Synergy Between the Nigeria Banking Sector and the Nigerian Stock Exchange as Nigeria Economy Development Agents (2007-2016)

Rebecca Folake Bank-Ola¹, Comfort Bosede Olopade¹, Akinyele Akinwumi Idowu¹*, Nureni Adekunle Lawal²

1Department of Economics, Adeleke University, Ede, Nigeria
2Department of Management and Accounting, Ladoke Akintola University of Technology, Ogbomosho, Nigeria

Email address:
idakinyele@gmail.com (A. A. Idowu)
*Corresponding author

To cite this article:

Received: September 14, 2018; Accepted: October 16, 2018; Published: November 16, 2018

Abstract: The study is designed to examine the impact of banking and the stock exchange on the economic development of Nigeria and the interplay of relationship between these two major financial institutions as agents of economic development between 2006 and 2016. The independent variables were: Market Capitalization, Total Securities Listed (for the Nigerian Stock Exchange) and Total Bank Deposit and Domestic Credit to Private Sector by (for Banks). Gross Domestic Product, the barometer of economy development, is the dependent variable. These secondary data were sourced from National Bureau of Statistics (NBS), Nigeria Stock Exchange publications and various issues of Central Bank Nigeria statistical bulletin. Data were analyzed using OLS, regression analysis. From the analysis performed, the development in Nigeria's stock market has positive significant relationship with economic growth both in short and long run. The result dispelled the adeptness of Nigeria stock market to propel growth. GDP = -3614.57 + 0.288 MC + 4.67 TBC + e. Result of regression of each agent variables to the national GDP showed stock market to be dominant. This is rather surprising because if the financial performance indicators of the banks and stock exchange indices were something to go by, they ought to be moving in the same direction and relative degree as development catalytic agents. Policy makers must urgently look into this.

Keywords: Market Capitalization, Liquidity, Regression, Economic Growth

1. Introduction

Nigeria is one of the emerging economies in Africa, with arrays of financial institutions. These financial institutions are to provide a formidable financial system to grow the economic development of the country. A middle-income, mixed economy and emerging market, with expanding manufacturing, financial, service, communications, technology and entertainment sectors, Nigeria is ranked as the 30th-largest economy in the world in terms of nominal GDP, and the 23rd-largest in terms of purchasing power parity.

An efficient financial system is one of the foundations for building sustained economic growth and an open, vibrant economic system, Goldsmith (1969) and Mckinnon (1973) [5, 11]. The Nigerian Financial institutions present themselves as agent of business and economic development. The Banking sector pride itself as a formidable financial intermediary for individuals and corporate organizations, balancing information asymmetry. The Nigerian Stock Market is responsible for accumulating and redistribution of fund, resources for capital formation. Many notable organizations have sourced for fund on the Nigeria Stock Exchange trading floor. Among these are the Manufacturing, Agriculture, Oil and Gas sectors, even the Nigeria Banking sector itself are all promptly quoted on the Nigerian stock Exchange. This study shall only focus on the Banking sector.
and the Nigeria Stock Exchange as key drivers of the economy.

Amongst the institutions of the Money market, Banking Sector is the most prominent and active. A reliable sector on the Nigeria Stock Exchange, but within this sector many of the top ranked banks have woefully failed in the recent time and some banks has to be rescued by the Federal Government. The issue is that many of these banks which were hitherto reckoned to be performing well among others on the stock exchange suddenly failed. The Nigerian Stock exchange is the center point of the Nigerian Capital Market. It provides a mechanism to mobilize private and public savings as well as making such funds available for productive purposes. The Nigerian Stock Exchange also assists in the allocation of the nation’s capital resources amongst numerous competitive alternatives. It is good to distinguish the capital market from the Stock Exchange. The Stock Exchange is just a participating institution in the capital market albeit it is the most active of all the participants. The volatility of the Stock prices on the capital market is measured by All Share Index (Koirala, 2011) [9].

