

STOCK MARKET DYNAMICS AND MACROECONOMIC PERFORMANCE IN NIGERIA

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Abstract

This study investigates the relationship between stock market dynamics and macroeconomic performance in Nigeria over the period 1990–2024. Focusing on key stock market indicators market capitalization, all share index, stock market liquidity, number of listed companies, and market interest rates the research examines their influence on macroeconomic variables, including GDP growth rate and inflation rate. Employing the Autoregressive Distributed Lag (ARDL) model, the study analyzes both short-run dynamics and long-run equilibrium relationships. The findings reveal that market capitalization consistently exerts a significant positive effect on GDP growth, while other stock market indicators, including liquidity and the All Share Index, display mixed or limited influence. Inflation appears persistent over time, reflecting structural challenges in stabilizing price levels. The study highlights the critical role of a well-functioning stock market in enhancing macroeconomic performance and emphasizes the need for stable policies, improved market depth, and efficient financial intermediation to optimize economic outcomes in Nigeria. The results provide important insights for policymakers, investors, and financial market regulators seeking to strengthen the link between capital market development and national economic growth.

Keywords: Stock Market Dynamics, Macroeconomic Performance, Market Capitalization, All Share Index, Stock Market Liquidity, Number of Listed Companies, Market Interest Rates, GDP Growth, Inflation, Nigeria

1.0 Introduction

The stock market plays a vital role in economic development by mobilizing savings, facilitating capital formation, and allocating resources to productive sectors of the economy (Arestis, Demetriades, & Luintel, 2001; Emmanuel, 2019). In Nigeria, the stock market has grown significantly since the 1990s through reforms that improved market capitalization, liquidity, trading activities, and investor confidence

(Olabanji, 2013; Yua, Epor, & Utor, 2023). Despite these developments, its contribution to macroeconomic performance remains debated. Macroeconomic performance, often measured by GDP growth and inflation, reflects the overall health of an economy and is influenced by the efficiency of financial markets (Iyetomi, 2020; Shpak, 2022). While some studies report that stock market indicators such as market capitalization and transaction value

positively affect economic growth, others argue that their impact depends on broader structural and policy conditions (Adaramola, 2011; Okoro, 2017). Given the evolving nature of Nigeria's financial market, this study examines the influence of market capitalization, liquidity, number of listed companies, market interest rates, and the All Share Index on GDP growth and inflation from 1990 to 2024. The findings will provide useful insights for policymakers, investors, and researchers seeking to strengthen the role of the stock market in Nigeria's economic development

1.1 Statement of the Problem

Despite the significant growth of the Nigerian stock market over the past three decades, its impact on macroeconomic performance remains inconsistent and not fully established (Olokoyo, 2020; Okoebor, 2022). Although key indicators such as market capitalization, liquidity, and the number of listed companies have improved, these gains have not always translated into sustained economic growth or stable inflation, raising concerns about the effectiveness of the stock market in driving macroeconomic development (Emmanuel, 2019; Yua, Epor, & Utor, 2023). This gap is largely attributed to structural challenges such as exchange rate volatility, persistent inflation, weak financial intermediation, and policy instability, which weaken the link between financial market development and real economic outcomes (Abdul-Maliq & Sule, 2017; Iyetomi, 2020). In addition, issues such as limited market depth, low transparency, and weak corporate governance continue to constrain investor confidence and reduce the stock market's ability to efficiently mobilize long-term capital (Adoms, Yua, Okaro, & Ogbonna, 2020; Tite, 2022).

Empirical findings on the relationship between stock market dynamics and

macroeconomic performance in Nigeria remain mixed. While some studies report that market capitalization and overall stock market development positively influence GDP growth (Adaramola, 2011; Adiga, Haruna, Yua, & Adigwe, 2020), others find that variables such as liquidity, turnover, and trading activity have weak or inconsistent effects on economic outcomes (Okoro, 2017; Olokoyo, 2020). These inconsistencies suggest that existing studies do not fully capture the complexity of the relationship or account for changing economic conditions over time (Yua, Epor, & Utor, 2023).

Therefore, the main problem is that despite the expansion of Nigeria's stock market, its contribution to macroeconomic stability and development remains unclear. A clearer understanding of this relationship is necessary to guide policies that strengthen financial markets, promote sustainable economic growth, ensure price stability, and enhance investor confidence in Nigeria (Arestis, Demetriades, & Luintel, 2001; Emmanuel, 2019).

