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Money and Capital Market Investments on Economic Performance in Nigeria: A revisit

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Abstract:
The study explored on capital and money market investments and economic performance in Nigeria; utilizing yearly time series that help to capture both current and future directions in the investment environment. Statistics, in logarithm form, on government securities, bonds, equities, treasury bills, commercial papers, certificate of deposits and bankers' acceptances were obtained from the statistical databank of the Central Bank of Nigeria, varying 1981 – 2019 giving a total of 39 observation periods. The eviews 10 arithmetical software was employed to perform more robust analysis like the Unit Root test, ARDL test and Granger causality test. The outcome of the unit root analysis conducted show that the variables are stationary after first and second differences were taken. The ARDL test found significant long run equilibrium relationship among the variables. In the short run, money and capital market investments exhibit mean reversion after previous periods of disequilibrium. From the causality test, movements in bankers' acceptances, treasury bills and commercial papers precede movements in HDI. In addition, investments in equities and government securities causes very significant positive changes in the human development index. On the established findings, the study recommends that the regulatory agencies of the Nigerian financial institutions like the CBN and SEC should strengthen its policies on monthly transparency of the financial statements of quoted firms in order to instill investors' confidence in the market and boost trading activities; and the availability of differentiated assets to improve active trading and private participation in both markets.

Keywords: Central Bank of Nigeria, Investments, Human Development Index, ARDL model.

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I. Introduction

The quest for a better return on investment has spurred investors into a consideration of several investment avenues / vehicles in order to achieve risk-adjusted rates of return. Investments can be explored in both the money and capital markets. In money markets, banks and other financial institutions, secure funding for investment opportunities brought forward by investors by collecting deposits and selling short term money market instruments such as treasury bills, repurchase agreements, certificate of deposits, bankers' acceptances, commercial papers, call money, treasury certificates, and reverse repos. Investors buy into these low-risk and secured products at a percentage interest rate which serves as a reward for their investment. In the capital market, government securities, exchange traded funds, bonds, equity are offered to the public for sale; from which funds are generated for investment. Investors invest in these long term risky instruments to generate more income.

Money and capital market investments exist to promote growth and improve the financial status of investors. In the Nigerian environment, the capital market attends to the financial requirements of both private and public individuals and thus, serves as a driving wheel that drives the transfer of money from areas of surplus to sections where deficits are seen thereby stimulating economic growth. It is a place where investors seek to diversify their investment risk by dealing in a variety of asset portfolios and promoting well-informed investment evaluations. Principally, if the capital market is to function well, then it should help the economy grow rapidly through domestic and foreign investments, proper allocation of assets, and growth in savings. The growth of the economy will then cause stability, employment, steady prices and positive balance of payment (Osaze, 2007). On the other hand, the money market sell short term liquid and low risk securities to both government and private individuals which help banks in meeting up with the need for loans (Ebhodaghe, 2015). Nwosu and Hamman (2008) contend that money markets are trading platforms for short term securities and thus they are vital to the financial infrastructure of industrialization in areas like capital allocation, effective liquidity distribution among financial organizations, and the hedging of short-term uncertainties. Therefore we can say that the money and capital markets are fundamental to economic performance. Schumpeter (1911) opine that the better deployment of financial resources for boosting investment and subsequent growth lies with the financial

institutions. In support of this, Levine and Zervous (1996) add that financial institutions are responsible for the promotion of growth because they are the direct key stimulus necessary for nations to perform better.

Though the Nigerian financial institutions are vehicles for financing investments, they are still fraught with numerous challenges such as the need to be highly liquid such that investors can both buy and sell securities with relative ease, as most investors consider high liquidity as criteria for investing. Also, the inefficiency associated with the transfer of traded securities as well as its payments which has limited inter-bank trading; information asymmetry and the lack of varied investment outlets that has inhibited foreign inflows (Nwosu and Hamman, 2008).

The report by Ogbuji, Mesagan and Alimi (2020) on the existence of scarce literature on the impact of money and capital market on an economy's performance necessitates this study. According to them, most previous literature have centered on developed economies and have employed measures like liquidity ratio, treasury bill rate and monetary policy rate as money market indicators; and total stocks traded, stock turnover ratio and market capitalization as indicators of the capital market. In this study, the practical investment activities of the money and capital market were used as measures of market investments alongside an updated data. They included money market traded instruments like treasury bills, bankers' acceptances and commercial papers; while capital market traded instruments are government securities, bonds and equity. This is the gap the study intends to fill.

