Government Bond, Corporate Bond and Capital Market Growth in Nigeria

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Abstract

The study examined the effect of government and corporate bonds on capital market growth in Nigeria. The study utilized time series data spanning 19 years (2000 to 2018) from designated sources in achieving the stated objectives. Data on government and corporate bonds, capitalisation rate and equity stock were obtained from the Central Bank of Nigeria (CBN) and Nigerian Exchange Group (NXG) publications. The data was subjected to unit root test and this informed the adoption of autoregressive distributed lag model (ARDL). The technique was adopted after the mixed order of integration of the variables. The study discovered that government bond had short and long run effect on the capital market capitalization in Nigeria. Also, corporate bonds enhance the capital market growth in Nigeria. It plays an important role in short run and also long run by contributing to the capitalization of the market. It was further submitted that macroeconomic fundamentals co-moved with the performance of both corporate bonds and government bond in the country. Among others, the study recommended the strengthening of the regulatory framework to ensure market integrity, protect investors, and promote fair trading practices are essential for long-term capital market growth.

Keywords: Capital Market Growth, Corporate bond, Government bond, Market Capitalisation Rate

1. Introduction

The significant functions performed by capital market in promoting economic growth and development cannot be overemphasised in a nation. The efficient capital market provides a platform to facilitate the exchange of transaction and enhance mobilisation of funds to support the real sector. The capital market is reputed as one of the major stimulator of economic development and growth upon which all other facets of the economy are rooted (Akinsokeji, et al 2016, Ajekwe et al 2024). The development recorded by any country remains staggering if the capital market is not given enough oversight attention. The capital market has been a tool of economic development and fiscal stability used by many developed countries all over the world, and particularly, the developing and underdeveloped economies are also resorting to it (Adoms et al., 2020).

Most notable among the engines of the financial market is the capital market, which comprises of institutions saddles with the responsibility of mobilising and allocating long-term funds in the economy. The capital market provides the platform and opportunity for business entities and government agencies to sell securities such as stocks and bonds, raise long-term funds from the contributions of other economic agents and make repeat capital investment for development. The capital market is characterised by top-level specialisation

with highly organised financial activities, which makes it an all-important driver of development and advancement, leading to economic stability through strategically mobilising surplus for long-term usage. All other industries and sectors of the economy rely heavily on the capital market for financial leverage as it is the cornerstone of any financial system by way of providing the funds needed for financing, not only business and other economic institutions, but also the programs of government as a whole which gives it the market function of economic barometer for galvanising economic activities of any nation (Ilaboya & Ibrahim, 2004).

The efficiency of the Nigerian capital market and the pricing mechanisms for government and corporate bonds are critical factors influencing capitalization rates. Understanding how market forces interact with bond issuance, trading volumes, and investor sentiment is essential for assessing capitalization rate. Both corporate and government bond markets are in constant mutual relationship aimed at stabilising the trading environment for development. The corporate bond market is the direct interface available to the teeming investors and traders of securities, while the government bond market introduces stability and regulatory functions. However, despite the roles of stakeholders in facilitating a stabilised trading environment, the capital market has witnessed low growth rate, especially in the past decade due largely to the global economic meltdown of 2008.

The downturn of events was further magnified by the financial crisis of 2016, which primarily resulted from a drastic fall in the international crude oil price. This chain of crises spelt an apparent doom on the Nigerian capital market and the financial sector at large, particularly plummeting the capitalisation rate of market securities. These events also negatively affected the level of confidence imposed on Nigerian economy by the international communities ultimately discouraging prospective foreign investors from doing business particularly in the sensitive sector like the financial sector. There is no doubt that both government and corporate bonds dominate capital market much as equity stock. The role played by both government and corporate bonds in enhancing or facilitating growth cannot be overemphasised, particularly in the developed economies of the world. Both government and corporate bonds market are involved in interlinked role-play towards implementing beneficial policies to stakeholders and the economy at large.

Government bonds have traditionally dominated the market, with corporate bonds and other capital market instruments lagging behind in terms of volume and investor participation. This disparity raises critical concerns regarding the efficiency of capital allocation, the availability of long-term funding for the private sector, and the overall health and stability of Nigeria's financial system. The limited development of the corporate bond market, in particular, hampers the ability of businesses to raise capital for expansion and innovation, which is essential for sustainable economic growth (Yoshitomi & Shirai 2001).