1.1. The Stock Market Affect the Economy

The stock market is a source of business investment for firms offering new shares to finance their operations. This lead to more jobs and growth. The stock market is a source of private finance when bank finance is limited. The stock market is not usually the first source of finance. Most investment is usually financed through bank loans rather than share options. Often share price movements are reflections of what is happening in the economy. For example, the stock market falls of 2008/09 reflected the fall in confidence. In the depth of a recession, share prices may rise as investors look forward to a recovery in the near future. Falling share prices can hamper firms’ ability to raise finance on the stock market. Market capitalization is total shares traded multiplied by their prices. According to Kolapo and Adaramola (2012) [10], the stock market plays an important role in determining investment and jobs.

1.2. The Link Between the Banking Sector and the Nigeria Economy

The banking system through their function of financial intermediation plays a vital role in economic growth of both developed and developing economies. Financial intermediation is the process in which financial institutions particularly commercial banks mobilize money from surplus economic units in the form of savings and channel such funds to the deficit units or sectors of the economy through loans or mortgages. Through this process and other vital functions that commercial banks perform, they positively mobilization savings thereby influence economic growth by encouraging increase capital formation in the country by motivating entrepreneurship in Nigeria. Thus, forming the bases for investment and economic growth.

Since Banks are the major links through which money circulates in the economy. They also control the monetary behaviour of the general public. They gather information and channel such to investors so as to enable them make informed investment decisions. Banks engage in giving Investment advice and Portfolio management for Customers. Nigeria banks undertake such exercise on behalf of their customers so as to ensure that their customers invest their funds in viable ventures.

This introduction will not be complete without recognizing the apex bank that is the Central Bank of Nigeria (CBN) which is charged the responsibility controlling the Nigeria financial system, maintaining the monetary standard and sound financial structure with the objective of creating appropriate environment for economic growth and development. In any economy, the financial system is the hub of productive activity, as it perform the vital role of financial intermediation. It is the primary provider of payment services and fulcrum of monetary policy implementation. The main thrust of his paper is to identify whether the financial system; the banking system and the stock market in particular has been able to maximally contribute to equitable wealth creation in Nigeria.

1.3. Research Problem

Financial matter is a sensitive issue. Hence its management cannot be handled with levy otherwise it will spell doom for Economic growth and development. The issue is how sensitive and responsive is the financial system particularly her managers such that they can be proactive to events within and around them in order to take advantage of emerging or unfolding opportunities and maximize it for National economic growth and development. Nigeria as a nation is on the quest for economic prestige. However, in spite of the establishment of the commercial banks and the stock exchange, Nigerians still decry inadequate capital for investment and consequent reduction in the Gross Domestic Product (GDP) which were the core issues that the establishment commercial banks and capital market were conceived to address.

Nigeria has not being able to tap fully the natural resources that she is blessed with as it should. One of the major setbacks to economic development in countries today is the inadequate supply of capital. There are numerous agencies/sectors involved in economic development, but of all the sectors that stimulate economic growth and development in Nigeria, the commercial banks and the Stock Exchange stand out. This research work is aimed at identifying the contributions that commercial banks and the Stock Exchange have made to the development of the Nigerian economy and how they affect one another.

1.4. Objectives of the Study

The general objective of this study is to explore the contributions of the Nigeria Financial System (the Stock Market and the Deposit Money Banks) to Nigeria economic development. Specifically, the synergy effect of the Banking
sector and the Nigeria Stock Exchanges’ contributions to the economic growth and development.

1.5. Research Questions

(1) What is the contribution of the Banking sector to the growth of the economy
(2) What is the contribution of the Stock Exchange to the economy
(3) What is the impact of Banking sector on the Stock Exchange

1.6. Research Hypothesis

(1) Ho - The Nigeria Banking sector does not significantly affect the economic growth of Nigeria.
(2) Ho - The Nigeria Stock Exchange does not significantly affect the economic growth of Nigeria
(3) Ho - The Nigeria Banking sector performance does not significantly affect the growth of the Nigeria Stock Exchange

1.7. Significance and Scope of the Study

The study becomes important in view of growing concern among fund seekers for in-availability and insufficiency of fund for productivity and economic improvement from the banks. It will also help to determine what is responsible for inconsistent performance of the Nigeria Stock Exchange, an institution saddled with the responsibility of capital formation and what could be done to assist these two important institutions to contribute maximally to the growth of Nigeria economy. To the shareholders, it can encourage them to reorient their investment outlook and decisions. To the government, it shall serve as a mirror to reflect the impact of the Financial System on the economic development of the country.