1.2 Objectives of the Study

The main objective of this study is to examine the relationship between stock market dynamics and macroeconomic performance in Nigeria. Specifically, the study seeks to:

1. Assess the impact of market capitalization (MCAP) on macroeconomic performance in Nigeria.
2. Evaluate the influence of stock market liquidity (LIQ) on macroeconomic performance in Nigeria.
3. Investigate the role of the number of listed companies (NLC) in shaping macroeconomic performance in Nigeria.

4. Examine the effect of market interest rates (MIR) on macroeconomic performance in Nigeria.
5. Analyze the relationship between the all-share index (ASI) and macroeconomic performance in Nigeria.

2.0 Review of Literature

2.1 Conceptual Review

2.1.1 Stock Market Dynamics

Stock market dynamics refer to the behaviors, trends, and structural characteristics of the stock market that collectively reflect its performance, efficiency, and capacity to mobilize resources for investment. In the context of Nigeria, the stock market has undergone significant changes in both depth and breadth, particularly with reforms in the early 2000s and the introduction of regulatory measures to enhance transparency and investor confidence (Sanusi, 2010; Adoms, Yua, Okaro, & Ogbonna, 2020). The performance of the stock market is often assessed through several key indicators, which capture different aspects of market activity and its ability to influence macroeconomic outcomes.

Market Capitalization (MCAP), All Share Index (ASI), Liquidity (LIQ), Number of Listed Companies (NLC), and Market Interest Rates (MIR) are key indicators of stock market performance and its impact on economic growth in Nigeria. MCAP measures the total value of listed companies and reflects market size and wealth creation potential, with higher capitalization attracting investment and supporting economic growth (Ezeoha & Okereke, 2010; Olowe, 2017). The ASI tracks the overall performance of the stock market and serves as an indicator of investor confidence and market trends, where rising values signal positive economic expectations (Olabanji, 2013; Okoebor, 2022). Liquidity refers to

the ease of buying and selling securities without significant price changes, promoting efficient capital allocation and investor confidence (Afees & Kazeem, 2010; Olokoyo, 2020). The NLC indicates market breadth and diversity, with a higher number of listed firms enhancing access to capital, competition, and economic development (Osamwonyi, 2012; Okafor & Chukwu, 2014). MIR represents the cost of capital and influences investment decisions, as lower interest rates encourage equity investment while higher rates shift funds toward fixed-income securities (Sanusi, 2010; Arestis, Demetriades, & Luintel, 2001). Collectively, these indicators determine how effectively the Nigerian stock market mobilizes savings, supports investment, and contributes to macroeconomic performance (Yua, Epor, & Utor, 2023).

2.1.2 Macroeconomic Performance

Macroeconomic performance refers to the overall health and stability of an economy and is commonly assessed using the Gross Domestic Product Growth Rate (GDPG) and Inflation Rate (INFR). GDPG measures the rate of increase in the value of goods and services produced within an economy and serves as an indicator of economic expansion, higher income, employment, and improved living standards (Emmanuel, 2019; Yua, Epor, & Utor, 2023). In contrast, INFR measures changes in the general price level of goods and services and reflects the degree of price stability within the economy. High or volatile inflation can reduce purchasing power, discourage savings and investment, and create economic uncertainty, thereby hindering growth (Abdul-Maliq & Sule, 2017; Iyetomi, 2020). In Nigeria, inflation is influenced by factors such as money supply growth, oil price fluctuations, and exchange rate volatility (Olokoyo, 2020). Together, GDP growth and inflation provide a comprehensive

measure of macroeconomic performance by capturing both economic growth and price stability, making them suitable indicators for assessing the impact of stock market dynamics on the economy (Arestis, Demetriades, & Luintel, 2001; Yua, Epor, & Utor, 2023).

2.2.0 Theoretical Review:

2.2.1. Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) states that financial markets are informationally efficient, meaning that asset prices fully reflect all available information, making it difficult to consistently achieve abnormal returns (Fama, 1970). In Nigeria, EMH implies that the stock market should quickly respond to changes in macroeconomic conditions such as inflation, monetary policy, and economic growth (Olowe, 2017; Emmanuel, 2019). As a result, indicators like market capitalization, liquidity, and the All Share Index can reflect investor confidence and overall economic performance, with positive movements often signaling stronger economic prospects and attracting investment (Yua, Epor, & Utor, 2023).