Furthermore, the period from 2000 to 2018 saw various reforms such as Consolidation of the Banking Sector (2004-2005), Establishment of the Debt Management Office (DMO) (2000), Establishment of the Asset Management Corporation of Nigeria (AMCON) (2010), Introduction of Sukuk Bonds among others (Olurankinse, 2010, Abata, 2015, Onyekwelu, & Iroegbu, 2020) aimed at improving the regulatory environment and infrastructure of Nigeria's capital markets. Despite these efforts, the anticipated growth and diversification of the bond market have not been fully realized. Factors such as regulatory bottlenecks, market fragmentation, and limited investor confidence have continued to impede progress. Understanding the dynamics and challenges that have shaped the growth trajectories of government and corporate bonds within this period is crucial for formulating policies that can foster a more robust and diversified capital market. Such an understanding is pivotal not only for the development of Nigeria's financial sector but also for its broader

economic development goals (Oteh, 2010).

A number of research have been carried out on the Nigeria capital market and other markets of the world but, most of the researches particularly focused on the contribution of the capital market to economic development (Acquah-sam & Salami, 2014; Kapingura & Makhetha-Kosi, 2014; Akinsokeji et al., 2016; Ogboi et al., 2016;) without paying adequate empirical attention to factors that directly affect the growth rate of the capital market itself. Macroeconomic variables such as investment in foreign countries, the rate of interest, exchange rate and stock price cannot be overemphasised when discussing capital market growth in Nigeria or any economy of the world. Thus, this study evaluated the effects of government and corporate bonds on capital market growth in Nigeria between 2000 and 2018.

2. Literature Review
2.1 Government Bond

A government bond is a debt security issued by a government to support government spending and obligations. Government bonds can pay periodic interest payments called coupon payments. Government bonds issued by national governments are often considered low-risk investments since the issuing government backs them. These are the types of bonds issued by the government that guarantee the payment of a periodic interest along with the principal at maturity (Chtourou, 2015). This form of bond is typically issued in the country's currency; those issued in foreign currencies are referred to as sovereign bonds. Debt securities issued in domestic currency are typically used to fund government spending. Government debt is money owed by some form of government that is backed up by the government's pledge.

There are many threats associated with national bonds in general. Before investing in government bonds, investors must consider inflation risk, country risk, political risk and interest rate risk. (Nkwede *et al.*, 2016). The risk level associated with government bonds, which is somewhat beyond the control of investors has created worries among stakeholders in the market for long-term loans. This external environmental factor has over the years created doubt in the minds of the stakeholders over the future of the bonds market judging from the present situations. In Nigeria, government bond dominates the market, and many of the bonds purchases are made in this sector of the bonds market. The sales of the Federal Government of Nigeria (FGN) bonds resumed in 2003, and most of the money market instruments has been dominated by the bonds since then (Ifionu & Omojefe, 2013). One of the primary reasons for the large share of FGN bonds in overall money market activities is the stability and lower risk associated with FGN bonds (Afolabi, 2015).

2.2 Corporate Bond

The generic name of any loan security traded on the exchange is bond, which can either be a government or corporate bond for mobilising fund to finance different monetary required project. Nkwede et al. (2016) explained that a bondholder charges an interest known as the coupon. The coupon rate is always fixed over the period. The holder is guaranteed that the obligation will be paid back. Furthermore, bond commonly is referred to as the financial instrument that a borrower issues to the lender to assemble funds to finance a project with an obligation to pay back at a later predetermined time after charging interest (Ogilo, 2014). Hence, the providers of the fund are referred to as investors. In another way, generally, in the language of a market, the provider of funds or the lender is called the buyer while the company, firm or government that issues the bond is called the seller. Government, corporations or firms that need funds on a long-term agreement do resort to the issuance or

sales of securities. Securities issued and sold to meet their financial is popularly called funds (Ansari, 2012).

Globally, many companies in industrialised nations and developing countries sell bonds as a source of long-term fund. According to (Ansari, 2012) bond is not just an instrument of debt but a financial instrument that can be traded on the stock exchange for companies and firms to raise fund and repay them as a future time of that spans over a year. According to him, an essential characteristic that makes bond tradable its negotiability. Additionally, Mishkin and Easkins (2012) stated that the issuer is obliged to pay the interest charge on the security and pay up the debt when they are due to the investors. The face value a bond is known as par value. Furthermore, the rate of interest charged and payable at maturity is included in the bond par value. In a financial term, coupon rate is used to substitute the rate of interest charged on bonds, which is usually constant throughout the lifetime of the project. Coupon rates of bonds do not change with the level of interest rate in the economy in general.