2. Literature Review

2.1. Theoretical Review

This study is based on four essential theories on financial liberation and economic development, for in-depth analysis of the need for short and long term funds and their consequences on liquidity as it affects Nigeria financial system:

2.1.1. The Agency Theory

This theory is concerned with how agency affect the form of the contract and the way they are minimized particularly, when contracting parties are asymmetrically informed (Smith, 2011) [19]. Fundamentally, the problem arises because lenders are imperfectly informed about the characteristics of potential borrowers, and it may be impossible, as a result, for lenders to distinguish ‘good’ borrowers from ‘bad’ ones or situations. Fluctuations in fund availability have an important bearing on the level of economic activity. Expansion of bank credit will provide more funds to entrepreneurs and, hence, will lead to more investment.

Under conditions of full employment, expansion of financial institutions credit will have the effect of inflationary pressure. But under conditions of unemployment, it will push up production in the country. On the other hand, a decline in bank credit will result in decline in production, employment, sales and prices. From the view of an under-developed economy, the expansion of bank credit offering more financial resources to industries in one of the contributory causes for greater economic development.

2.1.2. Commercial Loan Theory

Proponent of this theory maintains that since bank liabilities are principally repayable on demand or at very short notice, bank lending should be confined to short-term working capital advances for financing production, storage and movements of goods, the final sale of which will provide fund for repayment such loans are said to be self-liquidating (Kargi, 2011) [8]. The theory posits that commercial banks, because of their funding base, should make only short-term self-liquidity productive loans.

However, some of the assumptions of the commercial loan theory are not as valid as they are thought to be, for instance, the assumption, that all working loans are self-liquidating is an illusion since they could be invested in paramount working capital. In practice, most of the short-term advances are not recalled but are rolled over. So, with periodic renewals, they are not economically different from long-term credit except to the extent that investment planning differs considerably when funds are obtained on assured long-term basis.

2.1.3. Shaw (1973) Hypothesis

This theory states that financial liberalization and stock market development would promote economic growth through their effects on the growth rate of savings, investment, and thus economic growth. Shaw (1973) [18] argued that the repressed financial markets (low and administered interest rates, domestic credit controls, high reserve requirements and concessional credit practices) discourages savings, retards the efficient allocation resources, increases the segmentation of financial markets, constrains investment and in term lowers the economic growth rate. This idea was adopted by great international institutions such as the International Monetary Fund (IMF) and the World Bank (Bouzid, 2012) [3].

2.1.4. The Modern Growth Theory

The banking system through their function of financial intermediation plays a vital role in economic growth of both developed and developing economies. Financial intermediation is the process in which financial institutions particularly commercial banks mobilize money from surplus economic units in the form of savings and channel such funds to the deficit units or sectors of the economy who are in need of funds to carryout useful economic activities through loans or mortgages, the success of the financial liberalization process depends to the following hypothesis: the effective
deeper complementarity between the money demand and investment (Bouzid, 2012) [3].

2.2. Conceptual Framework

In most developing countries, capital market has fallen short of expectations in spite of the great potentials for financing development. These countries have thus resorted to domestic and external borrowing that has brought to them very excruciating debt problems and the inability to raise additional funds from international financial markets. The Nigeria capital market in particular could not meet the challenge of mobilizing savings for development because it was lacking in liquidity which leaves some gaps for banks to fill. Hence, a well functional banking sector is a necessary condition for economic growth. To this end, the role of the banking sector and stock market in boosting the economic growth and the inter play within the two agents of Nigeria economy shall be examined.

Figure 1. The relationship between all variables of the study.

Figure 1 depicts the expected relationship between all variables of the study. Lines ‘a’ and ‘b’ show the direction and effect of Total Bank Credit (Banks) and Market Capitalization (Stock Market) on Economic Growth and Development (GDP). Line ‘c’ shows combined effect of Banks and Stock Market on Economic Growth and Development (GDP). Lines ‘d,’ and ‘d,’ depicts the operational relationship between Banks (TBD) and Stock Market (TLS).

