



EVALUATION OF PRIMARY MARKET AND ECONOMIC GROWTH IN NIGERIA

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Abstract: The paper evaluated the effect of primary market on economic growth in Nigeria. Data were collected from CBN statistical bulletin for twenty one (21) years. Expost facto design was employed for the study. The data were subjected to unit root test and the result suggested the use of autoregressive and distributed lag model for the analysis. The findings showed that Equity (EQT), Federal government bond (FGB) and Corporate bond (COB) had no significant effect on GDP at 5 percent level of significance during the period of the study. Bound test was also conducted to check whether the error of the short run could be corrected at the long run but the result still showed no relationship. Based on the findings, we recommend that government and corporate bodies should look out and source funds from other sources such as investing in a profitable ventures that will bring funds in the economy other than equity, corporate bonds and government bonds to expand their businesses which will eventually grow and develop the economy.

Keywords: Economic growth, Gross domestic product, Primary market, Equity, Federal government bond, Corporate bond etc

1. INTRODUCTION

According to Mbat (2000) and Nzotta (2004) security market is made up of primary and secondary market. These markets which constitute the stock market are the most organized part of capital market in Nigeria. Recall that capital market is composed of non security market, security market and derivative market (Ihenetu 2020). While most researchers dwell on capital market and have done an extensively work on it, not much work if not none was done on primary market.

Primary market deals with new issued funds which help the firm to raise fresh capital for investment or expansion and development of infrastructure as in the case of government. The funds are raise in the primary market through equities (which includes, offer for subscription, offer for sale, private placement, right issue, bonus issue and others), federal government bonds, sub-national bonds corporate bonds, super-national bonds and registered unit trust schemes (CBN 2020). Equity holder are the owner of the business and entitled to dividend when company releases it, the bond holders are creditors

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to either the government (federal government especially) or the corporation that issued them.

All the fresh capital raised either by the government or corporate bodies are used to grow and develop the economy. Economic growth therefore is the increase in the incomes, goods and services of any country over a given period of time (Sanusi 2011). Economic growth is the key indicator of economic progress. It is measured by gross domestic product (GDP) and other indices such as per capital income, gross national product etc; but the most commonly used measures is the gross domestic product.

Oruwari (2009) defined gross domestic product as the value of all the economic transactions that take place over a given period of time mostly in one year period. The transactions involve all the residents both citizens and nationals that live and do business in Nigeria (Ihenetu 2021).

A lot of researches have been conducted on capital market and economic growth in Nigeria. These works concentrated on market capitalization, market index, value deals and number of deals as the proxy for capital market. But none was done using only the primary market which is made up of new issued funds raised by both corporate organisation and government. This therefore constitutes the core problem of the study.

The purpose of the work is to determine the effect of primary market on economic growth in Nigeria.

The rest of the work shall be segmented into four subheadings such as literature review, methodology, presentation and analysis and conclusion and recommendation.

2. LITERATURE REVIEW

a. Conceptual Framework

The concepts relevant to this work are:

i. Gross Domestic Product - All the value of goods and services produced by both citizens and nationals living and doing business in Nigeria constitute the gross domestic product of the country.

ii. Capital Market – Capital market is a market where long term funds are sourced. It is divided into non security market, security market and derivative market. Capital market provides a vehicle for real economic growth and development (Nzotta 2004; Ihenetu 2021, Mbat 2000).

iii. Security market – This is a market where securities such as shares, bonds, derivatives etc are traded. It is divided into primary market and secondary market (Ihenetu 2021).

iv. Primary market – A market that deals with new issued securities. The initial public offer of any corporate organisation or federal government bonds which are coming to the market for the first time are primary market assets. This market helps in raising fresh capital for restoration, expansion, investment etc. The securities traded in this market are equity (which include offer for subscription, offer for sale, private placement, right issue etc), federal government bonds, corporate bonds etc.

v. Equities – This is a security that confer the right of ownership to the holder. Equity holders are the co-owners of the business.

vi. Bonds – The bonds security confer the right of creditorship to the holder. The means the holders is not part of the company but a creditor. Bonds can be corporate bonds, federal government bonds etc while the corporate bonds are issued by the corporate bodies, the federal government bonds are issued by the government to raise funds for infrastructural development.

vii. Sub-national and super national bonds - These bonds are not too popular in the country. They are also part of government bonds.

viii. Registered unit trust scheme – A unit trust represents a method of investment in which funds subscribed by various small investors are pooled together in a fund and invested in various securities subject to the legal provisions of a trust deed (Nzotta 2004). Unit trust assists small savers to participation in capital market



activities. It enables them to buy units in the scheme and hence participates in capital market investment activities.

b. Theoretical Framework

The researchers adopted three theories for the work.