2.3   Empirical Review

Omodero (2020) made attempt in assessing the factors affecting the capital markets performance in Nigeria, using the period of 1998 and 2018, the study discovered that exchange and inflation rate were not having significant effects on the performance of the market, while interest rate reported significant effect on the market. More so, the finding from the study showed that GDP was highly effective in determining the performance of the market. However, the study only focused on macroeconomic variables as key variables affecting capital market, whereby studies have established that performance of capital market across the globe is beyond the local economy macroeconomic condition. Amu, et al (2015) carried out a study to determine the influence of market for long term capital on the Nigeria development and growth. In the words of the authors, the market for long term capital is an institute to ensure that developing and developed countries grow and develop economically. It is a nation's force that drives development and growth. Analysis of the variables shows that market for long-term loans has a positive significant influence on the Nigeria economic growth. It also showed that market capitalisation growth has nothing to do with Nigeria economy that is there is no significant relationship between Nigeria economy and market capitalisation. The paper thus recommended that market for long-term loans regulators should initiate policies that enhance and develop the economics of Nigeria.

Olaniyan and Ekundayo (2019) examined how government bonds had contributed to the growth of Nigerian capital market. The study was carried out using the period of 2010 to 2017. They adopted GMM and discovered that government bonds positively enhanced the growth of the capital market in Nigeria. Following the submission of Olaniyan and Ekundayo (2019) on the relationship between the growth of capital market and government, Omodero and Alege (2021) made another attempt in understanding the effect of government bonds on capital market by increasing the sampling period and also extend the base year to 2003. The study captured the period of 2003 to 2019 and was achieved using multiple regression technique. The research opined that capital market growth in Nigeria responded positively to the increase in government bonds, while other variables such as inflation and interest rate exhibited statistical insignificant effect on the capital market growth. The study corroborates the finding of Olaniyan and Ekundayo (2019) despite the disparity in sampling period.

Nkwede (2020) investigated Nigeria's macroeconomic drivers of bond market growth in order to answer the enduring research issue of whether institutional or macroeconomic variables drive bond market development in developing nations. Multiple

regression was used in conjunction with ordinary least square regression techniques to examine time series data collected over a 32-year span. The whole bond market capitalization, which included corporate and government bonds, was taken advantage of. The study's main conclusions showed that the development of the banking sector, interest rates, exchange rates, and inflation rate all had a negative and significant impact on the capitalization of the Nigerian bond market. As a result, they provided solid evidence that these factors are reliable macroeconomic drivers of the growth of the Nigerian bond market. Omodero and Alege, (2021) seeks to close the breach by probing the impact of government bonds on developing the capital market in Nigeria from 2003–2019.

Variety of government bonds were used as the independent variables and total market capitalization as the response variable to represent the capital market. The predictor components are moderated by the rate of inflation. The influence of the explanatory factors on the overall market capitalization is evaluated by the research using the multiple regression approach. According to the research, there is a positive and statistically significant relationship between the Federal Government of Nigeria's (FGN) bond and the expansion of Nigeria's capital market. This study concludes that the other predictor factors are not significant. According to the report, the government could enhance the coupon on government bonds while maintaining the non-default standard of refunding principle to investors and paying interest when it is due.

It was observed from the reviewed literature that there exists paucity of study on the effects of government and corporate bonds on market for long-term loans growth in Nigeria. Most of the studies conducted on government and corporate bonds majorly investigated how they collectively affect economic growth as components of the market for long-term loans (Afolabi, 2015; Amu *et* Duke & Nkamare, 2015;; Ogboi et al., 2016; & Taiwo et al., 2016). There is a growing need to separately investigate the contributions of each of the components of the market for long-term loans to ascertain which area needs the most attention for better positioning and performance of the market for long-term loans in Nigeria. This study was therefore conceived to address the observed lacuna in literature by empirically investigating the effects of government and corporate bonds on capital market growth in Nigeria.