2.3. Empirical Literature

Ahmed (2008) [1] employs modified OLS techniques in evaluating the nature of long-run relationship between economic growth and financial development while employing bank credits to the private sector as a proxy for financial development. The study finds significant positive relationship between financial development and economic growth. Murty, Sailaja and Demissie (2012) [12] find a significant long-run relationship between bank credits and economic growth in Ethiopia, employing the co-integration technique and data over the period 1972 to 2011. The study concludes that through efficient resource allocation mechanisms and domestic capital accumulation, bank credits positively influence economic growth in Ethiopia. It therefore calls for creation of more money and capital market institutions in order to accelerate Ethiopia’s economic growth.

Ikikii and Nzomoi (2013) [7] evaluated stock market development effects on economic growth in Kenya, Quarterly time series data on gross domestic product, market capitalization and trade volume covering the years 2000 to 2011 were used. Empirical result suggested that stock market development measured by trade volume and/or capitalization impacts positively on the economic growth in Kenya. In the work of Afolabi (2015) [2], he empirically ascertained the effect of the Nigerian Stock Market on the Nigerian economy from 1992 to 2011. The Nigerian Capital Market was proxy by Market Capitalization against some variables of the economy such as Gross Domestic Product (GDP), foreign direct investment, inflation rates, total new issues, value of transaction and total listing. Using the multiple regression analysis, he found that stock market has an insignificant impact on the economy within the period under review. On the contrary Owolabi and Ajayi (2013) [17] explored the relationship between stock market and economic growth between 1971 and 2010 utilizing Ordinary Least Square method and the outcomes showed that there is a positive relationship between economic growth and all the measures of stock market and economic growth.

All the studies enumerated above were investigating directional relationships between financial system development agents and the national economy. None consider the impact of the financial system with each other. Therefore, this study applied both descriptive survey type and econometric analysis to explore the relationship between Banking sector, Stock market development and economic growth for a robust result.

3. Research Methods of Analysis

The method of analysis of data applied in this study was succinctly influenced by the objectives of this study as well as the hypothesis stated. In the light of this, to determine the direction and analyze the relationship between the various variables, the Ordinary Least Square (OLS) technique was used. The study covered the period of ten years, from 2005 to 2016. The secondary data for the study were collected from the Central Bank of Nigeria (CBN), Nigerian Stock Exchange (NSE) Annual Reports and the National Bureau of Statistics (NBS) publications. Data were collected on the following variables: Gross Domestic Product (GDP), the dependent variable and proxy for economic growth. Three stock market development measures were selected based on the traditional characteristics of stock market: market size and liquidity (Market Capitalization, Total Security Listed and All Shares Index). Also, two measurements were used for the Banking sector, because of their consequence on savings, investments and lending activities of the Banks. These are: Bank Lending to the Private Sector and Total Bank Deposit of the Banking Sector.

According to Gujarati (1995) [6], the parameter estimates obtained by OLS are optimal in nature. The technique is simpler to understand (Olowe, 2009) [15].
3.1. Model Specification

In formulating the model employed in this study, the impact of the independent variables (MC and TBC) were tested on GDP- the dependent variable, so also the interaction between banks and stock market (TSL and TBD) were determined. It is acknowledged that this study could be better done using secondary data. Gross Domestic Product (GDP = Dependent Variable = Y) and other independent variables (X) that includes; Market Capitalization (MC), All-Share Index (ASI), Total Bank Deposit (TBD) and Bank Lending to Private Sector (TBC).

In order to investigate the impact of stock market development on economic growth, the model for this study is specified in this form.

\[ Y_1 = f(X_1, X_2, \ldots, X_n, U) \] (1)

where: \( Y \) = Dependent variable, \( X_1 \ldots X_n \) = Independent variables, \( U \) = Error term.

This informed: \( \text{GDP} = f (\text{MC}, \text{TBC}) \) (2)

3.2. OLS Regression Formulated

It is implied that either the growth of the economy can be driven by the stock market or the Banking sector or both. Thus the following regression model is formulated as;

\[ \text{GDP} = \beta_0 + \beta_1 \text{MC} + \beta_2 \text{TBC} + \varepsilon \] (3)

where: \( \text{GDP} = \text{Gross Domestic Product}, \) \( \text{MC} = \text{Market Capitalization}, \) \( \text{ASI} = \text{All-Share Index}, \) \( \text{TBD} = \text{Total Banks Deposit}, \) \( \text{TBC} = \text{Total Bank Credit to Private Sector}. \)

Also relationship between Total Bank Deposit (TBD) and Total Security Listed was determined and Liquidity trend noted.

