Least Square technique	Exchange rate has positive effect on economic growth
20	Arize, Osang, and Slottje	2010	Exchange-rate volatility and foreign trade: evidence from thirteen LDCs	Ordinary Least square method	Exchange rate has negative effect on economic growth

Source: Authors compilation, 2025

2.5 Gap in Literature

Some studies like Asher (2012), Akpan (2018) and Adeniran, Yusuf and Adeyemi (2014) show that Exchange rate has positive relationship with economic growth, while studies like David, Umeh and Ameh (2010), Ogun (2016) and Servén (2013) show that Exchange rate has

negative effect on economic growth. These previous studies, however, did not determine the quantum of exchange rate that will affect the economic growth, positively or negatively. This created a gap in the literature which this study wants to fill.

## METHODOLOGY

### 3.1 Research Design

This research work adopted *ex-post facto* research design. *Ex-post facto* means after the event, meaning that the events under investigation had already taken place and data already exist. The adoption of this *ex-post facto* research design hinges on two (2) reasons: (1) that the study relied on historic accounting data; (2) that the data were obtained from CBN statistical Bulletin for the period 2015 to 2024. The study will make use of multiple regression method.

### 3.2 Sources of Data

The study made use of secondary data from statistical bulletin covering 2015-2024 of Central bank of Nigeria (CBN), Journals of accounting and other related disciplines, textbooks and Internet websites.

### 3.3 Population of Research Instrument

In this study the population is made up of central bank of Nigeria as at 31<sup>st</sup> December, 2024 quoted in the Nigerian Exchange Group.

### 3.4 Sample Size and Sampling Techniques

The sample of the study was arrived at through a non-probabilistic sampling technique with purposive sampling technique while particularly relying on the data availability criterion. Purposive sampling (also known as judgment, selective or subjective sampling) is a sampling technique in which the researcher will rely on. The sample size of the study is central bank of Nigeria which is the Apex bank.

### 3.5 Method of Data Collection

A set of financial statements were used in this study as the measuring instrument that would generate quantitative data for the study. Interview guide was used as instrument for the generation of qualitative data.

Ordinary Least Square (OLS) technique was used for the analysis. Among the tests conducted are: coefficient of determination ( $R^2$ ), t-statistics, f-statistics and Durbin-Watson. They are used in the interpretation of the results. The decision rule for test of hypotheses is to reject the null hypotheses for calculated significance value below 5% level of significance. Adjusted coefficient of determination (Adj.  $R^2$ ) test measures the explanatory power of the independent variables on the variables in the dependent variable. The  $R^2$  normally makes an overestimation of the true value of the population.

Therefore, we use Adj R<sup>2</sup> and Student T-Test to measure the individual significance of the estimated independent variables, and F-Test to measure the overall significance. The coefficient is used to measure the individual contribution of the variables to variation in the dependent variable. Durbin Watson (DW) Statistics tests for auto correlation in the regression. The decision rule is to reject the null hypothesis, when p-value is less than 0.05 percent level of significance, otherwise, do not reject.

To ensure the robustness of the results, the analysis was equally subjected to multicollinearity, unit root tests and autocorrelation tests. Durbin-Watson (DW) test for autocorrelation was used. This is used to check for the appropriateness of the models for analysis. Any equation with Durbin-Watson less than or greater than values not approximately 2, is not acceptable. Unacceptable Durbin-Watson suggests that the analysis cannot be relied on. The non-stationarity of the series is tested by using an Augmented Dickey-Fuller test. The test of multicollinearity is done to ensure that one independent variable does not excessively influence the behaviour of others in the model.

### 3.6 Description of Research Instrument

In order to evaluate the impact of capital market activities on economic growth in Nigeria a multiple regression model was formed and it was specified as follows:

$$RGDP_t = B_0 + B_1EXR_t + B_2INTR_t + B_3INFR_t + B_4UEMP_t + e_t \dots \dots \dots (1)$$

Where

RGDP = Real Gross Domestic Product

EXR = Exchange rate

INTR = Interest Rate

INFR = Inflation Rate

UEMP= Unemployment Rate

B<sub>0</sub> = Constant or intercept

B<sub>1</sub> – B<sub>3</sub> = Coefficient for independent variables

t = Current Period

e = The error term

The multiple regression analysis was used in the study. The effect exhibited by the independent variables included in the study upon Real GDP was measured through regression coefficient.