II. Literature Review

A brief understanding of the instruments is explained here which serves as a guide to investors on particular investment vehicles to undertake.

i. Treasury bills are 3-6-9-months tenured risk free instruments which are usually sold through a competitive bid auction at a discounted price.
ii. Certificate of Deposits are guaranteed time deposits and are tenured between 3-12 months. Its yield is a little higher than treasury bills because it has a default risk structure.
iii. Bankers' Acceptances are short term credit investment instrument which are usually traded at a discount, and specifically used for financing imports and exports. Mostly, it originates from a non-banking institution but has the warranty of a bank. Its yield is also marginally higher than that of certificate of deposits.
iv. Commercial Paper is an unsecured instrument used for financing short term working capital requirements of high net-worth firms. It has a life span of between 1-9months and usually trades at a discount; with yields higher than that of bankers' acceptances.
v. Government Securities are debt issues used to finance daily operations, military projects and a country's special infrastructures. On purchase, it guarantees monthly interest payment and a complete repayment of the principal value.
vi. Bonds are fixed-income securities that pay regular income, and are issued by firms or the government. Its structure may be in the form of fixed rate, floating rate, index-linked, zero-coupon or convertible; and have very low liquidity.
vii. Equities are also known as shares traded between a buyer and seller on an exchanges. It gives the buyer voting rights and they are entitled to dividend payments after all other claims have been paid. They are raised through: an offer for sale, offer for subscription, placing of shares and offer for sale by tender.

Past empirical investigations found the following on money market investment. Fapohunda, Ogbeide, and Ogunniyi (2019) considered the impact money market instruments have on financial deepening in Nigeria from 1981-2016. From the analysis, there were no long run relationship among the studied variables. Hence, they recommend for policies that will activate more trading activities in bankers' acceptances so that the economy will experience more financial depth. Ayebaemi and Francis (2018) applied the ARDL model and found no long run equilibrium relationship. They argue that the CBN should always employ treasury certificates, certificate of deposits, and commercial papers in the management of its short run policies on liquidity. Etale and Ayunku (2017) employed the multivariate regression on a 26 years sample and conclude that commercial papers, bankers' acceptances and treasury bills have a positive impact on economic growth; but that of bankers' acceptance is insignificant. According to them, the economy can achieve significant growth with money market investments only when its financial depth is strong. Aminu, Bambur and Aliyu (2017) examined money market and economic growth; and found that though the Nigerian money market has influenced growth over the years, however, it's been bedeviled by currency devaluation, high cost of interest and inflation. Eze and Mansi (2017) found significant impact of commercial papers and bankers' acceptances on the Nigerian economy and recommended that more investment avenues should be introduced in order to expand the market and secure economic growth. Ndugbu, Duruechi and Ojiegbe (2016) employed the OLS model and found significant positive influence of commercial papers, treasury bills and federal securities on bank performance. They recommend that efforts should be intensified and geared towards improved policies on money market

investments in order to derive optimal performance. Pavtar (2016) argued that during the period from 1985-2014, treasury certificates, commercial papers and treasury bills do not impact significantly on the GDP of Nigeria. They recommend that the market should be more deepened to promote growth.

Ubesie, Nwanekpe and Ejilibe (2020) found that the capital market influences the Nigeria economy positively. Rilwanu and Daniel (2020) hold forth that capital market is a major driver of growth and a key channel for savings and investment. Ofurum, Ogunyemi, Madumere amd Okolo (2019) revealed long run relationship among the variables and advocated for an increase in securities issue to promote economic growth. Inimino, Bosco and Abuo (2018) utilizes ARDL framework on the period between 1986 to 2016 and found that only market capitalization and number of deals significantly contribute to economic growth in Nigeria. Odo, Anoke, Onyeisi and Chukwu (2017) establish that market capitalization improves economic growth significantly, while the value of stock traded retards economic growth. Muritala and Ogunji (2017) discovered that market capitalization, total new issue, and total listing improves the economy of Nigeria; whereas, the value transaction impedes GDP. Taiwo, Adedayo and Evawere (2016) ascertained that total value of listed securities, market capitalization rate, labor force participation rate, accumulated savings and capital formation are significant macroeconomic determinants of economic growth in Nigeria. They recommend for the promotion and encouragement of investment opportunities in order to attract more local and international investors; and the improvement of the Nigerian trading system. Obiakor (2016) reveals that the development of capital market promotes the growth of the Nigerian economy. Okpoto (2015) found that total value of transaction, total holdings of development stock, and market capitalization mildly improves the Nigerian economy. Briggs (2015) recommend for the funding of developmental programs by all the tiers of government via capital market as it serves as an avenue for freeing resources. Igbinosa and Aigbovo (2015) adopted a multivariate regression model on a 20 year sample period and prove that in the short run, only bankers' acceptances influence economic development; while commercial papers, treasury bills and the monetary policy rate had long run influence on economic development. Ikpefan and Osabuohien (2012) found a significant long run relationship between money market instruments', discount houses and economic growth in Nigeria from 1992 to 2007.