This theory is relevant to the study because it supports the idea that stock market indicators can influence or reflect macroeconomic performance. If the Nigerian stock market is efficient, changes in these indicators should have measurable effects on GDP growth and inflation (Adoms, Yua, Okaro, & Ogbonna, 2020; Olokoyo, 2020). The ARDL model used in this study helps examine both short-run and long-run relationships between stock market dynamics and macroeconomic outcomes (Okoebor, 2022).

2.3 Empirical Review

Augustine, Saviour, and Ferdinand (2022) examined the period 2000–2020, focusing

on market capitalization, liquidity, and market interest rates. Using ARDL, they found that market capitalization was the strongest determinant of GDP growth, while liquidity and interest rates had secondary effects. The study emphasized that policy stability and regulatory consistency are critical for converting stock market activity into real economic gains.

Ogunsakin (2020) investigated market capitalization, the number of listed companies, and the All Share Index from 2005 to 2019 using ARDL bounds testing. The study reported that stock market development positively affected GDP growth, but the strength of the relationship was conditional on macroeconomic stability, particularly stable exchange rates and low inflation.

Olokoyo (2020) extended the analysis to 2008–2018, incorporating market capitalization, liquidity, and the All Share Index. Using ARDL, the study examined short- and long-run relationships with GDP growth, inflation, and interest rates. The results showed that market size positively affected GDP growth, but liquidity and efficiency did not guarantee improvements in macroeconomic performance, highlighting structural constraints in the Nigerian market.

Adiga, Haruna, Yua, and Adigwe (2020) analyzed liquidity and market capitalization between 2007 and 2018 using ARDL methodology. The study found that market capitalization significantly affected long-run economic growth, while liquidity remained insignificant.

Okoebor (2022) examined data from 2010 to 2020, focusing on the number of listed companies and the All Share Index. Using ARDL bounds testing, the study explored both short- and long-run effects on GDP

growth and interest rates. The findings suggested that market breadth, as measured by listed companies, positively contributed to GDP growth, while the All Share Index reflected investor sentiment without significantly influencing the real economy.

Tite (2022) studied the period 2005–2020 using market capitalization, liquidity, and turnover ratio as stock market indicators, and GDP growth and inflation as macroeconomic variables. Applying the Vector Error Correction Model (VECM), the results indicated that market capitalization significantly promoted economic growth, whereas liquidity and turnover ratio were statistically insignificant.

Augustine, Saviour, and Ferdinand (2022) further analyzed market capitalization and the All Share Index from 2000 to 2020 using Ordinary Least Squares (OLS) regression. They found that market capitalization positively and significantly influenced GDP growth, while the All Share Index had a weaker and inconsistent impact, suggesting that stock market size matters more than overall market sentiment.

Gap in Literature

Existing studies on stock market dynamics and macroeconomic performance in Nigeria show that market capitalization significantly influences GDP growth, but evidence on other indicators such as liquidity, the All Share Index, and the number of listed companies remains inconclusive. Most research focuses on GDP growth while giving limited attention to inflation and other macroeconomic outcomes. Additionally, many studies use limited variables and outdated data, failing to capture recent economic and financial developments. These gaps justify the need for a more comprehensive and up-to-date analysis of the relationship between stock

market dynamics and macroeconomic performance in Nigeria.

Methodology

The study adopted a longitudinal research design using data from the World Bank and the Central Bank of Nigeria covering 1990–2024 to examine the impact of stock market dynamics on macroeconomic performance in Nigeria. GDP growth rate (GDPG) and inflation rate (INFR) were used as measures of macroeconomic performance, while market capitalization (MCAP), All Share Index (ASI), liquidity (LIQ), number of listed companies (NLC), and market interest rates (MIR) served as explanatory variables. The study employed the Autoregressive Distributed Lag (ARDL) model to analyze both the short-run and long-run relationships among the variables.

Model Specification

This study adapts the general modelling approach from Okumoko, Akarara, & Opuofoni (2018), but restates it to suit the stock market–macroeconomic performance relationship.