2.4 Theoretical Review

For the purpose of this study, Efficient Market Theory formed the theoretical bedrock on which this study is anchored as the theory typically explain in clear terms the determinants and results of interaction and relationship between government and corporate bonds and their effects on the market for long-term loans growth. Anchoring the study on Efficient Market Theory (EMT) is justified as it provides a robust framework to analyze how well the Nigerian capital market incorporates information related to government bonds, corporate bonds, and overall market growth. EMT posits that asset prices reflect all available information, allowing us to assess market efficiency in processing economic data and investor behavior. By applying EMT, we can evaluate whether the Nigerian market accurately prices securities based on new information, identify potential arbitrage opportunities, and compare its efficiency with global benchmarks.

The theoretical foundation not only enhances our understanding of market dynamics but also supports the development of informed policies to improve market transparency, investor confidence, and economic growth. To arrive at theoretical research model for this study, an existing model on the construct relationship shall be adapted and modified as anchor for the proposed structural relationship. The proposed research model is therefore anchored on the studies of Acquah-sam and Salami (2013) and Eke, et al (2017). The

original model structure shall be extended by introducing some control variables into the construct relationship. These variables to be introduced by extension include foreign direct investment, exchange rate, interest rate, average stock price and share price index.

3. Data and Methods

The study adopted ex-post factor research design. A corresponding model developed by Ewah, Essang and Bassey (2009) was used to present the econometric relationship between capital market growth, government and corporate bonds and by extension, the economic control variables such as foreign direct investment, exchange rate, interest rate, average stock price and share price index. The functional specification is shown thus;

$CAPGRT = f (GOVBND, CORBND, FDI, EXT, INR, ASP, SPI)$ ……………………….… (3.1)

The econometric specification for the two relationships depicting capital market growth being proxied by capital market capitalisation rate with government and corporate bonds measured using bond capitalisation rate is thus presented;

$CAPGRT_t = \beta_0 + \beta_1 GOVBND_t + \beta_2 CORBND_t + \beta_3 FDI_t + \beta_4 EXT_t + \beta_5 INR_t + \beta_6 ASP_t + \beta_7 SPI_t$ …………… (3.2)

To account for other indices that are not specified, the error term was introduced. Thus, by linearization the equations translated to:

$logCAPGRT_t = \beta_0 + \beta_1 logGOVBND_t + \beta_2 logCORBND_t + \beta_3 logFDI_t + \beta_4 logEXT_t + \beta_5 logINR_t + \beta_6 logASP + \beta_7 logSPI_t + \mu$ …………………………………………….… (3.3)

where;

CAPGRT= Capital Market Growth	GOVBOND = Government Bond
CORBND = Government Bond	FDI = Foreign direct investment
EXR = Exchange rate	INR = Interest rate
ASP = Average stock price	SPI = Share price index
μ = Error Term	t = Time dimension of the Variables

The study made use of time series data covering a period of 19 years (2000 to 2018) from designated sources in achieving the objectives stated. The scope of the study from 2000 to 2018 is justified by several significant factors, particularly the impact of the COVID-19 pandemic, which emerged at the end of 2019 and had profound effects on global and local economies. The COVID-19 pandemic, which began in 2019, caused unprecedented disruptions in economic activities globally, including in Nigeria. These disruptions led to extraordinary fiscal and monetary measures, market volatility, and changes in investor behaviour, which are not representative of the pre-pandemic normal market conditions. Also, the period from 2000 to 2018 provides a robust baseline for understanding the trends and patterns in government and corporate bonds, as well as capital market growth in Nigeria, without the distortions introduced by the pandemic.

Data on government and corporate bonds, capitalisation rate and equity stock were sourced from the Central Bank of Nigeria (CBN) and Nigerian Exchange Group (NGX) publications such as the statistical bulletin, fact books and websites of the agencies for the period under review. The data was subjected to unit root test and this informed the adoption of autoregressive distributed lag model(ARDL). The technique was adopted after the mixed order of integration of the variables.

4.   Data Analysis and Discussion
4.1   Descriptive Statistics

Table 1 presents the descriptive characteristics of all the variables used in achieving the study objectives. The mean and median statistics of the Average Stock Price variables show that the data point is close to each other. The variable is positively skewed and exhibit platykurtic distribution with kurtosis less than 3. The Jarque-Bera shows that the variable is statistically not normally distributed. Capital Market growth reports a mean of 10017.74 million naira for the sample period and median of 9918.21 billion naira. It is positively skewed and platykurtic. Although, the Jarque-Bera statistics shows that the variable is normally distributed, this reveals that the variables were far from being normally distributed. Corporate Bond reports mean of 286.54 and median of 16.98. The skewness is positive and leptokurtic kurtosis. Exchange rate reports mean of 165.20 and median of 148.90. The Foreign Direct Investment is normally distributed with the same mean and median. It reports Jaque-Bera statistics that has p-value greater than 0.05. It is positively skewed and platykurtic. Real Interest Rate report means and media of 6.09 and 6.22 respectively. The Jarque-Bera shows that the variable is normally distributed. It is worthy of note that, descriptive statistics was carried out to ensure that the estimated coefficient of the model does not suffer from the problem of inconsistency and lack of efficiency.