i. Growth Theory

This theory was propounded by Adam Smith in 1776 in his book the wealth of the nation. He posited that increase in the wealth of the nation increases the growth of the economy. If the economy’s wealth is dwindled or retarded, then the economy will have low growth rate. He therefore advocated that every nation should strive to increase their wealth so as to increase their growth.

ii. The Harrod Domar growth Model

Harrod (1939) came up with the theory of investment and also Domar (1946). They are of the view that investment leads to growth. If the economy invest or give themselves to investments, then, there will be expansion in the economy. According to them, investment will encourage aggregate demand and aggregate supply. Aggregate demand will help in economic expansion and aggregate supply will enhance capital formation and more production. All these will bring growth in the economy.

iii. Capital Market Theory

Capital market theory was all about the theory of diversification developed by Harry Markowitz in 1952. Markowitz came up with the theory of portfolio selection which is concern with the trade-off between risk and return. He said a rational investor should diversify his assets in order to avoid being faced with the same misfortune at the same time. He should build his portfolio in a way that while some will be negative, others will be positive. According to him, it is not enough to have different assets in different industries without knowing the risk, the return and the coefficient of correlation. The whole essence of Markowitz theory is based on rationality of the investeor and efficient operation of capital market. The investors in primary market which is a segment of the security market have to be rational in

raising fresh capital either for business expansion or infrastructural development as in the case of government.

4. METHODOLOGY

According to Ihenetu (2008), “research design is a blue print, framework for collecting and analyzing data”. The researcher employed expost facto design. The fact that the data were original from CBN statistical bulletin and adopted for the study necessitated the choice of the design. The data used for this work were purely secondary data. The data collected were gross domestic product, equities, federal government bonds and corporate bonds. While gross domestic product is the dependent variable, equities, federal government and corporate bonds are the independent variables. The sample size is twenty one years (1999-2019). The researchers applied unit root and autoregressive distributive lag to analyzed the data. The model specification is given as:

The mathematical model is given as:

$$GDP = f(EQT, FGB, COB)$$

This model can be transmodified to econometric model as:

$$\begin{aligned} \text{LogGDP}_t = & \alpha_0 + \sum_{i=1}^n \beta_{1i} \text{LogGDP}_t + \beta_1 \text{LogGDP}_{t-1} + \sum_{i=0}^n \beta_{2i} \text{LogEQT}_t + \text{Log}\beta_2 \text{EQT}_{t-1} \\ & + \sum_{i=0}^n \beta_{3i} \text{LogFGB}_t + \beta_3 \text{LogFGB}_{t-1} + \sum_{i=0}^n \beta_{5i} \text{LogCOB}_{t-1} + \beta_5 \text{LogCOB}_{t-1} + \mu \end{aligned}$$

Where GDP = Gross Domestic Product

EQT = Equity

FGB = Federal Government Bonds

COB = Corporate Bonds

Log = Logarithm

$\beta_1 \beta_2 \beta_3$ = Coefficient of independent variables (slope)

α = Constant intercept

5 DATA PRESENTATION AND ANALYSIS



The data used for the work are presented below:

Table 1 Equity (EQT), Federal Government Bonds (FGB), Corporate Bond(COB) and Gross Domestic Product (GDP) in naira from 1999-2019

Year	EQT	FGB	COB	GDP
1999	11,684.4	-	250.0	5,307.36
2000	5,707.8	-	7,050.0	6,897.48
2001	32,680.0	-	-	8,134.14
2002	33,759.0	-	5,500.0	11,332.25
2003	29,429.9	72,565.7	650.0	13,301.56
2004	183,718.5	-	-	17,321.30
2005	405,839.5	178,273.7	6,900.0	22,269.98
2006	255,684.5	448,835.8	13,500.0	28,662.47
2007	1,339,313.6	596,490.0	-	32,995.38
2008	1,495,906.7	494,180.0	4,179.0	39,157.88
2009	330,637.7	726,500.0	15,405.0	44,285.56
2010	97,815.6	1,244,439.8	83,060.0	54,612.26

2011	1,059,750.2	863,268.4	63,960.0	62,980.40
2012	90,062.2	491,961.2	940.0	71,713.94
2013	129,465.6	1,044,643.1	10,580.0	80,092.56
2014	343,048.9	1,070,243.5	78,540.0	89,043.62
2015	66,921.5	998,740.0	81,543.0	94,144.96
2016	11,731.5	1,308,303.3	103,173.0	101,489.49
2017	306,494.6	1,550,460.0	23,150.0	113,711.63
2018	214,076.6	918,940.0	181,943.5	127,736.83
2019	426,741.9	1,742,290.0	177,221.3	144,210.49