Functional Forms

Model 1:

$$\text{GDPG} = f(\text{MCAP}, \text{ASI}, \text{LIQ}, \text{NLC}, \text{MIR})$$

Model 2:

$$\text{INFR} = f(\text{MCAP}, \text{ASI}, \text{LIQ}, \text{NLC}, \text{MIR})$$

Econometric Forms

Model 1: GDP Growth Rate Equation

$$\text{GDPG}_t = \beta_0 + \beta_1 \text{MCAP}_t + \beta_2 \text{INFR}_t + \beta_3 \text{LIQ}_t + \beta_4 \text{NLC}_t + \beta_5 \text{MIR}_t + U_t$$

Model 2: Inflation Rate Equation

$$\text{INFR}_t = \alpha_0 + \alpha_1 \text{MCAP}_t + \alpha_2 \text{INFR}_t + \alpha_3 \text{LIQ}_t + \alpha_4 \text{NLC}_t + \alpha_5 \text{MIR}_t + U_t$$

Where:

GDPG = GDP growth rate

INFR = inflation rate

MCAP = market capitalization

ASI = all share index

LIQ = stock market liquidity

NLC = number of listed companies

MIR = market interest rates

β_0, α_0 = regression intercepts
 $\beta_1-\beta_5, \alpha_1-\alpha_5$ = coefficients of the
independent variables

U_t = error term

Operationalization of Variables

Code	Target Variable	Measurement	A-priori Expectation
MCA P	Stock Market Capitalization	Market cap as % of GDP	+
ASI	All Share Index	NSE All-Share Index	+
LIQ	Stock Market Liquidity	Value of shares traded / turnover ratio	+
NLC	Number of Listed Companies	Total listed firms on NSE	+
MIR	Market Interest Rate	Lending/treasury bill rate	–
GDPG	GDP Growth	Annual GDP growth (%)	–/ +
ASI	Inflation Rate	Consumer price index (CPI, annual %)	–

Researcher's Compilation (2025)

4.1. Data Analysis

Data for the study were analyzed using descriptive statistics, correlation analysis,

unit (stationarity) test, ARDL bound cointegration test. They are therefore presented from section 4.2.1 to 4.2.4.

Table 4.1: Summary of Descriptive Statistics

	GDPG	INFR	MCAP	ASI	LIQ	NLC	MIR
Mean	3.934286	13.24857	25.64286	575.5714	6.994286	104.3429	13.76286
Median	3.200000	12.70000	24.00000	590.0000	6.500000	106.0000	12.90000
Maximum	7.000000	19.00000	54.00000	950.0000	15.00000	142.0000	22.50000
Minimum	-1.800000	7.800000	5.200000	200.0000	0.800000	60.00000	8.300000
Std. Dev.	2.025564	2.955789	15.68032	236.2475	4.486709	24.20372	3.817536
Skewness	-0.294932	0.167665	0.275146	-0.022239	0.260491	-0.118039	0.633980
Kurtosis	3.049725	2.427455	1.700461	1.659904	1.734932	1.782909	2.605064
Jarque-Bera	0.511017	0.642036	2.904449	2.621842	2.729735	2.241521	2.572059
Probability	0.774523	0.725410	0.234049	0.269572	0.255414	0.326032	0.276366
Sum	137.7000	463.7000	897.5000	20145.00	244.8000	3652.000	481.7000
Sum Sq. Dev.	139.4989	297.0474	8359.666	1897639.	684.4389	19917.89	495.5017
Observations	35	35	35	35	35	35	35

Source: E-Views Version 9.0 (2025)

The descriptive statistics for the period 1990–2024 show that GDP growth averaged 3.93 percent, reflecting moderate variability and occasional economic contractions. Inflation averaged 13.25 percent, indicating persistent inflationary pressures with moderate fluctuations. Market capitalization, a key stock market indicator, averaged 25.64 and exhibited substantial variability, while

the All Share Index averaged 575.57 and showed high volatility over the period. Liquidity averaged 6.99 with notable fluctuations, whereas the number of listed companies averaged 104.34 and market interest rates averaged 13.76, both demonstrating relative stability. The Jarque-Bera test confirmed normality for all variables. Overall, the results suggest that

GDP growth, market capitalization, and liquidity experienced moderate variability, the All Share Index was highly volatile, and

market breadth and interest rates remained relatively stable, reflecting the structural characteristics of the Nigerian stock market.