Table 1: Descriptive Statistics

	ASP	CAPGRT	CORBND	EXR	FDI	GOVBND	INR	SPI
Mean	2.77	10017.74	286.54	165.20	1.64	2979.33	6.09	27236.07
Median	2.56	9918.21	16.98	148.90	1.64	1974.93	6.22	26874.62
Maximum	9.55	21904.04	1400.43	361.29	2.93	9334.74	18.18	57990.20
Minimum	0.23	472.30	3.49	101.70	0.50	0.00	-5.62	8111.00
Std. Dev.	2.65	7450.33	496.24	68.67	0.69	3088.47	6.13	11581.18
Skewness	1.48	0.09	1.72	1.78	0.11	0.77	-0.12	0.67
Kurtosis	1.87	1.610	4.20	5.18	2.19	2.39	2.45	3.96
Jarque-Bera	39.07	1.55	10.51	13.92	0.55	2.21	0.28	2.16
Probability	0.000	0.45	0.00	0.00	0.75	0.33	0.86	0.33
Observations	19	19	19	19	19	19	19	19

Source: Authors' Computation (2024)

4.2   Unit Root Test of the Variables

Time series variables have the tendency of being non-stationary at level which may likely affect the parameter stability and consistency of the model. However, to identify the stationarity conditions of the variables, the study used Phillip Peron Test.   The results of unit root tests are displayed in Table 2   It shows that some of the variables were integrated of order one, while some are stationary at level. The interest rate was stationary at the level using all three possible assumptions. Therefore, it becomes necessary to estimate the model using ARDL (Autoregressive Distributed Lag Model) to determine the long-run and short-run relationship among the variables.

4.2   Test of Variables
4.2.1   Unit Root Test

Table 2: Unit Root Test of the Variables

	PP Unit root Test					
	Level					
	With Constant		With Constant & Trend		Without Constant & Trend	
	t-Statistic	Prob.	t-Statistic	Prob.	t-Statistic	Prob.
ASP	-2.4431	0.1448	-3.0519	0.1464	-2.2351*	0.0282
CAPGRT	0.2097	0.9652	-2.7274	0.2869	1.7775	0.9769
CORBND	-2.0432	0.2675	-2.1088	0.507	-1.6842	0.0864
EXR	4.3391	1	2.1997	1	2.8782	0.9977
FDI	-1.2891	0.6109	-2.4287	0.3543	-0.8721	0.3244
GOVBND	4.1261	1	-0.564	0.9685	5.5473	1
INR	-4.0033*	0.0074	-4.0601*	0.0257	-2.1463*	0.034
SPI	-2.6735	0.0977	-2.3868	0.3729	-0.1208	0.6283
	First Difference					
	With Constant		With Constant & Trend		Without Constant & Trend	
	t-Statistic	Prob.	t-Statistic	Prob.	t-Statistic	Prob.
d(ASP)	-8.8972*	0.0000	-8.5366*	0.000	-7.4622*	0
d(CAPGRT)	-8.5153*	0.0000	-8.1784*	0.000	-3.8581*	0.0007
d(CORBND)	-3.7929*	0.012	-3.6899*	0.0018	-3.9129*	0.0006
d(EXR)	-4.8977*	0.008	-3.845*	0.0079	-3.3962*	0.0057
d(FDI)	-6.7909*	0.0000	-11.7827*	0.0000	-7.0189*	0.0000
d(GOVBND)	-4.9048*	0.007	-3.8286*	0.0013	-2.9903*	0.0198
d(INR)	-7.7886*	0.0000	-7.499*	0.0001	-8.0442*	0.000
d(SPI)	-5.825*	0.0002	-7.7405*	0.0001	-5.2778*	0.000

Source: Authors' compilation (2024)

4.2.2 Heteroskedasticity LR

Table 3 reports the outcome of the heteroskedasticity test of the model. The result shows that the model is free from the problem of heteroskedasticity. For a model to be free from heteroscedasticity problem, the p-value of the test must be greater than 0.05. In this case the p-value of the test is 0.8576. Therefore, the estimated model in determining the relationship among the variables is robust and free from the problem of Heteroskedasticity.