Source: CBN 2019



6. DATA ANALYSIS

Table 2 Stationarity (Unit Root) Test Results

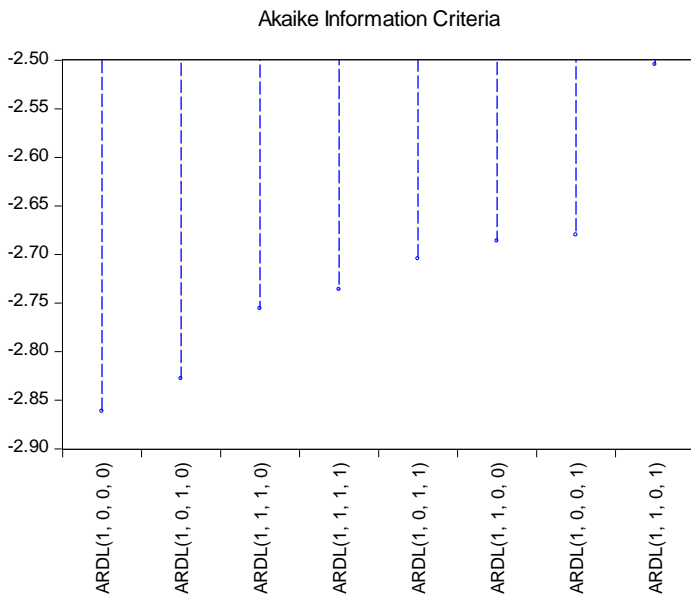
Variables	Level	1 st difference	Order of Integration	Remark
DGDP	-1.041617	-5.415082	I(1)	Stationary
DEQT	-2.601899	-4.867509	I(1)	Stationary
DFGB	-3.915927	-	I(0)	Stationary
DCOB	-4.628399	-	I(0)	Stationary

Significant at 5% level, ADF test > Critical Value, then the variable is stationary

Source: Extracts from E-Views 9 Output

The table above presents the unit root stationarity test results with the outcomes for the utilized information of maximum of lags 4 with trend and intercept. The summary of the results are integrated in order I(0) and I(1). The ADF test statistic are higher when compared with all their critical values at 5%. As such, they are deemed fit for utilization and subsequent estimations and suggests the use of ARDL model for analysis.

Figure 1 Auto-Regressive Distributed Lag (ADRL) Model selection test result



Source: Eview version 9

The method is guided by the shortrun data span. The researcher chooses a maximum order of 1 for the provisional ARDL vector error correction model by using the Akaike information criteria (AIC). Number of models evaluated was 8 and the result showed that the best model is ARDL(1 0 0 0) which was summarized in graph above.

Table 3 Auto-Regressive Distributed Lag (ADRL) shortrun result

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
DGDP(-1)	0.740872	0.456663	1.622362	0.1392
DEQT	0.000118	0.009742	0.012090	0.9906
DFGB	0.027727	0.050774	0.546096	0.5983
DCOB	-0.001661	0.013223	-0.125608	0.9028
C	-0.328334	0.677422	-0.484681	0.6395
R-squared	0.451432	Mean dependent var		0.144106
Adjusted R-squared	0.207624	S.D. dependent var		0.059483
S.E. of regression	0.052949	Akaike info criterion		-2.766517
Sum squared resid	0.025232	Schwarz criterion		-2.538282
Log likelihood	24.36562	Hannan-Quinn criter.		-2.787644
F-statistic	1.851586	Durbin-Watson stat		1.904888
Prob(F-statistic)	0.203323			

*Note: p-values and any subsequent tests do not account for model selection.

Source: Extracts from E-Views 9 Output



From table 3, EQT, FGB and COB are the independent variables where as the GDP is the dependent variable. The result of the analysis showed that EQT, FGB and COB had no significant effect on GDP at 5 percent level of significance during the period of the study. The coefficients of EQT and FGB are positive showing that they are likely drivers of economic growth since a percentage increase will increase GDP by 0.000119 and 0.027727 naira respectively. Where as the coefficient of COB is negative showing a percentage increase in COB decreases GDP 0.001661 naira. The adjusted r^2 0.21 implies that variation in all the explanatory variables account for 21% of the variation in gross domestic product. F – Statistic measures the overall significance of the model. The F-statistic is 1.85 and the probability of F-statistic is 0.20 is far more than 0.05 power of test. This means that primary market had not yet contributed much to economic growth in Nigeria. Durbin Watson 1.90 showed the absence of autocorrelation

Table 4 ARDLBound cointegration test

Test Statistic	Value	K
F-statistic	3.216234	3

Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

Source: Extracts from E-Views 9 Output

The bound cointegration test is to check whether there will be longrun relationship. The outcome showed that the F-statistic 3.216234 is lower than the upper bound

which is 4.35 at 5% level of significant. There is therefore no cointegration and the error of the shortrun cannot be corrected in the longrun.

6. Conclusion and recommendations

From the result of the analysis, it is very apparent that primary market does not have significant effect on economic growth in Nigeria within the period under consideration, therefore, we recommend that government and corporate bodies should look out and source funds from other sources such as investing in a profitable ventures that will bring funds in the economy other than equity, corporate bonds and government bonds to expand their businesses which will eventually grow and develop the economy.

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