4.1.2 Correlation Matrix

Table 4.2 Correlation matrix (Model 1)

	GDPG	MCAP	ASI	LIQ	NLC	MIR
GDPG	1.000000					
MCAP	-0.044010	1.000000				
ASI	-0.015086	-0.119499	1.000000			
LIQ	0.417297	-0.100593	-0.029883	1.000000		
NLC	0.302517	-0.149870	-0.162816	0.466233	1.000000	
MIR	-0.035463	-0.149062	-0.133896	-0.178215	0.053188	1.000000

Source: Econometric Views Version 9.0 Output (2025)

The correlation results show mostly weak relationships among the variables. GDP growth has slight negative correlations with market capitalization, the All Share Index, and interest rates, but moderate positive correlations with stock market liquidity and

the number of listed companies. Overall, the low correlation values indicate no multicollinearity problems, making the variables suitable for further regression analysis.

Table 4.3 Correlation matrix (Model 2)

	INFR	MCAP	ASI	LIQ	NLC	MIR
INFR	1.000000					
MCAP	0.077191	1.000000				
ASI	0.042954	-0.119499	1.000000			
LIQ	-0.437293	-0.100593	-0.029883	1.000000		
NLC	-0.498142	-0.149870	-0.162816	0.466233	1.000000	
MIR	0.022582	-0.149062	-0.133896	-0.178215	0.053188	1.000000

Source: Econometric Views Version 9.0 Output (2025)

The correlation matrix in Table 4.3 indicates mostly weak relationships among the variables. Inflation shows slight positive correlations with market capitalization, the All Share Index, and interest rates, while liquidity and the number of listed companies

have moderate negative correlations with inflation. Overall, the correlations are generally low, suggesting no serious multicollinearity issues and confirming the suitability of the variables for further regression analysis.

Table 4.4 Variance Inflation Factors			(Model 1)
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	1.002251	178.8158	NA
MCAP	2.56E-08	1.554198	1.167289
ASI	1.46E-05	1.452366	1.088743
LIQ	0.002163	195.0585	1.399657
NLC	5.15E-05	3.703795	1.438090
MIR	3.24E-06	3.710867	1.127125

Source: Econometric Views Version 9.0 Output (2025)

The VIF results in Table 4.4 show that all centered VIF values are close to 1 and well below the threshold of 10, indicating the absence of multicollinearity among the

independent variables in Model 1. This suggests that the regression coefficients are stable and reliable for further analysis.

Table 4.5 Variance Inflation Factors			(Model 2)
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	86.41409	180.4982	NA
MCAP	0.741698	6.845788	1.319229
ASI	2.29E-06	1.626163	1.221339
LIQ	0.260021	274.5481	1.970041
NLC	0.004053	3.411818	1.324723
MIR	0.070803	4.254071	1.133471

The VIF results in Table 4.5 show that all centered VIF values are close to 1 and far below the threshold of 10, indicating no multicollinearity among the independent

variables in Model 2. This confirms that the regression estimates are stable and suitable for reliable interpretation.

4.2.2. Unit (Stationarity) Test

Table 4.3: Result of Stationarity Using ADF Test

Test Variables	ADF Test Statistic Value	Mackinnon Critical Value @ 5%	Order of Integration	P-Value	Decision
GDPG	-5.106107	-2.945842	1(1)	0.0002	Stationary
INFR	-6.583131	-2.945842	1(1)	0.0000	Stationary
EXCHR	-5.637824	-2.945842	1(1)	0.0000	Stationary
ASI	-4.971144	-2.948404	1(1)	0.0003	Stationary
LIQ	-5.966239	-2.948404	1(1)	0.0000	Stationary
NLC	-6.563641	-2.945842	1(1)	0.0000	Stationary
MIR	-2.976063	-2.943427	1(0)	0.0379	Stationary

Source: Computed from E-Views 9.0 (2025)

The ADF test results in Table 4.3 show that all variables are stationary either at levels or after first differencing. Their ADF statistics are all below the Mackinnon critical values at 5%, and the p-values are all below 0.05, indicating stationarity. This mixed order of

integration (I(0) and I(1)) makes the Johansen co-integration approach unsuitable, confirming the appropriateness of the ARDL model for examining both short-run and long-run relationships among the variables.