III. Methodology

The key objective of this research is to critically examine the interaction between money and capital market investment and its impact on economic performance of Nigeria. Time series relevant for the analysis was sourced from notable database like the Nigerian Bureau of Statistics and the Central Bank; alongside an up-to-date time frame from 1981-2019. The longer time frame was chosen so that generalizations made from the outcome of the analysis can be reliable. The series were also logged to help capture homogeneity. In addition, the Igbinosa and Aigboyo (2015); and Okpoto (2015) methods were adopted to determine the interaction of money and capital market investments on human development index in Nigeria. The use of human development index is because the bulk of government investment decision is to improve the welfare of the citizenry through growth in her economy. Osaze (2007) asserts that this growth in the economy causes stability, employment, steady prices and positive balance of payment.

In order to conduct a more robust estimation, the eviews10 statistics software was deployed and the various tests done were: Unit root test to check if the variables are stationary; ARDL to measure both short run and long run relationship; and Causality test to recognize movements and direction of the relationship among the variables.

Accordingly, the model for money market interaction and HDI is:

$$\mathbf{HDI_t = \alpha_o + \beta_1 LnTBL_t + \beta_2 LnCOD_t + \beta_3 LnCOP_t + \beta_4 LnBKA_t + \varepsilon_t} \quad 1$$

β_1, β_2, β_3, and $\beta_4 > 0$

The model for capital market interaction and HDI is:

$$\mathbf{HDI_t = \varkappa_o + \beta_1 LnBDS_t + \beta_2 LnEQT_t + \beta_3 LnGSE_t + \sigma_t} \quad 2$$

β_1, β_2, and $\beta_3 > 0$,

Where, HDI = Human development index, TBL = Treasury bills, COD = Certificate of deposits, COP = Commercial papers, BKA = Bankers acceptances, BDS = Bonds, EQT = Equities, GSE = Government securities, α_0 and $\varkappa_o$ = Intercept; β_1, β_2, β_3, and β_4= Constant parameters, Ln = Natural logarithm, εt and σt = Error term

The ARDL model is given as;

$$\Delta Y_t = \beta_{0i} + \sum_{i=1}^{p} \beta_{1i} \Delta Y_{t-i} + \sum_{i=1}^{q} \beta_{2i} \Delta X_{t-i} + e_{1t} \quad 3$$

The Granger Causality model is given as;

$$Y_t = \alpha + \sum_{k=1}^{k} \beta_k Y_{t-1} + \sum_{k=1}^{i} \delta_k X_{t-1} + \epsilon_t \quad 4$$

$$X_t = \alpha + \sum_{k=1}^{k} \beta_k X_{t-1} + \sum_{k=1}^{k} \delta_k Y_{t-1} + \epsilon_t \quad 5$$

IV. Results and Discussions

4.1 Test of Stationarity

Table 4.1: Unit Root Test

Variables	ADF Statistics	5% significance level	Prob. value	Order of Integration
HDI	-2.948404	-5.455745	0.0001	I(1)
LnBDS	-2.960411	-5.289286	0.0001	I(1)
LnBKA	-2.943427	-6.596537	0.0000	I(1)
LnCOD	-3.259808	-12.04934	0.0000	I(1)
LnCOP	-2.943427	-7.153661	0.0000	I(1)
LnEQT	-2.943427	-6.505232	0.0000	I(1)
LnGSE	-2.951125	-3.353313	0.0201	I(2)
LnTBL	-2.943427	-4.917104	0.0003	I(1)

Source: E-views10 output

From table 4.1, all the variables achieved stationarity at the 5 per cent level. However, government securities had a mixed order of integration at 2nd difference. This necessitates the employment of the ARDL F-bound test to separate long run from short run sensitivities (Pesaran, Shin and Smith, 2001).