4. Data Presentation and Analysis

### Table 1. Study Variables Examined (2005 – 2016).

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP-N‘B</th>
<th>Market Cap</th>
<th>MC as % to GDP</th>
<th>Securities</th>
<th>ASI</th>
<th>Total Bank Deposit N‘B</th>
<th>Total Bank Credit ₦‘B as % GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>14610.88</td>
<td>2,900.1</td>
<td>19.85</td>
<td>288</td>
<td>24,085.8</td>
<td>1,316.96</td>
<td>2,017.23</td>
</tr>
<tr>
<td>2006</td>
<td>18564.59</td>
<td>5,120.90</td>
<td>27.58</td>
<td>294</td>
<td>33,189.3</td>
<td>1,739.64</td>
<td>2,565.83</td>
</tr>
<tr>
<td>2007</td>
<td>20657.32</td>
<td>13,181.70</td>
<td>63.81</td>
<td>310</td>
<td>57,990.2</td>
<td>2,693.60</td>
<td>5,056.72</td>
</tr>
<tr>
<td>2008</td>
<td>24296.33</td>
<td>9,563.00</td>
<td>39.36</td>
<td>301</td>
<td>31,450.8</td>
<td>4,118.17</td>
<td>8,059.55</td>
</tr>
<tr>
<td>2009</td>
<td>24794.24</td>
<td>7,030.80</td>
<td>28.36</td>
<td>266</td>
<td>20,827.2</td>
<td>5,763.51</td>
<td>10,219.34</td>
</tr>
<tr>
<td>2010</td>
<td>54612.26</td>
<td>9,918.20</td>
<td>18.30</td>
<td>264</td>
<td>24,770.5</td>
<td>5,954.26</td>
<td>9,830.34</td>
</tr>
<tr>
<td>2011</td>
<td>62980.40</td>
<td>10,275.30</td>
<td>16.24</td>
<td>250</td>
<td>19,950.8</td>
<td>6,531.91</td>
<td>14,183.60</td>
</tr>
<tr>
<td>2012</td>
<td>71713.94</td>
<td>14,800.90</td>
<td>20.79</td>
<td>256</td>
<td>25,457.1</td>
<td>8,062.10</td>
<td>15,151.80</td>
</tr>
<tr>
<td>2013</td>
<td>80092.56</td>
<td>19,077.40</td>
<td>23.78</td>
<td>254</td>
<td>21,780.4</td>
<td>8,606.61</td>
<td>16,191.50</td>
</tr>
<tr>
<td>2014</td>
<td>89043.62</td>
<td>16,875.10</td>
<td>18.95</td>
<td>253</td>
<td>33,508.6</td>
<td>11,936.90</td>
<td>18,115.21</td>
</tr>
<tr>
<td>2015</td>
<td>94,144.96</td>
<td>17,020.00</td>
<td>18.08</td>
<td>257</td>
<td>28,642.6</td>
<td>17,421.79</td>
<td>18,719.26</td>
</tr>
<tr>
<td>2016</td>
<td>101598.50</td>
<td>16,165.73</td>
<td>15.91</td>
<td>247</td>
<td>26,874.3</td>
<td>17,531.2</td>
<td>21,982.15</td>
</tr>
</tbody>
</table>


4.1. Findings and Discussion

The findings from the research work has pointed out that stock market positively impacts the growth rate of the Nigerian economy. Theoretically, a unit increase in stock market indicators brings about a more than proportionate increase in the GDP because of its capacity to mobilize capital needed by the deficit units of the economy for productive purposes. There is a positive relationship between the Market Capitalization and the Gross Domestic Product of the economy. The major implication of these findings is that stock market is vital to the economic growth of Nigeria and as such all hands must be on deck to make the Nigerian Stock Market a force to be reckoned with in order to enhance the economic potentials of the country.