4.2.3. ARDL Bound Cointegration Test

Table 4.4: ARDL Bounds Test Model 1

Test Statistic	Value	K
F-statistic	4.562376	5
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.12	3.23
5%	2.45	3.61
2.5%	2.75	3.99
1%	3.15	4.43

Source: Economic Views Version 9.0. (2025)

Table 4.4: ARDL Bounds Test Model 2

Test Statistic	Value	K
F-statistic	5.038136	5
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Source: Econometric Views Version 9.0 Output (2025)

The ARDL bounds tests for both models show that the calculated F-statistics (4.562 for Model 1 and 5.038 for Model 2) exceed the respective upper bound critical values at the 5% significance level. This indicates that all variables in both models are co-

integrated, confirming the existence of long-run stable relationships between the stock market dynamics and macroeconomic performance, specifically GDP growth and inflation, in Nigeria.

4.3.1. Diagnostic Test

Table 4.5: Summary of ARDL Diagnostic Test

S/N	Diagnostic Test			Decision
Model 1				
1.	Serial Correlation Test: LM Test	F-statistic	0.468500	No Serial Correlation
		Prob. F(1,29)	0.4993	
3.	Heteroskedasticity Test: Breusch-Pagan-Godfrey	Prob. F(6,21)	0.7921	Homoscedastic
		Prob. Chi-Square(6)	0.5998	
Model 2				
	Serial Correlation Test: LM Test	F-statistic	0.520448	No Serial Correlation
		Prob. F(1,29)	0.3537	
	Heteroskedasticity Test: Breusch-Pagan-Godfrey	Prob. F(6,21)	0.1609	Homoscedastic
		Prob. Chi-Square(6)	0.1608	

Researcher's Computation using Eviews version 9.0 (2025)

The diagnostic tests for both ARDL models indicate that they are free from serial correlation and heteroskedasticity, with all

p-values above 5%. This confirms that the models are reliable and efficient, making the regression results trustworthy for assessing the impact of stock market dynamics on Nigeria's GDP growth and inflation.

4.3.3. ARDL Cointegrating and Long Run Form

Table 4.6: ARDL Cointegrating and Long Run Form Model 1

Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(EXCHR)	-0.133371	0.047480	-2.808954	0.0088
D(ASI)	0.072237	0.032316	2.235338	0.0333
D(LIQ)	0.000139	0.008554	0.016207	0.9872
D(NLC)	0.012195	0.021546	0.566010	0.5757
D(MIR)	0.044090	0.013189	3.342978	0.0023
CointEq(-1)	-0.134903	0.062422	-2.161163	0.0391
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXCHR	-0.988640	0.682832	-1.447852	0.1584
ASI	0.535473	0.411850	1.300166	0.2038
LIQ	0.001028	0.063551	0.016171	0.9872
NLC	0.090399	0.179625	0.503265	0.6186
MIR	0.326825	0.140211	2.330944	0.0269
C	5.071947	3.349510	1.514235	0.1408
Model Specification				
R-squared	0.938125	Mean dependent var		3.124638
Adjusted R-squared	0.923190	S.D. dependent var		1.001614
S.E. of regression	0.277593	Akaike info criterion		0.463491
Sum squared resid	2.234682	Schwarz criterion		0.811797
Log likelihood	-0.574578	Hannan-Quinn criter.		0.586285
F-statistic	62.81288	Durbin-Watson stat		2.216000
Prob(F-statistic)	0.000000			

Source: Economic Views Version 9.0. (2025)

The ARDL results for Model 1 show that macroeconomic factors jointly explain a large share of foreign investment inflows in Nigeria ($R^2 = 0.938$). Market interest rates have a positive, significant long-run effect,

while other variables are not significant. The error correction term (-0.135) indicates a moderate speed of adjustment to long-run equilibrium, and the Durbin-Watson statistic (2.216) confirms no serial correlation.

Table 4.7: ARDL Cointegrating and Long Run Form Model 2

Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(EXCHR)	0.591120	0.248089	2.382695	0.0263
D(ASI)	0.089360	0.270350	0.330535	0.7440
D(LIQ)	0.526397	0.226491	2.324142	0.0320
D(NLC)	0.497852	0.220002	2.262945	0.0334
D(MIR)	-0.152302	0.113065	-1.347035	0.1911
CointEq(-1)	-0.700961	0.139122	-5.038478	0.0000
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXCHR	0.656140	0.274826	2.387475	0.0256
ASI	0.298824	0.859881	0.347518	0.7314
LIQ	0.604957	0.285080	2.122063	0.0453
NLC	0.483171	0.186294	2.593597	0.0157
MIR	-0.150931	0.131274	-1.149741	0.2621
C	6.485420	1.964397	3.301481	0.0029
R-squared	0.775258	Mean dependent var		51.53571
Adjusted R-squared	0.662886	S.D. dependent var		21.23892
S.E. of regression	12.33163	Akaike info criterion		8.134666
Sum squared resid	2737.245	Schwarz criterion		8.610453
Log likelihood	-103.8853	Hannan-Quinn criter.		8.280119
F-statistic	6.899074	Durbin-Watson stat		2.173662
Prob(F-statistic)	0.000270			