4.2 Test of Co-integration

Table 4.2.1: ARDL Bound Cointegration Test – Money Market Investments

ARDL Long Run Form and Bounds Test Dependent Variable: D(HDI)				
F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	**I(0)**	**I(1)**
F-statistic	**5.122504**	10%	2.45	3.52
K	4	5%	2.86	4.01
		2.5%	3.25	4.49
		1%	3.74	5.06
t-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	**I(0)**	**I(1)**
t-statistic	**-4.288836**	10%	-2.57	-3.66
		5%	-2.86	-3.99
		2.5%	-3.13	-4.26
		1%	-3.43	-4.6

Source: E-views10 output

From the analysis in table 4.2.1, the F-statistic of 5.122504 is more than the levels I (0) and first difference I (1) bound levels of 2.86 and 4.01. Also, the T-statistic of -4.288836 is more than the levels I (0) and first difference I (1) bound levels of -2.86 and -3.99; all at the 5 per cent level of significance. Thus, there exist long run co-integrating relationship between money market investments and economic performance in Nigeria.

Table 4.2.2: ARDL Bound Cointegration Test – Capital Market Investments

ARDL Long Run Form and Bounds Test Dependent Variable: D(HDI)				
F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	**I(0)**	**I(1)**
F-statistic	**7.370696**	10%	2.72	3.77
K	3	5%	3.23	4.35
		2.5%	3.69	4.89
		1%	4.29	5.61
t-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	**I(0)**	**I(1)**
t-statistic	**-3.944894**	10%	-2.57	-3.46
		5%	-2.86	-3.78
		2.5%	-3.13	-4.05
		1%	-3.43	-4.37

Source: E-views10 output

From the analysis in table 4.2.2, the F-statistic of 7.370696 is more than the levels I (0) and first difference I (1) bound levels of 2.72 and 3.77. Also, the T-statistic of -3.944894 is more than the levels I (0) and first difference I (1) bound levels of -2.86 and -3.78; all at the 5 per cent level of significance.. Thus, there exist long run co-integrating relationship between capital market investments and economic performance in Nigeria.

4.3 Dynamic Error Correction

Table 4.3.1: ARDL Error Correction Regression – Money Market Investments

Dependent Variable: D(HDI)				
Variable	Coefficient	Std. Error	t-statistic	Prob.
C	0.061744	0.009701	6.364934	0.0000
CointEq(-1)*	-0.406753	0.072314	-5.624855	0.0000
R-squared	0.608667			
F-statistic	16.33137		Durbin-Watson stat	2.383366
Prob(F-statistic)	0.000053			

Source: E-views10 output

From table 4.3.1, the error correction test indicate previous short run deviations. The error term connects the short-run movements of HDI to its long-run estimate. The percentage of disequilibrium errors accumulated in the preceding periods which were corrected in the present period has an adjustment speed of -40%; indicating that ECM @ lag 1 is statistically significant at the 5% level (with a t-statistic of -5.624855 and a probability value of 0.0000 which is less than 0.05). Furthermore, about 60% of the variations in HDI is due to uncertainties in money market investments. The value of the f-statistic of 16.33137, which is greater than 2 alongside a probability value less than 0.05, prove that the model has a good fit and can be beneficial in decision making. In conclusion, the Durbin Watson test statistic at 0.05 level of significance is 2.38 which is greater than the lower limit of 1.273 and upper limit of 1.722. Thus there is no indication of positive first-order serial correlation among the variables.

Table 4.3.2: ARDL Error Correction Regression – Capital Market Investments

Dependent Variable: D(HDI)				
Variable	Coefficient	Std. Error	t-statistic	Prob.
C	0.061744	0.009701	6.364934	0.0000
CointEq(-1)*	-0.251607	0.044247	-5.686471	0.0000
R-squared	0.487457			
F-statistic	32.33596		Durbin-Watson stat	1.873042
Prob(F-statistic)	0.000002			

Source: E-views10 output

From table 4.3.2, the percentage of disequilibrium errors accumulated in the preceding periods which were corrected in the present period has an adjustment speed of -25%; indicating that ECM @ lag 1 is statistically significant at the 5% level (with a t-statistic of -5.686471 and a probability value of 0.0000 which is less than 0.05). Moreover, about 48% of the disparities in HDI is due to ambiguities in capital market investments. The significance of the f-statistic of 32.33596, which is greater than the benchmark of 2 together with a probability value of 0.000002, prove that the model is appropriate and can be helpful in terms of forecasting and sound judgment. Finally, the Durbin Watson test statistic at 0.05 level of significance is 1.87 which is greater than the lower limit of 1.328 and upper limit of 1.658. Thus there is no proof of positive first-order serial correlation.