The study also involved test of significance of parameter estimates by using t- statistics at 5% level. This enabled us compare the probability of computed t-statistics at various situation of empirical analysis with the critical value at 5% to establish significance.

### 3.7 Validation of Research Instrument

The data obtained were sent to statistical experts for validation after which they were logged and analysed.

## PRESENTATION AND ANALYSIS OF DATA

### 4.1 Data Presentation

In this chapter, the data obtained from CBN Statistical Bulletin were presented and analyzed via Eview (Version 20.0). The tests results were presented in the following precedence: Analysis of descriptive statistics of the variables came first, followed by goodness of fit test. The test of hypotheses concludes this chapter. In this study, the results were presented and analyzed in the subsequent sections of this chapter of the research work.

3.1 Table 1: GDP growth rate, exchange rate, interest rate, rate of inflation and unemployment rate in Nigeria (2015 – 2024)

YEAR	Real GDP	INTR	EXR	INF R	UEMP R
2015	39,995.50	17.26	128.65	8.55	14.9
2016	42,922.51	16.94	125.83	6.56	19.7
2017	46,012.52	15.14	118.57	15.06	5.1
2018	49,856.10	18.99	148.88	13.93	6.0
2019	54,612.26	17.59	150.3	11.8	10.6
2020	57,511.04	16.02	153.86	10.28	10.0
2021	29,929.89	16.79	157.5	11.98	7.8
2022	63,218.72	16.72	157.31	7.96	9.0
2023	67,152.79	16.55	158.55	7.98	13.4
2024	69,023.93	16.85	193.28	9.55	16.5

Source: CBN Statistical Bulletin

### 4.2 Analysis of Data

#### 4.2.1 OLS Regression Results

Table 4.2: Effect of EXR on Real GDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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C	14131.90	2647.654	5.337516	0.0000
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IMPACT OF CAPITAL MARKET ACTIVITIES ON ECONOMY GROWTH IN NIGERIA

EXR                      219.4015    25.29955    8.672152    0.0000

R-squared	0.728699	Mean dependent var	32416.67
Adjusted R-squared	0.719009	S.D. dependent var	16546.94
S.E. of regression	8771.296	Akaike info criterion	21.06070
Sum squared resid	2.15E+09	Schwarz criterion	21.15411
Log likelihood	-313.9105	Hannan-Quinn criter.	21.09058
F-statistic	75.20622	Durbin-Watson stat	1.069723
Prob(F-statistic)	0.000000		

**Table 4.3: Effect of INFR on Real GDP**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	57232.42	14774.86	3.873634	0.0006
INTR	-1313.443	766.5236	-1.713506	0.0977

R-squared	0.094909	Mean dependent var	32416.67
Adjusted R-squared	0.062584	S.D. dependent var	16546.94
S.E. of regression	16020.79	Akaike info criterion	22.26550
Sum squared resid	7.19E+09	Schwarz criterion	22.35892
Log likelihood	-331.9825	Hannan-Quinn criter.	22.29539
F-statistic	2.936102	Durbin-Watson stat	0.414541
Prob(F-statistic)	0.097672		

**Table 4.4: Effect of INTR on Real GDP**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	39842.46	4068.187	9.793665	0.0000
INFR	-357.5248	143.0075	-2.500043	0.0185

R-squared	0.182487	Mean dependent var	32416.67
Adjusted R-squared	0.153290	S.D. dependent var	16546.94
S.E. of regression	15225.97	Akaike info criterion	22.16373
Sum squared resid	6.49E+09	Schwarz criterion	22.25715
Log likelihood	-330.4560	Hannan-Quinn criter.	22.19362
F-statistic	6.250216	Durbin-Watson stat	0.455249
Prob(F-statistic)	0.018549		

**Table 4.2: Effect of UEMPR on Real GDP**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14131.90	2647.654	5.337516	0.0000
UEMPR	219.4015	25.29955	8.672152	0.0011