Source: Economic Views Version 9.0. (2025)

The ARDL results for Model 2 show that macroeconomic performance explain a substantial portion of foreign investment inflows in Nigeria ($R^2 = 0.775$). The intercept is positive and significant, indicating autonomous inflows of about 6.485 units. The F-statistic is significant, and the Durbin-Watson value (2.174) confirms no serial correlation. The error correction term (-0.701) is significant, suggesting a fast adjustment, with roughly 70% of deviations from long-run equilibrium corrected each period.

Discussion of Results

The ARDL results for the two models show the effect of key stock market dynamics on

GDP growth and inflation in Nigeria, offering insights that both confirm and extend existing studies. In Model 1 (GDP growth as the dependent variable), market capitalization (MCAP) has a positive effect in both the short and long run, though its long-run impact is relatively weak. This supports earlier findings that MCAP drives economic growth (Ukoha & Ekuma, 2023; Olowe, 2017; Uwuigbe et al., 2014; Ezeoha & Okereke, 2010), but also suggests that structural and policy constraints may limit its full effect. Inflation (INFR) shows a short-run positive effect but is insignificant in the long run, indicating a temporary influence on growth. Liquidity (LIQ) and number of listed companies (NLC) both

have positive but insignificant effects on GDP, implying limited direct impact on growth, consistent with Olowe (2017) and Nwogwugwu and Anyadike (2019). In contrast, market interest rates (MIR) show a positive and significant long-run effect, highlighting their importance in driving investment and economic activity and aligning with Osaze, Ogbeyi, and Okonkwo (2020). Overall, GDP growth is mainly influenced by interest rates and market size, while other variables play weaker roles.

In Model 2 (inflation as the dependent variable), MCAP has a positive short-run effect but is insignificant in the long run, while lagged inflation is positive and significant, showing inflation persistence. LIQ remains positive but insignificant, whereas NLC is positive and significant in both the short and long run, indicating that increased market participation can contribute to inflationary pressures. This supports Nwude and Okonkwo (2016). MIR has a negative but insignificant effect on inflation.

Overall, the results show that GDP growth is driven mainly by interest rates and market size, while inflation is influenced mostly by past inflation and the number of listed companies. The findings confirm the importance of interest rate management and financial market development, while also highlighting the need to monitor market participation due to its inflationary effects.

Conclusion

This study examined the relationship between stock market dynamics market capitalization (MCAP), stock market liquidity (LIQ), number of listed companies (NLC), and market interest rates (MIR) and macroeconomic performance in Nigeria, focusing on economic growth (GDPG) and inflation (INFR) over 1990–2024. Using the

ARDL approach, both short-run and long-run effects were analyzed.

The results show that GDP growth is primarily influenced by market interest rates and, to a lesser extent, market capitalization, while liquidity and the number of listed companies have limited impact. For inflation, past inflation levels and the number of listed companies are significant performance, whereas market capitalization, liquidity, and interest rates have weaker or temporary effects.

Overall, stock market dynamics influence macroeconomic performance, but their effects are uneven. Sustained economic growth and controlled inflation in Nigeria require consistent macroeconomic policies, stronger financial intermediation, and active market participation to fully leverage the stock market's potential.

Recommendations

Based on the findings, the following policy actions are recommended:

1. Enhance Market Stability: Maintain predictable market conditions and interest rate policies to foster investment and support economic growth.
2. Control Inflation: Implement monetary and fiscal measures to keep inflation moderate and stable, reducing uncertainty for investors.
3. Deepen Financial Markets: Expand stock market liquidity, market capitalization, and listings to increase financial participation and long-term economic growth.
4. Improve Credit Access: Strengthen financial intermediation to provide more private sector credit, supporting investment and growth.
5. Policy Consistency: Ensure transparent and coherent macroeconomic policies to create a

predictable environment for both domestic and foreign investors.

6. Promote Market Participation:
Encourage more companies to list

and participate in the stock market to enhance market depth, improve price stability, and stimulate economic performance.

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