Table 3:   Heteroskedasticity LR Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.144642	Prob. F(15,2)	0.9925
Obs*R-squared	9.366148	Prob. Chi-Square(15)	0.8576
Scaled explained SS	0.092402	Prob. Chi-Square(15)	1.0000

Source: Authors' Compilation (2024)

4.2.3 Serial Correlation Test

Table 4 present the serial correlation test for the robustness of the model. The study adopted the test of Breusch-Godfrey Serial Correlation LM Test method to test for serial correlation in the models to ascertain the order of autocorrelation. For a model to be free from the problem of serial correlation, the p-value of the test must be greater than 0.05. In this case the p-value of Breusch-Godfrey Serial Correlation LM Test for serial correlation is 0.0970. Therefore, the result shows that the model is free from the problem of serial correlation.

Table 4: Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	14.04170	Prob. F(1,1)	0.1660
Obs*R-squared	16.80333	Prob. Chi-Square(1)	0.0970

Source: Authors' computation (2024)

4.2.4   ARDL Bound Test

The bound test is used to determine the long run relationship between the dependent and independent variables. The null hypothesis of cointegration amongst the variables is tested against the alternative hypothesis by the means of F-test with an asymptotic non-standard distribution. Two sets of critical values are reported; if the value of the f-test is greater than the upper bound critical value, the model exhibit long run convergence and if the f-test value is less than the lower bound critical values the regressors are not converging. In this case, the f-value 7.2477 is greater than the upper bound at 5% level of significance, which shows the existence of a long-run relationship among the variables used.

Table 5: Bound Test

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	7.247770	10%	1.92	2.89
K	7	5%	2.17	3.21
		2.5%	2.43	3.51
		1%	2.73	3.9

Source: Authors' compilation (2024)

4.3   Effect of Government Bond and Corporate Bond on Capital Market Capitalization Rate

To determine the effect of government bond and corporate bond on capital market capitalization rate in Nigeria, the restricted error correction model regression was estimated using ARDL technique. Table 6 reports the short and long run relationship between capital market capitalisation and the independent variable. Using adjusted as the measure of overall goodness of fit, the value of adjusted is 0.8932 which indicates approximately 89.32 percent of variation in Nigeria's capital market capitalisation, is explained by explanatory variables on right-hand side model, reflecting good fit for model. Hence, the estimated model is reasonably well behaved and fits the data well.

In the long-run, government bond contributes positively to the capital market growth in Nigeria. The coefficient of 1.5705(t=2.0263, p<0.05) shows that rise in corporate bond will aid the growth of the capital market in Nigeria. Similarly, government bond aids the growth of capital market capitalisation in Nigeria. The variable ensures that capital market capitalization maintains long run positive growth by inducing about 1.7644 unit point. If government in Nigeria continue issuing bond and make it available in primary or secondary market, capital market will contribute to achieve robust growth performance. The variable is statistically significant at 5% level of significance (t=2.6397, p<0.05). Share price (SPI) has an appreciating effect on the capital market capitalization. The coefficient estimate of SPI is 0.262 and is statistically significant (t=10.207, p<0.05). Rise in share price will surely lead to increase in market capitalization. Also, interest rate contributes positively to the growth in capital market capitalization in Nigeria (t=4.4678, p<0.05).

The short-run results based on Akaike Information Criterion (AIC) reports the coefficient of the error correction term and other explanatory variables. The coefficient of the error correction term shows that 20.4 percent of the disequilibrium will be corrected

periodically to achieve stability and long run equilibrium. The coefficient of change in corporate bond is 2.070 in the short run and statistically significant at 5% level of significance, which indicates that in the short run corporate bond exerts a positive and significant effect on current rise in Nigeria capital market capitalisation.

It is interesting that the short-run impact of government bond (t=3.8434, p<0.05) agreed with its long-run behaviour. The variable induces the short run growth of market capitalization. It indicates that government bond will contribute to disequilibrium adjustment process of the dependent variable. Similarly, in the short run, share price induces the equilibrium of the capital market capitalization. The variable contributes about 0.223 to the growth of market capitalisation (t=38.463, p<0.05). In the same vein, rise in foreign direct investment is good news to the capital market. It was discovered that the variable contributes positively to the short run equilibrium process of the capital market capitalization (t=10.787, p<0.05). The variable of exchange rate shows that devaluation or depreciation of naira will reduce the performance of the capital market in Nigeria. The variable exerts negative effect on the growth of the capital market in Nigeria (t=-3.0844, p<0.05). Interest rate also contributed to the market capitalization (t=14.9111, p<0.05). It shows that favourable interest rate will drive the capital market capitalization.