R-squared	0.728699	Mean dependent var	32416.67
Adjusted R-squared	0.719009	S.D. dependent var	16546.94
S.E. of regression	8771.296	Akaike info criterion	21.06070
Sum squared resid	2.15E+09	Schwarz criterion	21.15411
Log likelihood	-313.9105	Hannan-Quinn criter.	21.09058
F-statistic	75.20622	Durbin-Watson stat	1.069723
Prob(F-statistic)	0.000000		

**4.2.1 Multiple Regression Results**

C	22.33866	9383.494	2.380634	0.0249
EXR	21.82414	30.19959	7.226635	0.0000
INFR	37.22858	100.0372	0.372147	0.7128
INTR	-47.01745	450.7881	-1.043006	0.0065

IMPACT OF CAPITAL MARKET ACTIVITIES ON ECONOMY GROWTH IN NIGERIA

UEMPR                    23.82413   31.19950   6.226633   0.0011

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R-squared	0.739818	Mean dependent var	32416.67
Adjusted R-squared	0.709797	S.D. dependent var	16546.94
S.E. of regression	8913.922	Akaike info criterion	21.15218
Sum squared resid	2.07E+09	Schwarz criterion	21.33901
Log likelihood	-313.2827	Hannan-Quinn criter.	21.21195
F-statistic	24.64332	Durbin-Watson stat	1.544988
Prob(F-statistic)	0.000000		

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**4.2.2 Regression analysis**

Table 4.1 shows that exchange rate has positive and significant relationship with economic growth. The value of the intercept, which is 22.33, shows that the Nigerian economy experiences an increase in economic growth when all other variables are held constant. The estimate coefficients which are 21.82 for Exchange Rate shows that a unit change in Exchange Rate will cause a 21.8% increase in GDP, 37.22 for Interest Rate shows that a unit change in Interest Rate will cause a 37.22% increase in GDP, -47.02 for Inflation Rate shows that a unit change in Inflation Rate will cause a 47.02% decrease in GDP. The result shows that exchange rate has positive impact on economic growth and this result is in line with previous studies (Asher, 2012; Azeez, Kolapo and Ajayi 2012 and Obansa, Okoroafor, Aluko and Millicent, 2012) that exchange rate has positive impact on Gross Domestic Product. This implies that exchange rate volatility contributes 3.67% to Gross Domestic Product.

Unemployment rate has positive and significant relationship with economic growth. The value of the intercept, which is 23.82, shows that the Nigerian economy experiences an increase in economic growth when all other variables are held constant. The estimate coefficients which are 23.82 for Unemployment Rate shows that a unit change in Unemployment Rate will cause a 23.8% increase in GDP, This result is in line with Adeniran, Yusuf, and Adeyemi, (2014), Ashar, (2012), Akpan, (2008) and Azeez Kolapo and Ajayi, (2012) that exchange rate has positive relationship with Nigeria economic growth. But interest rate and rate of inflation have inverse effect on economic growth. This implies that the higher the interest rate and rate of inflation the lower the level of Gross Domestic Product. This result conform to Ashar (2012) that interest has negative relationship with economic growth but inflation rate result is not is not in line with her finding.

### 4.3 Testing of Hypotheses

The null hypothesis I states that there is insignificant relationship between Exchange Rate (EXR) and Gross Domestic Product. From the estimated regression in Table 4.1, t-statistics result revealed that the parameter  $b_1$  is positive and significant because the t-statistic 7.2 is greater than t-critical (2.3) at 5% level of significance. The probability value of 0.0000 less than 0.05 confirms significance of the effect of Exchange Rate on economic growth. Then, the null hypothesis 1 is rejected, and the alternative hypothesis accepted.

The null hypothesis II states that there is insignificant relationship between Interest Rate (INTR) and GDP. From the estimated regression in Table 4.1, the t-statistics result reveals that parameter  $b_2$  is positive but insignificant because its t-statistics 0.37 is less than t-critical (2.3) at 5% level of significance. The probability value of 0.7, which is greater than 0.05, confirms the insignificant effect of Interest Rate (EXR) on economic growth. Then, the null hypotheses II is accepted, and the alternative hypothesis rejected.