4.1.1 Determination and Measurement of Impact of MC and TBC on GDP (2005-2016)

### Table 2. R Square and Adjusted R Square measurement.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.960*</td>
<td>.921</td>
<td>1.601</td>
<td>10176.720</td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), TBC, MC
b. Dependent Variable: GDP
Table 3. *F* Factor and Level of Significance measurement

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>10896099858.187</td>
<td>2</td>
<td>544804929.093</td>
<td>52.605</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>932090784.198</td>
<td>9</td>
<td>103565642.689</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>11828190642.385</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: GDP
b. Predictors: (Constant), TBC, MC

Table 4. Regression, Collinearity Statistics and Coefficients measurement.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>T</td>
<td>Sig.</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-3614.566</td>
<td>7731.975</td>
<td>-.467</td>
<td>.651</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>MC</td>
<td>.288</td>
<td>.785</td>
<td>.042</td>
<td>.367</td>
</tr>
<tr>
<td></td>
<td>TBC</td>
<td>4.671</td>
<td>.567</td>
<td>.936</td>
<td>8.237</td>
</tr>
</tbody>
</table>

a. Dependent Variable: GDP

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of GDP

\begin{align*}
\chi^2(1) &= 1.12 \\
\text{Prob > } \chi^2 &= 0.2902
\end{align*}

Figure 2. Variable Graph showing movement of GDP, MC and TBC (2005-2016).

4.1.2. Result of Tested Hypotheses

\[ \text{GDP} = -3614.57 + 0.288 \text{MC} + 4.67 \text{TBC} + e \]

This means both Stock market (MC) and Banks (TBC) has positive significant influence on economic growth and development hence the two stated hypotheses are rejected. However, according to the result, Stock Market seems to have a tremendous impact on GDP than Banks. A unit change in GDP will require 0.288 units of Market Capitalisation and 4.67 units of Total Bank Credit.

4.1.3. Determination of Liquidity - (Relationship Between Stock Market and Banks)

Table 5. R Square and Adjusted R Square measurement.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.825</td>
<td>.681</td>
<td>.649</td>
<td>2275.43442</td>
<td>.816</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), SL
b. Dependent Variable: TBD
Table 6. Anova, F Factor and Level of Significance measurement.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>110688135.246</td>
<td>1</td>
<td>110688135.246</td>
<td>21.378</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>51776017.964</td>
<td>10</td>
<td>5177601.796</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>162464153.211</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: TBD
b. Predictors: (Constant), SL

Table 7. Regression and Coefficients measurement.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>T</td>
<td>Tolerance</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>45518.486</td>
<td>8423.537</td>
<td>5.404</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>SL</td>
<td>-143.811</td>
<td>31.103</td>
<td>-4.624</td>
<td>.001</td>
</tr>
</tbody>
</table>

c. Dependent Variable: TBD

d. Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance
Variables: fitted values of TBD

\[ \text{chi2}(1) = 0.09 \]

Prob > chi2 = 0.7635

Figure 3. Variable Graph showing relationship between Stock Market (TSL) and Banks (TBD).

4.1.4. Result of Impact Stock Market and Banks on Each Other

There is a very close relationship between the Total Listed Security (Stock Market) and Total Bank Deposit. The relationship is also positive, and the two move with same degree in same direction, showing convertibility of their instruments.

4.2. Liquidity

The liquidity of the stock market as argued by Osinubi (2002) [16], facilitates profitable interactions between the equity and the money market, since, with a liquid stock market, shares are accepted as collateral by banks for lending purposes, consequently increasing access to credit for growth. Similarly, Oke and Mokuolu (2004) [14] highlighted liquidity as an important characteristic of a stock market and point to its ability efficiently to allocate capital as well as allowing investors to divest their assets easily. Data from the Central Bank of Nigeria reveals, loan to deposit ratios of deposit money banks in Nigeria has been on the rise since mid-2015. Bank credit to the private sector rose by an astonishing 22% in 2016 alone. Banks have on average liquidity ratios of 44%. This suggest 44% of their assets can easily be converted to cash. This portends a relationship between banks, the stock market and the economy in general.