The study asserted that government bonds contribute to the liquidity position of the capital market in Nigeria. This corroborates with an earlier conclusion of Gao et al. (2018) who found that government debt instrument contribute to the impact of debt supply on market liquidity in Canada. Also, corporate bonds enhance the capital market growth in Nigeria. It plays an important role in short run and also long run by contributing to the capitalization of the market. It was further submitted that macroeconomic fundamentals and political environment co-moved with the performance of both corporate bonds and government bond in the country. This is in line with Paljak (2013) who opined that economic fundamental is a major key in the rate of allotment of any categories of bonds. The event across the globe also affects the performance of the country capital market, this confirms the reaction of the capital market growth to the global economic crisis

Table 6: ARDL Model

Variable	Coefficient	t-Statistic	Prob.
Short Run Model			
D(ASP)	-4.185149	-12.60815	0.0062
D(CORBND)	2.070381	13.88306	0.0051
D(EXR)	-11.86034	-3.084437	0.0410
D(FDI)	1577.324	10.78761	0.0085
D(GOVBND)	0.580797	3.843470	0.0391
D(INR)	144.0668	14.91113	0.0045
D(SPI)	0.223571	38.46357	0.0007
ECM(-1)*	-0.204513	-8.059601	0.0031
Long Run Model			
Variable	Coefficient	t-Statistic	Prob.
ASP	-1.570573	-1.239091	0.3410
CORBND	1.706570	2.926319	0.0162
EXR	-9.982707	-0.470585	0.6843
FDI	-662.7226	-1.096749	0.3872
GOVBND	1.764422	2.639766	0.0185
INR	213.8148	4.467819	0.0040
SPI	0.262741	10.20758	0.0095
C	-866.9045	-0.414608	0.7187
R-squared			0.896030
Adjusted R-squared			0.893252
S.E. of regression			238.4968
Sum squared resid			568807.5
Log likelihood			-118.7892
Durbin-Watson stat			2.063276

Source: Authors' compilation (2024)

5.   Conclusion and Recommendations

The study investigated the effects of government bond and corporate bond on capital market capitalisation rate in Nigeria between 2000 and 2018. It was observed from the reviewed literature that there exists paucity of study on the effects of government and corporate bonds on market for long-term loans growth in Nigeria. Most of the studies conducted on government and corporate bonds majorly investigated how they collectively affect economic growth as components of the market for long-term loans. The study discovered that government bond had short and long run effect on the capital market capitalization in Nigeria. It implies that rise in government bond will continue to contribute to the growth of the country capital market. In the same vein, rise in corporate bond also enhances the capital market capitalization.

Based on the findings of this study, the following recommendations were drawn for consideration by concerned parties:

i.   The negative short-run impact of the exchange rate on capital market growth indicates that volatility in the exchange rate can adversely affect investor confidence and market performance. Policies aimed at stabilizing the exchange rate, such as maintaining adequate foreign exchange reserves and implementing effective monetary policies, can mitigate this volatility.

ii.   The positive short-run impact of corporate bonds on capital market growth suggests that increasing the issuance and attractiveness of corporate bonds can stimulate market activity. Incentives such as tax breaks for bond issuers, improving the

regulatory framework, and enhancing transparency in the corporate bond market can encourage more companies to issue bonds.

iii.   The positive short-run impact of corporate bonds on capital market growth suggests that increasing the issuance and attractiveness of corporate bonds can stimulate market activity. Incentives such as tax breaks for bond issuers, improving the regulatory framework, and enhancing transparency in the corporate bond market can encourage more companies to issue bonds.

iv.   The positive short-run impact of corporate bonds on capital market growth suggests that increasing the issuance and attractiveness of corporate bonds can stimulate market activity. Incentives such as tax breaks for bond issuers, improving the regulatory framework, and enhancing transparency in the corporate bond market can encourage more companies to issue bonds.

v.   Strengthening the regulatory framework to ensure market integrity, protect investors, and promote fair trading practices is essential for long-term capital market growth.

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