The null hypothesis III states that there is insignificant relationship between Inflation Rate (INFR) and Gross Domestic Product. From the estimated regression in Table 4.1, t-statistics result revealed that the parameter  $b_3$  is negative and insignificant because the t-statistic -1.04 is less than t-critical (2.3) at 5% level of significance. The probability value of 0.3 that is greater than 0.05 confirms insignificant effect of Inflation Rate (INFR) on economic growth. Then, the null hypothesis 1 is accepted, while the alternative hypothesis rejected.

The null hypothesis IV states that there is insignificant relationship between Unemployment Rate (UEMPR) and Gross Domestic Product. From the estimated regression in Table 4.1, t-statistics result revealed that the parameter  $b_1$  is positive and significant because the t-statistic 7.2 is greater than t-critical (2.3) at 5% level of significance. The probability value of 0.0011 less than 0.05 confirms significance of the effect of Unemployment Rate on economic growth. Then, the null hypothesis four is rejected, and the alternative hypothesis accepted.

### 4.4 Discussion of Results

The estimation results reveal that the explanatory variables jointly account for approximately 22.34 percentage changes in economic growth. The Durbin Watson statistic (1.54) illustrates the absence of auto correlation. The estimation results show that the variables-Exchange rate (EXR) is statistically significant in explaining changes in economic growth. This shows that favourable exchange contributes in economic growth and development. These findings are in line with Asher (2012), Akpan (2008) and Adeniran, Yusuf and Adeyemi (2014).

However, Interest Rate (INTR), Inflation Rate (INFR) and Unemployment Rate (UEMPR) are insignificant in explaining economic growth. These findings are in line with

the one reported by David, Umeh and Ameh (2010), Ogun (2006) and Servén (2003) (2012).

## **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary of Findings**

This study investigated impact of capital market activities on economic growth in Nigeria for the period of 2013-2022 using Ordinary Least Square method. The result of the OLS techniques indicates that exchange rate has a positive and significant effect on economic. The result also indicated that interest rate and rate of inflation have negative and insignificant effect on economic growth of Nigeria.

1. This study shows that exchange rate fluctuations have positive and significant effect on the economic growth of Nigeria.
2. It was also observed that interest rate has a significant and negative effect on the economic growth of Nigeria.
3. The study further shows that inflation rate has insignificant effect on the economic growth of Nigeria.
4. The study equally indicates that unemployment rate has a positive and significant effect on the economic growth of Nigeria.

### **5.2 Conclusion**

This study investigates central bank of Nigeria as catalyst to national economic policy and development in Nigeria. The work covered a period of 10 years (2015-2024) using an annual data from Central Bank of Nigeria statistical bulletin. A growth model via the multiple regression and Ordinary Least Square method was used to ascertain the relationship between exogenous variables and economic growth in Nigeria. The result of the multiple regression techniques indicates that exchange rate has a positive but insignificant effect, while the result also indicated that interest rate and inflation rate have negative effect on the growth of Nigerian economy for the period under study.

### **5.3 Recommendations**

From the findings and conclusion, the study recommended the following;

1. Given that exchange rate fluctuations positively impact Nigeria's economic growth, policymakers should consider implementing strategies to manage and capitalize on these fluctuations. This could involve measures to enhance the competitiveness of domestic industries during periods of currency depreciation and encourage foreign investment during periods of currency appreciation.

## IMPACT OF CAPITAL MARKET ACTIVITIES ON ECONOMY GROWTH IN NIGERIA

2. In light of the observed negative effect of interest rates on economic growth, it is crucial for policymakers to focus on stabilizing interest rates. This could involve a combination of monetary policy tools to ensure that interest rates remain at levels that are conducive to borrowing and investment, while also controlling inflationary pressures.
3. Despite the insignificant effect of inflation on economic growth, it's essential for authorities to continue monitoring and managing inflation. Sustained inflation can erode purchasing power and destabilize the macroeconomic environment. Maintaining price stability can contribute to a more predictable economic environment, supporting long-term growth.
4. Recognizing the positive impact of unemployment rate on economic growth, policymakers should emphasize the implementation of effective labor market policies. Encouraging job creation, skills development, and entrepreneurship can not only boost economic growth but also improve social well-being by reducing income inequality and poverty.

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