Loan to deposit ratios, which is the ratio of loans issued by banks to their customers to the deposit received from their customers stands at a multi-year average of about 78%. Loan to deposit ratio of 78% implies that banks are lending N78 of every N100 of deposit they receive. Critics of high loan to deposit ratios point to the danger it possess to bank’s risk profile as further impairments to loans could erode the ability of banks to meet their depositors demand on time. It is however important to note that in March 2009, deposit money banks had a total claims to the private of about N7.7 trillion. Out of a total asset of N15.5 trillion. This represents about 59% loan to total assets ratio of banks. In March, 2017 it was N21.5 trillion (private sector claims was N15.7 trillion) compared to a total asset of N32.4 trillion. Thus bank loans to its total assets stood at 66.3%.

Despite these flashes of comfort, the dangers of high loan to deposit ratios are glaring, particularly in the midst of a recession that have seen most sectors of the economy reel from weakening demand, inventory pile up and cash constraint. Bank deposits currently stand at over N22 trillion and is expected to grow as banks move aggressively towards mobile powered retail banking (CBN, 2008) [4]. This could help allay frayed nerves.

5. Summary and Conclusion

5.1. Summary

Money is the lifeblood that sustains any modern economy. This blood flows through the banking sector which serves as the vein through which the blood (money) circulates throughout the body (the economy). Thus, if the circulatory system (the banking sector) is not functioning well, blood supply (money supply) to the body (the economy) would be hampered. The result will definitely be disastrous. That is why, any policy that affects the banking sector and the capital market directly or indirectly affects the entire economy. The role played by the banking sector in the economic growth of Nigeria is very vital. Through their function of financial
intermediation banks ensure continued availability of fund for investment. Thus, increasing capital formation and promoting investment viz-a-viz economic growth. There is a causal relationship on investment decisions within the bank, her customers and investors. They all influence one another to propel the country on the part of growth. Thus, we may rightly conclude that the banking sector is a catalyst for economic growth. And if the quest to move the nation forward must be achieved, adequate attention must be given to the sector.

Despite the series of financial reforms launched since 1990s and the considerable increase in tempo of the activities of the financial market capitalization, Nigerian stock market experienced economic meltdown as market capitalization reduced from approximately #13trillion in 2007 to #9.918 trillion in the year 2010. Also, all-share index fell from 57,990.22 to 24,770.52 points during the same period, this has casted doubt to the confidence the shareholder and investor have in the Nigerian stock exchange market.

The stock market is known as a relatively cheap source of funds when, compared to the money market and other sources. The cost of raising funds in the Nigerian market is however regarded to be relatively high. The authorities concerned have been responsive towards a systematic downward review. This should ensure enhance its competitiveness and improve the attractiveness as a major source of raising funds.

5.2. Recommendation

Considering the benefits being enjoyed by the stock market through the internationalization of its operations, there should be not only policy turn-around, but a sincere pursuit of an enhanced policy.

Portfolio Management is a rigorous exercise that requires time and investment expertise. Nigerian banks undertake such exercise on behalf of their customers so as to ensure that their customers invest their funds in viable ventures. They also gather information and channel such to investors so as to enable them make informed investment decisions. The various financial crises, sensitivity of the market to information and herding, created treats to the contribution and growth of the stock exchange. A stronger stock market and economic growth can only be achieved in a peaceful and stable business environment. Recent events have cast doubts in the mind of investors hence the unfolding lack of confidence that had been slowing down the growth of Market Capitalization and All Share Index.

For the banking sector to perform optimally and contribute positively to economic growth, there must be suitable financial policies upon which the sector will thrive. In order to accomplish this, the Nigerian banking sector has embarked on series of financial reforms over the years. However, the recent and most successful is the banking sector consolidation in 2004. The reform was geared towards making the banks strong and reliable financial institutions. So as to ensure the safety of depositors’ fund. As well as ensure that the banks are well placed to play their role of financial intermediation in the country. To achieve this stability in the banking system, the CBN raised the minimum shareholders’ fund for commercial banks from #2 billion to #25 billion through the recapitalization process. This is because the Government and the CBN recognize the banking sector as a key driver of the economy.

The market must be in a position to provide a spectrum of investment alternatives, new trading instruments with which investors can hedge their risk, as well as an environment which is honest, has sufficient structures and where policies are flexible enough to accommodate different investment needs.

References