1.4 **Test of Causality**

Table 4.4.1: Pairwise Granger Causality Tests – Money Market Investments @ lag 1

Null Hypothesis	Observations	F-Statistic	Prob.
LnBKA does not Granger Cause HDI	38	**10.2736**	**0.0029**
HDI does not Granger Cause LnBKA		0.18015	0.6738
LnCOD does not Granger Cause HDI	20	0.03943	0.8450
HDI does not Granger Cause LnCOD		0.60747	0.4465
LnCOP does not Granger Cause HDI	38	**9.51020**	**0.0040**
HDI does not Granger Cause LnCOP		0.10921	0.7430
LnTBL does not Granger Cause HDI	38	**19.5706**	**9.E-05**
HDI does not Granger Cause LnTBL		**4.18795**	**0.0483**

Source: E-views10 output

From table 4.4.1, movements in bankers' acceptances and commercial papers precede movements in HDI. Also, investments in treasury bills cause significant positive changes in the human development index and vice versa.

Table 4.4.2: Pairwise Granger Causality Tests – Capital Market Investments @ lag 1

Null Hypothesis	Observations	F-Statistic	Prob.
LnBDS does not Granger Cause HDI	33	0.27224	0.6057
HDI does not Granger Cause LnBDS		3.41272	0.0746
LnEQT does not Granger Cause HDI	38	**49.4650**	**3.E-08**
HDI does not Granger Cause LnEQT		0.14208	0.7085
LnGSE does not Granger Cause HDI	38	1.29276	0.2633
HDI does not Granger Cause LnGSE		**7.76371**	**0.0086**

Source: E-views10 output

From table 4.4.2, investments in equities causes very significant positive changes in the human development index. Similarly, an increase in the human development index leads to more trading activities in government securities.

V. Discussion of findings

From the ARDL long run test, the study found long run co-integrating relationship between money and capital market investments on economic performance. This is in coherence with the study by Ikpefan and Osabuohien (2012), and Igbinosa and Aigbovo (2015) that a long run equilibrium exist in Nigeria's financial institutions. Also, the Error Correction estimate showed a -40 per cent rate of correction of previous disequilibrium among money market investments, while, capital market investments gave about -25 per cent mean reversion. This indicates that during a one-year period of uncertainties in Nigeria's financial institutions, an equilibrium status is reached. Furthermore, the test of causality in money market investments prove that there are more trading activities in bankers' acceptances, commercial papers and treasury bills than in certificate of deposits. This is in support of the findings by Ndugbu, Duruechi and Ojiegbe (2016) that found significant positive influence of commercial papers and treasury bills on bank performance. Mostly, treasury bills and economic performance have a bi-directional causality, while, it is the transactions in bankers' acceptances and commercial papers that actually cause changes in economic performance (Igbinosa and Aigbovo (2015). In the capital market, only equities and government securities experience significant trading behaviours. But, it is only when the economy performs well that government securities are frequently traded on. This may be associated with the lack of confidence exhibited by investors due to lack of information, uncertainties in the future value of the firm or negative information that can cause panic and make investors sell off their investments (Olulu-Briggs and Odi, 2018). Tobin (1958) is of the view that information arbitrage exist in stock exchanges. Overall, economic performance can be explained by the variables used in this study. The results strongly suggest significant influence of the variables on the variations in economic performance. There is evidence that bankers' acceptances, commercial papers, treasury bills and equities have a contemporaneous effect in the Nigerian economy, in support with previous findings.

VI. Limitations

The absence of published data earlier than 1981, and later than 2019 limits this investigation. There were insufficient data for variables like treasury certificates, development stocks, federal government bonds and exchange traded funds, which would have improved the study and make for complete generalizations. Finally, information collected were from secondary resources which are beyond the control of the investigator.

VII. Conclusion and Recommendation

This study examined money and capital market investments and its impact on economic performance of Nigeria. Relevant data were gotten from the statistics database of the CBN from 1981-2019 which includes bankers' acceptances, certificate of deposits, commercial papers, treasury bills, bonds, equities and government securities. The eviews 10 statistics software was employed to test for stationarity, long run and short run cointegration as well as the granger causality test; and found significant long run equilibrium relationship among the variables. In the short run, money market investments has a speed of adjustment of previous errors at 40% while in the capital market, it is 25%. From the causality test, movements in bankers' acceptances and commercial papers precede movements in HDI. Also, investments in treasury bills cause significant positive changes in the human development index and vice versa. In addition, investments in equities causes very significant positive changes in the human development index. An increase in the human development index leads to more trading activities in government securities. On the established findings, the following recommendations were made: the regulatory agencies of the Nigerian financial institutions like the CBN and SEC should strengthen its policies on monthly transparency in the financial statements of quoted firms in order to instill investors' confidence in the market and boost trading activities; and the availability of differentiated assets to improve active trading and private participation in both markets; in support of Ofurum, Ogunyemi, Madumere amd Okolo (2019).

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